

External Audit Progress Report

City of Lincoln Council

Audit Committee 14 December 2021



1. Audit Progress

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Appendix 1 – Audit Strategy Memorandum 2020/21

01

Section 01: **Audit Progress**

Audit Progress

Purpose of this report

This report provides the Audit Committee's December 2021 meeting with:

- an update on progress in delivering the 2020/21 audit and assurance work;
- the 2021/22 audit planning process; and
- a summary of recent relevant reports and publications for your information (Section 2).

2020/21 Audit

The key planning points were shared with the Audit Committee at its July 2021 meeting through our progress report. The Audit Strategy Memorandum was circulated to the Committee members after that meeting and is included for completeness at Appendix 1 to this report.

The position on the key elements of the audit are as follows:

- Financial Statements Audit – our Audit Completion Report is included separately on the Audit Committee's agenda and sets out the progress to date, findings from the audit and the expected audit opinion.
- Value for Money – as summarised in our Audit Completion Report we have not identified any significant weaknesses in the Council's arrangements and there are no specific findings we need to report at this stage. We will report our Value For Money Commentary through our Auditor's Annual Report in January 2022.
- Other auditor responsibilities – we have not needed to take any action in relation to any of our broader auditor responsibilities.
- Assurance work – The work is either complete or on target for completion by the relevant deadlines. There are no matters arising that we need to report to the Committee at this stage.

2021/22 Audit

At this stage we do not expect any significant changes to the audit risk profile and the overall audit approach, and we have not identified any significant changes to the financial reporting requirements under the 2021/22 CIPFA Code. The operating and financial environment for Councils continues though to be challenging and its important our audit plan is properly tailored to the risks and issues. We will hold planning discussions with management in January 2022, including the normal wash up session on the current year's accounts audit to identify any opportunities for improvement or logistical issues. We will share our formal 2021/22 Audit Strategy Memorandum with the Audit Committee.

02

Section 02:

National publications

National publications

| | Publication/update | Key points |
|---|--|---|
| Chartered Institute of Public Finance and Accountability (CIPFA) | | |
| 1. | CIPFA Issues consultations to strengthen Prudential and Treasury Management Codes | The consultations (which closed 16 November 2021) followed previous reviews of the codes' provisions, amid ongoing concerns over local authority commercial investments. |
| 2. | CIPFA launches value for money toolkit with the University of Oxford's GO Lab | Based on the UK National Audit Office's standard definition of value for money, the toolkit offers a consistent approach to programme evaluation and has been developed in response to recent trends towards the use of outcomes-based contracts (OBCs) and impact bonds. |
| Department for Levelling Up, Housing and Communities | | |
| 3. | Consultation on changes to the capital framework: Minimum Revenue Provision | This consultation seeks views on proposed changes to regulations to better enforce the duty of local authorities to make prudent Minimum Revenue Provision each year. |
| National Audit Office (NAO) | | |
| 4. | The Government's preparedness for the COVID-19 pandemic: lessons learned for government on risk management | The report sets out central government's risk analysis, planning, and mitigation strategies prior to the arrival of the COVID-19 pandemic, with the aim of drawing out wider learning for the government's overall risk management approach. |
| 5. | The Local Government finance system in England: Overview and Challenges | This overview looks at what local government in England spends, how this spending is funded and the effect of changes in recent years. It draws on relevant findings from past NAO work. |
| 6. | Departmental Overview 2020-21: Department for Levelling Up, Housing and Communities | This provides a summary of the Department for Levelling Up, Housing and Communities' spending in 2020-21, its major areas of activity and performance, and the challenges it is likely to face in the coming year, based on the insights from NAO's financial audit and value for money work. |
| 7. | Cyber and Information Security: Good practice guide | Audit committees should be scrutinising cyber security arrangements. This guidance complements government advice by setting out high-level questions and issues for audit committees to consider. |
| 8. | Climate change risk: A good practice guide for Audit and Assurance Committees | This guide helps Committees recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks. |
| Financial Reporting Council | | |
| 9. | Inspection findings into the quality of major local body audits | The findings show an improvement on the previous year but the timeliness of reporting was a concern. |

NATIONAL PUBLICATIONS

CIPFA

1. CIPFA Issues consultations to strengthen Prudential and Treasury Management Codes, September 2021

The consultations (which closed 16 November 2021) followed previous reviews of the codes' provisions, amid ongoing concerns over local authority commercial investments. The Prudential Code is a professional code that ensures that capital finance decisions are prudent and sustainable. The Treasury Management Code, which sits alongside the Prudential Code, provides a framework for effective, risk-managed treasury management in public sector organisations. Richard Lloyd-Bithell, Senior Technical Manager at CIPFA, said: "The key changes being brought forward in these consultations, especially those in the Prudential Code, clarify and update CIPFA's position on local authority commercial investment. The revised code will emphasise that any borrowing made solely for the purpose of financial return constitutes imprudent activity, while also taking into account the realities that accompany regeneration activities.

2. CIPFA launches value for money toolkit with the University of Oxford's GO Lab, August 2021

CIPFA has partnered with the Government Outcomes Lab (GO Lab) from the University of Oxford's Blavatnik School of Government to develop the innovative GO Lab-CIPFA Value for Money (VfM) Toolkit.

Based on the UK National Audit Office's standard definition of value for money, the toolkit offers a consistent approach to programme evaluation and has been developed in response to recent trends towards the use of outcomes-based contracts (OBCs) and impact bonds.

The toolkit provides public managers with a framework to help assess the economic validity of public programmes, while also serving as a self-assessment instrument. The toolkit promotes thinking about the longer-term effects of interventions, such as outcomes and impacts, during the design and planning stage of public sector programmes.

The GO Lab-CIPFA VfM toolkit is available for free download on the CIPFA website.

<https://www.cipfa.org/services/go-lab-cipfa-value-for-money-toolkit>

3. Consultation on changes to the capital framework: Minimum Revenue Provision, December 2021

This consultation seeks views on proposed changes to regulations to better enforce the duty of local authorities to make prudent Minimum Revenue Provision each year.

Local authorities borrow and invest under the Prudential Framework (the Framework), which comprises legislation and 4 statutory codes that authorities must have regard to. Under this system, authorities have wide freedoms to borrow and invest without the need to seek the government's consent, provided that borrowing is affordable. The intent of the Framework is to make sure local decisions are prudent, affordable and sustainable.

The government is aware that some authorities employ practices that are not fully compliant with the duty to make a prudent revenue provision, resulting in underpayment of MRP. This was reported in the NAO's report Local Authority Investment in Commercial Property (February 2020) and the subsequent report by the Public Accounts Committee in July 2020, which recommended the government take steps to address the issue.

<https://www.gov.uk/government/consultations/changes-to-the-capital-framework-minimum-revenue-provision/consultation-on-changes-to-the-capital-framework-minimum-revenue-provision#excluding-specific-debt-from-mrp-determination>

NATIONAL PUBLICATIONS

National Audit Office

4. The Government's preparedness for the COVID-19 pandemic: lessons learned for government on risk management, November 2021

In November 2021

This report sets out the facts on:

- the government's approach to risk management and emergency planning (Part One);
- the actions the government took to identify the risk of a pandemic like COVID-19 (Part Two);
- the actions the government took to prepare for a pandemic like COVID-19 (Part Three); and
- recent developments (Part Four).

The report sets out central government's risk analysis, planning, and mitigation strategies prior to the arrival of the COVID-19 pandemic, with the aim of drawing out wider learning for the government's overall risk management approach.

The report concludes that this pandemic has exposed a vulnerability to whole-system emergencies – that is, emergencies that are so broad that they engage the entire system. Although the government had plans for an influenza pandemic, it did not have detailed plans for many non-health consequences and some health consequences of a pandemic like COVID-19. There were lessons from previous simulation exercises that were not fully implemented and would have helped prepare for a pandemic like COVID-19. There was limited oversight and assurance of plans in place, and many pre-pandemic plans were not adequate. In addition, there is variation in capacity, capability and maturity of risk management across government departments.

The pandemic also highlighted the need to strengthen the government's end-to-end risk management process to ensure that it addresses all significant risks, including interdependent and systemic risks. This will require collaboration on risk identification and management not only across government departments and local authorities, but also with the private sector and internationally. For whole-system risks NAO states that the government needs to define its risk appetite to make informed decisions and prepare appropriately so that value for money can be protected. NAO state that the pandemic has also highlighted the need to strengthen national resilience to prepare for any future events of this scale, and the challenges the government faces in balancing the need to prepare for future events while dealing with day-to-day issues and current events.

The full report can be seen at this link: <https://www.nao.org.uk/report/the-governments-preparedness-for-the-covid-19-pandemic/>

NATIONAL PUBLICATIONS

National Audit Office

5. The Local Government finance system in England: Overview and Challenges, November 2021

This overview looks at what local government in England spends, how this spending is funded and the effect of changes in recent years. It draws on relevant findings from past NAO work.

The overview aims to enhance financial transparency about local government in England. It covers:

- An introduction to local government funding
- Government policy and actions since 2010
- Some results or consequences of these changes.

The report headlines include the following in respect of the impact of the changes implemented by government on councils:

- Rising social care spending has squeezed funds available for non-social care services, yet rising spend has not prevented concerns about social care, and projections suggest continued cost and demand pressures.
- Local authorities have made substantial spending reductions in some services and sought to maximise revenue funding from other sources. Some local authorities have sought to maximise revenue available for services in ways that may reduce financial resilience. Commercial property investment strategies have increased some local authorities' exposure to risk. Local authorities now rely more on sources of income that are dependent on local economic conditions.
- A lack of short-term funding certainty hampers local authorities' ability to plan. Local authorities are also planning and delivering services amid medium-term financial uncertainty. Financial uncertainty does not support value-for-money decision-making.
- The governance mechanisms that support decision-making about financial sustainability are under strain. The financial resilience of the local government sector was being tested, even before the COVID-19 pandemic

The full report can be seen at this link: <https://www.nao.org.uk/report/the-local-government-finance-system-in-england-overview-and-challenges/>

NATIONAL PUBLICATIONS

National Audit Office

6. Departmental Overview 2020-21: Department for Levelling Up, Housing and Communities, November 2021

This provides a summary of the Department for Levelling Up, Housing and Communities' spending in 2020-21, its major areas of activity and performance, and the challenges it is likely to face in the coming year, based on the insights from NAO's financial audit and value for money work.

The full report can be seen at this link: <https://www.nao.org.uk/report/departmental-overview-2020-21-department-for-levelling-up-housing-and-communities/>

7. Cyber and Information Security: Good practice guide, October 2021

Audit committees should be scrutinising cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

The guide provides a checklist of questions and issues covering:

- The overall approach to cyber security and risk management;
- Capability needed to manage cyber security; and
- Specific aspects, such as information risk management, engagement and training, asset management, architecture and configuration, vulnerability management, identity and access management, data security, logging and monitoring and incident management.

The guidance is based on NAO previous work and our detailed systems audits, which have identified a high incidence of access-control weaknesses. It also provides links to other government guidance and NAO resources.

The full report can be seen at this link: <https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/>

NATIONAL PUBLICATIONS

National Audit Office

8. Climate change risk: A good practice guide for Audit and Assurance Committees, August 2021

This guide will help ARACs recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks.

The full report can be seen at this link: <https://www.nao.org.uk/report/climate-change-risk-a-good-practice-guide-for-audit-and-risk-assurance-committees/>

NATIONAL PUBLICATIONS

Financial Reporting Council

9. Inspection findings into the quality of major local body audits, October 2021

The Financial Reporting Council (FRC) published in October 2021 its [inspection findings into the quality of major local body audits](#) in England (which includes large health and local government bodies) for the financial year ended 31 March 2020.

The FRC reviewed 20 major local audits performed by six of the largest audit firms and found 6 (30%) required improvements. This is an improvement on the prior year inspection results where 60% of audits inspected required either improvements or significant improvements.

The FRC found that the firms have taken action in response to previous findings, however, the timeliness of auditor reporting was disappointing.

The key areas requiring action by some of the audit firms included:

- strengthening the audit testing of expenditure;
- improving the evaluation and challenge of assumptions used in concluding over investment property valuations;
- improving the evaluation of assumptions used in property, plant and equipment valuations; and
- providing improved rationale supporting a modified audit opinion.

FRC found that all Value for Money arrangement conclusions inspected by the FRC required no more than limited improvements.

The full report can be seen at this link: <https://www.frc.org.uk/news/october-2021/frc-publishes-latest-major-local-audit-quality-ins>

Appendix 1

Audit Strategy Memorandum 2020/21

Audit Strategy Memorandum

City of Lincoln Council

Year ended 31 March 2021



Contents

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- 03 Audit scope, approach and timeline
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- 05 Significant risks, key audit matters and other key judgement areas
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- 07 Fees for audit and other services
- 08 Our commitment to independence
- 09 Materiality and misstatements

Appendix – Key communication points

This document is to be regarded as confidential to City of Lincoln Council. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.



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Date: July 2021

Dear Audit Committee Members

Audit Strategy Memorandum – Year ended 31 March 2021

We are pleased to present our Audit Strategy Memorandum for City of Lincoln Council for the year ended 31 March 2021. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 8 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing City of Lincoln Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management but subject to completion of our full planning procedures, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit,

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me at mark.surridge@mazars.co.uk.

Yours faithfully

Mark Surridge

Mazars LLP

Mazars LLP – Two Chamberlain Square, Birmingham, B3 3AX

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01

Section 01:

**Engagement and
responsibilities summary**

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of City of Lincoln Council (the Council) for the year to 31 March 2021. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.



Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or Audit Committee, as those charged with governance, of their responsibilities.



Going concern

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. The Chief Financial Officer is responsible for the assessment of whether it is appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on the appropriateness of the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements and the adequacy of disclosures made.



Value for money

We are also responsible for forming a view on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.



Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom



Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management include Internal audit, other key individuals where relevant as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.



Reporting to the National Audit Office

We report to the NAO on the consistency of the Council's financial statements and the matters arising from our audit which are relevant to the Council's Whole of Government Accounts (WGA) submission.

Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Significant risks and key judgement areas

Value for money

Fees for audit and other services

Our commitment to independence

Materiality and misstatements

Appendices

02

Section 02:

Your audit engagement team

2. Your audit engagement team

| Who | Role | Email |
|---|--------------------|-----------------------------|
| Mark Surridge Director and Key Audit Partner | Engagement Lead | Mark.Surridge@mazars.co.uk |
| Michael Norman Senior Manager | Engagement Manager | Michael.Norman@mazars.co.uk |
| Kizzy Atkins Assistant Manager | Engagement Senior | Kizzy.Atkins@mazars.co.uk |

In addition, an engagement quality control reviewer has been appointed for this engagement.



03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements. Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is a risk based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 9.

The diagram on the next page outlines the procedures we perform at the different stages of the audit and the indicative timeline at this stage based on the current national timetable. The specific dates are subject though to

- the timely provision of information by third parties; and
- us being able to fully complete the audit procedures to the required quality standards.

We are continuing to discuss the detailed year-end audit arrangements with management, together with the timing of the main audit visit and completion stages. It is clear that the impact of the 2019/20 changes to the year-end timetable and delays nationally in completing audits is taking some time to unwind, with MHCLG confirming in March 2021 their expectation that the 2020/21 and 2021/22 draft and audited accounts publication dates will be 31 July and 30 September respectively. These dates are challenging the entire sector and we will keep the Committee informed on the audit progress, any early matters arising and the expected completion date.

COVID-19 Working Arrangements and impact on our auditor’s report

The accounts preparation and audit will once again be significantly impacted by the COVID-19 remote working arrangements and it is important that we continue to keep in close contact with the finance team and are able to respond to emerging issues. The outline timetable on the following page is based on our current understanding of the national deadlines and the current working arrangements.



3. Audit scope, approach and timeline

Planning – February/March

- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Completion – November **

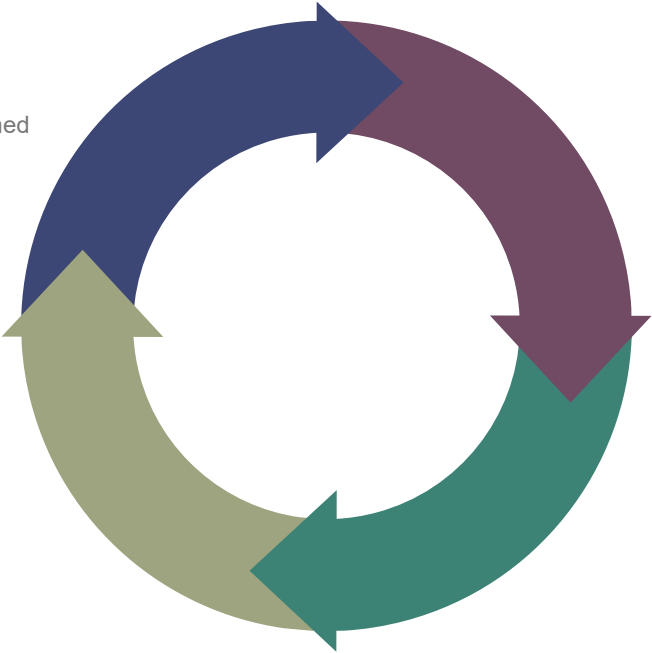
- Final review and disclosure checklist of financial statements
- Final partner and EQCR review
- Agreeing content of letter of representation
- Reporting to the Audit Committee
- Reviewing subsequent events
- Signing the auditor's report

Interim – March/April

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

Fieldwork – July to September *

- Receiving and reviewing draft financial statements
- Technical (ATS) review of financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting



* Specific dates for the audit visits being confirmed with management to accommodate audit and client staff availability during this period.

** Although we would hope to complete the audit work ahead of this date the timetable has been impacted by the delayed 2019/20 audit opinion and audit and client availability. Final completion is also subject to, amongst other things, the timely provision of information by third parties and us being able to fully complete the audit procedures to the required quality standards.

| | | | | | | | | | |
|---|----------------------------|---|---------------------------|---|-----------------|-----------------------------------|--------------------------------|-------------------------------|------------|
| Engagement and responsibilities summary | Your audit engagement team | Audit scope, approach and timeline | Extended auditor's report | Significant risks and key judgement areas | Value for money | Fees for audit and other services | Our commitment to independence | Materiality and misstatements | Appendices |
|---|----------------------------|---|---------------------------|---|-----------------|-----------------------------------|--------------------------------|-------------------------------|------------|

3. Audit scope, approach and timeline

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures, and we will take the Head of Internal Audit's Annual Report findings into account in forming our Value for Money Conclusion.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

| Item of account | Management's expert | Our expert |
|---|--|---|
| Defined benefit liability | Barnett Waddingham <i>Actuary for Lincolnshire Pension Fund</i> | PWC <i>Consulting actuary appointed by NAO</i> |
| Property, plant and equipment, Investment Properties and Assets held for Sale valuation | Paul Clifton, MRICS <i>The Council's internal valuer</i> | Not applicable |
| Property, plant and equipment valuation | DVS Property Services <i>External valuation specialist</i> | We intend to utilise our internal valuation expert to support our work on valuations. |
| Business Rate Appeals valuation | Inform CPI Limited <i>Analyse Local Valuation System</i> | Not applicable |
| Financial instrument disclosures | Link Asset Services <i>Treasury management advisors</i> | Not applicable |

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Council and our planned audit approach.

| Items of account | Service organisation | Audit approach |
|---------------------|---|---|
| Payroll Expenditure | North Kesteven District Council <i>The payroll entries that form part of the Council's financial statements are material and are derived from the processing of monthly payrolls. The payroll processing is undertaken and administered by North Kesteven District Council on behalf of the Council.</i> | We will review the controls at the Council over these transactions and gain an understanding of the work of the service organisations. We will conclude whether the Council has sufficient controls in place over the services provided by the payroll service and whether we will be able to audit these items of account based on the records held at the entity. |



04

Section 04:

Extended auditor's report

4. Extended auditor's report

Layout of extended auditor's report and implications for the audit

The extended auditor's report for City of Lincoln Council is expected to follow the format and structure below for the year ended 31 March 2021 assuming that no emphasis of matter or qualification is required.

| Paragraph heading in order | Summary of key content |
|---------------------------------------|---|
| Opinion on the financial statements | What we have audited and our opinion thereon. |
| Basis for opinion | Confirms that the audit is undertaken under the ISAs (UK). Specific confirmation of our independence including with the FRC's Ethical Standard. Specific confirmation re sufficiency and appropriateness of audit evidence obtained to provide a basis for our opinion. |
| Conclusions relating to going concern | Reporting by exception on the Council's: <ul style="list-style-type: none">• use of the going concern basis of accounting• disclosure of any material uncertainties |
| Key audit matters | Includes definition of key audit matters. Clarifies that these matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and that we do not provide a separate opinion on these matters. For each key audit matter identified: <ul style="list-style-type: none">• A description of the most significant assessed risk(s) of material misstatement;• A summary of our response to those risks including significant judgements applied; and• Where relevant, key observations arising with respect to those risks including clear reference to relevant disclosures in the financial statements. |



4. Extended auditor’s report

| Paragraph heading in order | Summary of key content |
|--|---|
| Our application of materiality and an overview of the scope of our audit | Explanation of how we applied the concept of materiality in planning and performing the audit. The overall materiality threshold for the financial statements as a whole, performance materiality and triviality. Overview of the scope of the audit, including an explanation of how the scope addressed each key audit matter and was influenced by our application of materiality. |
| Other information | Responsibilities of the S151 Officer and of the auditor for Other information included in the annual report. |
| Responsibilities of the S151 Officer | Cross reference to the full Statement of the S151 Officer’s Responsibilities. |
| Auditor’s responsibilities for the audit of the financial statements | Explanation of the ‘reasonable assurance’ objective of the audit. Cross-reference to our responsibilities for the audit on the FRC’s web-site. Explain to what extent the audit was considered capable of detecting irregularities, including fraud. |
| Matters on which we are required to report by exception | Report in the public interest under section 24 of the Local Audit and Accountability Act 2014. Recommendation under section 24 of the Local Audit and Accountability Act 2014. Exercise of any other special powers of the auditor under the Local Audit and Accountability Act 2014. |



4. Extended auditor’s report

| Paragraph heading in order | Summary of key content |
|--|---|
| Value for Money arrangements | Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources. |
| Other matters which we are required to address | Confirms that we have not carried out any prohibited non-audit services and that we remain independent on the Council. Confirms that our audit opinion is consistent with the Audit Completion Report. |
| Use of the audit report | Who we are reporting to and what the report may be used for. |
| Audit certificate | Sets out that we have completed the audit of the Council in accordance with the Local Audit and Accountability Act 2014. |



05

Section 05:

**Significant risks, key audit matters
and other key judgement areas**

5. Significant risks, key audit matters and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to that risk.

Significant risks may also be key audit matters.

Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement (‘RMM’) at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring. Standard risks will not normally be key audit matters as defined below.

Key audit matters

Key audit matters are defined as those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

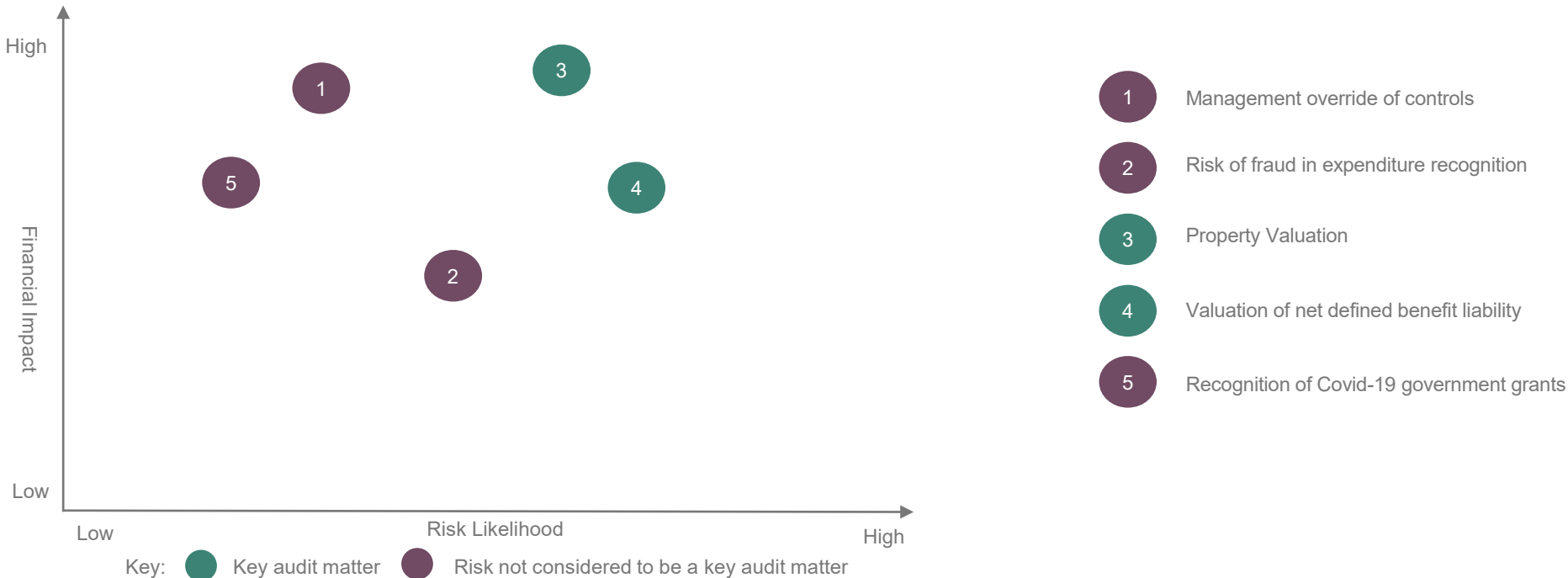
It is important that you understand and have the opportunity to discuss with us why something is being communicated as a key audit matter and the way this is described. This section highlights which of the significant risks and other key judgement areas are considered by us at the planning stage to be key audit matters. It should be noted, however, that other key audit areas may be identified during the course of the audit.



5. Significant risks, key audit matters and other key judgement areas

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Council, identifying those that are considered key audit matters ('KAMs'). We have summarised our audit response to these risks on the next page.



5. Significant risks, key audit matters and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the audit committee.

Significant audit risks

| | Description | Fraud | Error | Judgement | Expected KAM | Planned response |
|---|---|-------|-------|-----------|--------------|---|
| 1 | <p>Management override of controls</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p> | ● | - | - | - | We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual. |



5. Significant risks, key audit matters and other key judgement areas

Significant audit risks

| | Description | Fraud | Error | Judgement | Expected KAM | Planned response |
|---|--|-------|-------|-----------|--------------|---|
| 2 | <p>Expenditure recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council (FRC), which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>Having considered the factors for expenditure recognition, we believe the risk is focused on the year-end and in particular whether cut-off (recognition in the correct financial year) is materially accurate. From our consideration of the Council's expenditure streams, we believe the risk is focused on Other Services Expenses (being £64m per Note 8 of the 2019/20 financial statements).</p> | ● | ● | ● | - | <p>We will address this risk by performing work in the following areas:</p> <ul style="list-style-type: none">ensuring the accounting policies in relation to expenditure recognition and recognition of accruals are appropriate and consistently applied; andcarrying out cut-off testing, and testing for unrecorded liabilities, to confirm expenditure has been coded to the correct accounting year. |



5. Significant risks, key audit matters and other key judgement areas

Significant audit risks

| | Description | Fraud | Error | Judgement | Expected KAM | Planned response |
|---|---|-------|-------|-----------|--------------|--|
| 3 | <p>Property Valuation</p> <p>Property related assets are a significant balance on the council's balance sheet. The valuation of these properties is complex and is subject to a number of management assumptions and judgements.</p> <p>Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area.</p> <p>This risk covers (figures have been taken from the 2019/20 financial statements):</p> <ul style="list-style-type: none">• Council Dwellings (£257.6m – Note 14)• Land & Buildings (£86.7m - Note 14)• Surplus Assets (£19.7m – Note 14)• Investment Properties (£34.6m – Note 14)• Assets held for sale (£1.5m) | - | ● | ● | ● | <p>We plan to address this risk by:</p> <ul style="list-style-type: none">• critically assessing the Council's valuers scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations;• considering whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA code of practice and the Council's accounting policies;• assessing whether valuation movements are in line with market expectations by considering valuation trends;• critically assessing the approach that the Council adopts to ensure that assets that are not subject to revaluation in 2020/21 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Councils valuers. <p>In line with 2019/20 and the continuing COVID19 pandemic, we will consider whether there is the need for a material uncertainty disclosure to be made and emphasis of matter paragraph to be included within our opinion. We will monitor this throughout the audit process.</p> |



5. Significant risks, key audit matters and other key judgement areas

Significant audit risks

| | Description | Fraud | Error | Judgement | Expected KAM | Planned response |
|---|---|-------|-------|-----------|--------------|--|
| 4 | <p>Valuation of net defined benefit liability</p> <p>The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.</p> <p>This risk covers (figures have been taken from the 2019/20 financial statements):</p> <ul style="list-style-type: none">• Net defined benefit liability (£81.9m - Note 44) | - | ● | ● | ● | <p>In relation to the valuation of the Council's defined benefit pension liability we will:</p> <ul style="list-style-type: none">• Critically assess the competency, objectivity and independence of the Lincolnshire Pension Fund's Actuary;• Liaise with the auditors of the Lincolnshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate;• Test payroll transactions at the Council to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by the Council;• Review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office; and• Agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements. |



5. Significant risks, key audit matters and other key judgement areas

Other key areas of management judgement, key audit matters and enhanced risks

| | Description | Fraud | Error | Judgement | Expected KAM | Planned response |
|---|--|-------|-------|-----------|--------------|--|
| 5 | <p>Recognition of Covid-19 Government grants</p> <p>Throughout 2020/21, the Government has made available and provided substantial sums of grant support to local authorities including the general support grant, the Income Compensation and Job Retention schemes and grants that have been passed through to businesses.</p> <p>There is a risk the correct accounting treatment has not been applied, with the focus of our testing for this enhanced risk on the completeness and accuracy of this income in 2020/21.</p> | - | ● | ● | - | <p>We plan to address this enhanced risk by:</p> <ul style="list-style-type: none">• Reviewing the Council’s approach in determining whether grants are ringfenced for specified areas of expenditure;• Testing grant income recorded in the ledger to grant allocations/ notifications; and• Reviewing a sample of grants to establish whether conditions to recognise the income in 2020/21 have been met. |



06

Section 06: **Value for Money**

6. Value for Money

The framework for Value for Money work

We are required to form a view as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view, and sets out the overall criterion and sub-criteria that we are required to consider.

The new Code of Audit Practice (the Code) has changed the way in which we report our findings in relation to Value for Money (VFM) arrangements from 2020/21. Whilst we are still required to be satisfied that the Council has proper arrangements in place, we will now report by exception in our auditor’s report where we have identified significant weakness in those arrangements. This is a significant change to the requirements under the previous Code which required us to give a conclusion on the Council’s arrangements as part of our auditor’s report.

Under the new Code, the key output of our work on VFM arrangements will be a commentary on those arrangements which will form part of the Auditor’s Annual Report.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

- 1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services
- 2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks
- 3. **Improving economy, efficiency and effectiveness** – how the Council uses information about its costs and performance to improve the way it manages and delivers its services

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council’s arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Identified risks of significant weaknesses in arrangements

Due to the late release of the NAO’s Auditor Guidance Note and supporting information to auditors, we have not yet fully completed our planning and risk assessment work. At this stage though there are no significant matters to highlight here. Financial Sustainability continues to be inherently challenging for the local government sector and will clearly be a focus for our assessment. On completion of our risk assessment and any further work we will report our findings and any significant weaknesses in arrangements in our commentary in the Auditor’s Annual Report..

| | |
|---|--|
| Planning and risk assessment | Obtaining an understanding of the Council’s arrangements for each specified reporting criteria. Relevant information sources will include: <ul style="list-style-type: none">• NAO guidance and supporting information• Information from internal and external sources including regulators• Knowledge from previous audits and other audit work undertaken in the year• Interviews and discussions with staff and members |
| Additional risk based procedures and evaluation | Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness. |
| Reporting | We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor’s Annual Report. Our commentary will also highlight: <ul style="list-style-type: none">• Significant weaknesses identified and our recommendations for improvement• Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council. |



6. Value for Money

Under the 2020 Code, we are required to structure our commentary on the Council’s ‘proper arrangements’ under three specified reporting criteria, which are expanded in the supporting guidance notes produced by the National Audit Office:

Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services

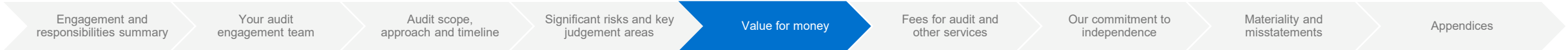
- how the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them
- how the body plans to bridge its funding gaps and identifies achievable savings
- how the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- how the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system
- how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Governance: how the body ensures that it makes informed decisions and properly manages its risks, including

- how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- how the body approaches and carries out its annual budget setting process
- how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed
- how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

Improving VFM: how the body uses information about its costs and performance to improve the way it manages and delivers its services

- how financial and performance information has been used to assess performance to identify areas for improvement
- how the body evaluates the services it provides to assess performance and identify areas for improvement
- how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve
- where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.



07

Section 07:

Fees for audit and other services

7. Fees for audit and other services

Fees for work as the Council's appointed auditor

Details of the 2019/20 actual and planned 2020/21 fees are set out below:

| Area of work | 2020/21 Proposed Fee | 2019/20 Actual Fee |
|--|--|--------------------|
| Scale Audit fee | £36,332 | £36,332 |
| <i>Fee Variations</i> | | |
| Additional work to reflect the Council's designation as a Public Interest Entity | £5,000 | £5,000 |
| Additional work in response to regulatory recommendations to increase level of audit work on defined benefit liability schemes. | | |
| Additional work in response to regulatory recommendations to increase level of audit work on the valuation of property plant and equipment. | £7,067 ¹ | £7,067 |
| Other additional costs relating to additional testing and reporting of uncertainties in key estimates as a result of Covid-19 | - | £5,032 |
| Additional testing as a result of the implementation of new auditing standards: ISA 220 (Revised): Quality control of an audit of financial statements; ISA 540 (Revised): Auditing accounting estimates and related disclosures; ISA570 (Revised) Going Concern; and ISA 600 (Revised): Specific considerations – audit of group financial statements | £2,000 ² | - |
| Additional work arising from changes in the Code of Audit Practice | TBC – Expected to be at least £10,000 or 20% of the revised fee ³ | - |
| Total | TBC ⁴ | £53,431 |

¹ As previously reported to you, the scale fee has been adjusted to take into account the additional work required as a result of increased regulatory expectations in these areas.

² For 2020/21, new auditing standards have been introduced which will lead to additional audit work not reflected in the scale fee. The implementation of IFRS 16 Leases is deferred to the financial year 2021/22.

³ As explained in section 5, the revised Code of Audit Practice will lead to a substantial amount of additional audit work to support the new value for money commentary and the changes in reporting requirements. Our review of the Code and supporting guidance notes shows that the additional fee impact at all public sector entities is expected to be at least £10,000 or 20% of the post fee variation 2020/21 fee. The final fee will take into account the extent and complexity of any significant weaknesses in arrangements we identify.

⁴ This is a proposed fee for 2020/21 at the point of the issue of our ASM. This figure is subject to change and variations will be discussed with management.

PSAA has issued a consultation on the 2021/22 audit fee scale. We will revisit our fee proposal in line with the outcome of this consultation to ensure we are consistent with sector wide changes.



7. Fees for audit and other services

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 8.

| Area of work | 2020/21 Proposed Fee | 2019/20 Actual Fee |
|--|----------------------|--------------------|
| Other services – Housing Benefits Grant Certification | £6,600 | £6,600 |
| Pooling of Housing Capital Receipts Return Certification | £3,250 | £3,250 |
| Homes England – Compliance Return | £3,500 | £3,500 |

In common with all local government external auditors we are required to carry out additional procedures which were not expected when fees were set.

Public interest Entity

Designation as an EU Public Interest Entity (EU PIE) The new European Union (EU) statutory audit legislation came into effect for all financial years starting on or after June 17, 2016. The new Public Interest Entity (PIE) definition includes organisations with transferable securities listed on EU regulated markets and governed by the law of an EU member. City of Lincoln Council had £560,780 of listed debt as at 31 March 2020. As a result of this listed debt, the Council falls under the definition of an EU PIE. In particular there are additional requirements at both the planning and the reporting stages of the audit, culminating in the longer-form audit report.

Regulatory recommendations

We continually strive to maintain high standards of audit quality. One mechanism for doing this is to consider the outcome of independent quality reviews, in particular by the Financial Reporting Council, of our audit work and that of other audit suppliers. In particular we are planning increases in the level of work we do on defined benefit pension schemes; and the valuation of land, buildings and investment properties.

We will discuss the driving factors with Council officers and the audit fee for 2020/21 will be revisited to reflect the increased level of work that was not considered when the scale fee was set. Any agreed additional fee is also subject to detailed scrutiny by the PSAA as part of the approval process.



08

Section 08:

Our commitment to independence

8. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC’s Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

The Ethical Standard 2019 is applicable for any non-audit services commencing on or after 15 March 2020.

We have not made arrangements for any of our activities as auditor to be conducted by another firm that is not a Mazars’ member firm. In section 3 we have outlined the experts that we intend to use as part of our audit. We will write to these experts seeking confirmation of their independence and will report this within our Audit Completion Report for the audit committee.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the audit team; and
- Use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

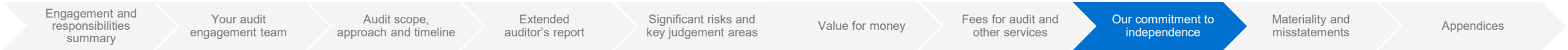
We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Surridge in the first instance.

Prior to the provision of any non-audit services Mark Surridge will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Principal threats to our independence and identified associated safeguards are set out below.

| Area of work | Safeguards and commentary |
|--|--|
| Housing Benefits Grant Certification | We have considered threats and safeguards as follows: <ul style="list-style-type: none">• Self Review: The work does not involve the preparation of information that has a material impact upon the financial statements subject to audit by Mazars and the Homes England Compliance Return is performed by a separate engagement team based on relevant skills and independence;• Self Interest: The total fee level is not deemed to be material to the Council or Mazars. The work undertaken is not paid on a contingency basis;• Management: The work does not involve Mazars making any decisions on behalf of management;• Advocacy: The work does not involve Mazars advocating the Council to third parties;• Familiarity: Work is not deemed to give rise to a familiarity threat given this piece of assurance work used to fall under the Audit Commission / PSAA certification regimes and was the responsibility of the Council’s appointed auditor; and• Intimidation: The nature of the work does not give rise to any intimidation threat from management to Mazars. |
| Pooling of Housing Capital Receipts Return Certification | |
| Homes England – Compliance Return | |

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.



09

Section 09:

Materiality and other misstatements

9. Materiality and misstatements

Summary of initial materiality thresholds

| Threshold | Initial threshold £'000s |
|--|-----------------------------|
| Overall materiality | 1,450 |
| Performance materiality | 1,090 |
| Specific materiality: <ul style="list-style-type: none">Officers' remuneration (bandings)Termination payments | 5k banding 13 |
| Trivial threshold for errors to be reported to the audit committee | 44 |

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities and accounts;

- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented and audited to levels of materiality;
- Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- Will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

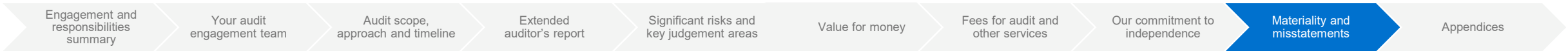
Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of the Comprehensive Income and Expenditure Statement (CIES) total gross expenditure. This is the sum of the CIES Cost of Services gross expenditure and relevant items within Other Operating Expenditure and Financing Income and Expenditure. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the audit committee.

We consider that the total gross expenditure as explained above remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.



9. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 1.5% of gross revenue expenditure, as explained on the previous page.

In setting materiality, we considered, among other matters:

- The nature of the Council's business, being provision of public services to the local community
- Nature of the Council's ownership, being a public body, led by elected members and paid officers, which includes the statutory roles - Head of Paid Services, Chief Financial Officer (s151), and Monitoring Officer;
- Council's access to financing, with the Council having access to the Public Works Loan Board (PWLb) for borrowing which are non-complex arrangements.

Based on the 2019/20 audited financial statements we anticipate the overall materiality for the year ended 31 March 2021 to be in the region of £1.45m.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our third year of audit, we have cumulative audit knowledge about the Council's financial statements, and there were no significant matters arising last year. We have therefore set our performance materiality again at 75% of our overall materiality being £1.09m.

Specific Materiality

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account:

| Item of account | Specific performance materiality |
|-------------------------------|---|
| | £5,000* |
| Senior officers' remuneration | * - Reflecting movement from one salary band to another |
| Termination payments | £13,000 |

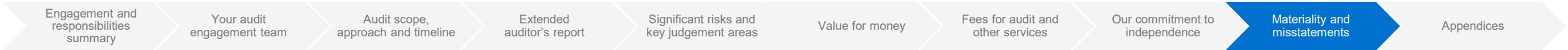
Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the audit committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £44,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Surridge.

Reporting to the Audit Committee

The following three types of audit differences will be presented to the Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).





Appendix: Key communication points

Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) ‘Communication with Those Charged with Governance’ and ISA 265 (UK) ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Auditor’s Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

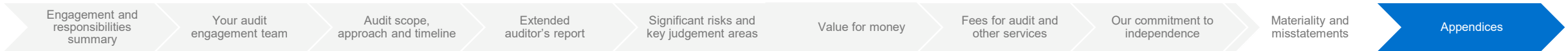
Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;

- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

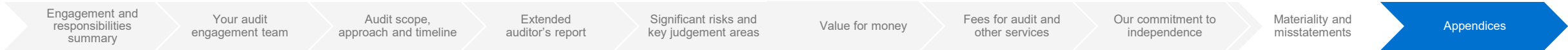
- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.



Appendix: Key communication points

ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

| Required communication | Where addressed |
|--|--|
| Our responsibilities in relation to the financial statement audit and those of management and those charged with governance. | Audit Strategy Memorandum |
| The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks/ key audit matters. | Audit Strategy Memorandum |
| With respect to misstatements: <ul style="list-style-type: none">• Uncorrected misstatements and their effect on our audit opinion;• The effect of uncorrected misstatements related to prior periods;• A request that any uncorrected misstatement is corrected; and• In writing, corrected misstatements that are significant. | Audit Completion Report |
| With respect to fraud communications: <ul style="list-style-type: none">• Enquiries of the Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;• Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and• A discussion of any other matters related to fraud. | Audit Completion Report and discussion at the Audit Committee, Audit Planning and Clearance meetings |



Appendix: Key communication points

| Required communication | Where addressed |
|---|-------------------------|
| <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and • Difficulty in identifying the party that ultimately controls the entity. | Audit Completion Report |
| <p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Significant difficulties, if any, encountered during the audit; • Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit Committee in the context of fulfilling their responsibilities. | Audit Completion Report |
| Significant deficiencies in internal controls identified during the audit. | Audit Completion Report |
| Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures. | Audit Completion Report |

Appendix: Key communication points

| Required communication | Where addressed |
|---|--|
| Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of. | Audit Completion Report and Audit Committee meetings |
| <p>With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> Whether the events or conditions constitute a material uncertainty; Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and The adequacy of related disclosures in the financial statements. | Audit Completion Report |
| Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods | Audit Completion Report |
| Indication of whether all requested explanations and documents were provided by the entity | Audit Completion Report |

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