Audit Strategy Memorandum

Harborough District Council

Year ending 31 March 2020

CONTENTS

Mazars LLP
Park View House
58 The Ropewalk
Nottingham
NG1 5DW

Governance and Audit Committee Members
Harborough District Council
The Symington Building
Adam and Eve Street
Market Harborough
Leicestershire
LE16 7AG

20 November 2019

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for Harborough District Council for the year ending 31 March 2020

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 7 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 Harborough District Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously 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 on 07875 974 291.

Yours faithfully

Mark Surridge
Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Harborough District Council (the Council) for the year to 31 March 2020. 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/audit-quality/statement-of-responsibilities/.

Our responsibilities

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 is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Council for the year.

Reporting to the NAO

We are required to issue an assurance statement to the National Audit Office confirming the income, expenditure, asset and liabilities of the Council.

Value for Money

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in it 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.

Our audit does not relieve management or those charged with governance, of their responsibilities. 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. 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.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Governance and Audit Committee as those charged with governance.

2. YOUR AUDIT ENGAGEMENT TEAM

Mark Surridge
Director and Engagement Lead

E-Mail: mark.surridge@mazars.co.uk
Tel: 07875 974 291

John Pressley
Manager

E-Mail: john.pressley@mazars.co.uk
Tel: 0790 998 0880

Victoria Gittings
Assistant Manager

E-Mail: victoria.gittings@mazars.co.uk
Tel: 0758 418 3931

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 affected 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.

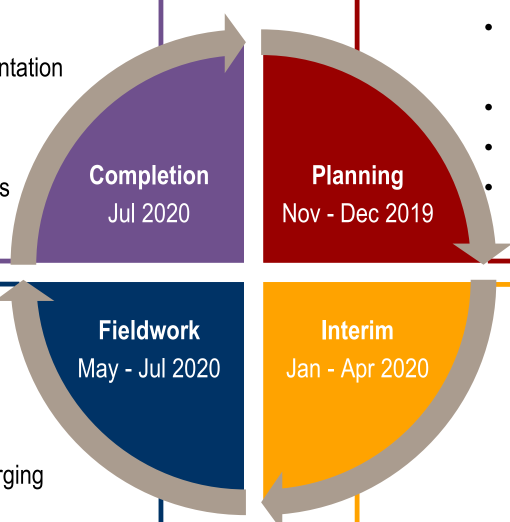
If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures 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 8.

The diagram below outlines the procedures we perform at the different stages of the audit.

- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to Governance and Audit Committee
- Reviewing post balance sheet events
- Signing our opinion

- Updating our understanding of the Council
- Initial opinion and value for money risk assessments
- Development of our audit strategy
- Agreement of timetables
- Preliminary analytical procedures



- Review of draft financial statements
- Reassessment of audit strategy, revising as necessary
- Delivering our planned audit testing
- Continuous communication on emerging issues
- Clearance meeting

- Documenting systems and controls
- Walkthrough procedures
- Controls testing, including general and application IT controls
- Early substantive testing of transactions

3. AUDIT SCOPE, APPROACH AND TIMELINE

Group audit approach

In line with the requirements of the CIPFA Code of Practice, the Council has considered its interests in other entities and determined that group accounts are required which will consolidate its interests. This section sets out the planned work in respect of the entity involved Harborough District Commercial Services Limited, which we refer to here as the component.

Component	Nature of component / ownership	Auditor
Harborough District Commercial Services Limited	Subsidiary 100% owned by the Council for development and commercial initiatives	Mazars

We assess the significance of the components as part of determining the level of work required. In assessing the significance of components, we consider a range of quantitative and qualitative factors including:

- whether the component exceeds a minimum of 15% of key benchmarks (revenues, expenditure, profit/loss before tax, total assets, net assets/liabilities);
- whether any financial statement area (FSA) is greater than 15% of the relevant FSA in the consolidated accounts and greater than performance materiality – this approach results from an EU audit directive, resulting in such components being classed as 'material but not significant' components which are however required to be subject to a group audit scope consistent with that for a significant component; and
- whether there are any risks of material misstatement in the component likely to result in material misstatement in the group financial statements.

We have assessed that Harborough District Commercial Services Limited is a material but not significant component as it has a material impact on the Council's FSAs covering investment property and long term investments. The nature and scope of work is set out below.

Nature and scope of planned work

Specified audit procedures will be undertaken in respect of the assets accounting adjustment upon consolidation. This work is in addition to our review of group-wide controls and the consolidation process.

Group materiality

Our assessment of group materiality is set out in section 8..

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

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 liaise with internal audit regarding the progress and findings of their work prior to the commencement of our controls evaluation procedures.

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.

Items of account	Management's expert	Our expert
Defined benefit liability	Hymans Robertson LLP *Actuary for Leicestershire Pension Fund*	PWC *Consulting actuary appointed by the NAO*
Property, plant and equipment valuation	Wilks Head and Eve *The Council's valuer*	Gerald Eve *Valuations expert appointed by the NAO*
Financial instrument disclosures	Link Asset Services *Treasury management advisors*	Not applicable

Service organisations

International Auditing Standards (UK) 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
Pension cost (cost of services) Net interest on defined benefit liability Re-measurements of the net defined benefit liability (OCI) Net pension liability	Leicestershire Pension Fund *The IAS 19 pension entries that form part of the Council's financial statements are material and are derived from actuarial valuations. The process of obtaining these is co-ordinated by and uses information held and processed by the service organisation.*	We will review the controls operating at the Council over these transactions to gain an understanding of the services provided by the service organisation. Where we conclude that we do not have a sufficient understanding of the services provided by the service organisation we will seek to obtain assurance by using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation.

4. AUDIT RISKS AND 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, as defined 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.

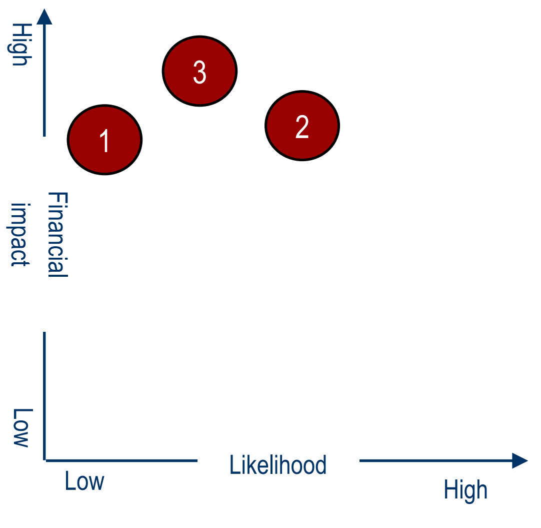
Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- 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, 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.

The summary risk assessment, illustrated in the tables below, highlight those risks which we deem to be significant or enhanced. We have summarised our audit response to these risks over the next pages.

At the time of writing this memorandum we are yet to complete our detailed risk assessment work over the Council's key financial systems and general IT controls. We aim to complete this as part of our interim work and will update the Governance and Audit Committee where we subsequently identify any additional risks.



Risk	
1	Management override of control
2	Property, plant and equipment valuation
3	Defined benefit liability valuation

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. 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 Governance and Audit Committee.

Significant risks

	Description of risk	Planned response
1	**Management override of controls** 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.	In relation to the management override of controls we will: • document our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding; • test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • evaluate the business rationale for any significant unusual transactions; • understand the oversight given by those charged with governance of management process over fraud; • make enquiries of management and internal audit regarding actual or any suspicions of fraud; and • consider whether the Council's accounting policies are consistent with industry standards.
	Description of risk	**Planned response**
2	**Valuation of property, plant and equipment, investment properties and assets held for sale** The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we have determined there is a significant risk in this area.	In relation to the valuation of property, plant & equipment, investment properties and assets held for sale we will: • reconcile valuations from the valuer's report to the entries recorded in the Fixed Asset Register; • test a sample of assets valued during the year to valuation reports; • where material, test the basis for impairment of assets, the value and correct accounting treatment; • critically assess the Council's valuer's scope of work and methodology used; and • consider the impact of any assets not valued during the year.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks (continued)

	Description of risk	Planned response
3	**Valuation of net defined benefit liability** 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.	In relation to the valuation of the Council's defined benefit pension liability we will: • 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.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Consideration of other mandatory risks

Auditing standards require us to consider two standard risks for all organisations:

- Management override of controls; and
- Fraudulent revenue recognition.

We have already considered and identified management override of controls as a significant risk above, but set out our considerations in respect of fraudulent revenue recognition below:

	Description of risk	Planned response
1	**Fraudulent revenue recognition** Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable. Revenue, in the context of Harborough District Council's business, excludes 'non-exchange transactions' such as grant funding and taxation.	In our judgement, this is not considered to be a significant audit risk for because the Council's revenue streams comprise uncomplex, low value, high volume transactions, with limited management accounting judgements involved. We therefore rebut this risk and do not incorporate specific risk procedures over and above our standard fraud procedures to address the management override of controls risk.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Enhanced risks and key areas of management judgement

Enhanced risks and key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Area of management judgement	Planned response
1	**Provision for business rate appeals against the rating list** The issue of a new rating list and a change in the appeals process has created delays in appeals being notified to the Council. Consequently management need to make an assumption over the likely level of appeals that will be successful based on their rating knowledge.	We plan to address this judgement by: • reviewing the basis of the Council's calculation of its provision by recalculating the provision, evaluating the key assumptions of the provision, vouching movements in the provision and confirming completeness of entries; • assessing whether the provision has been calculated and recorded in accordance with the Council's accounting policy; • assessing whether the amount provided at the period end is appropriate, taking into account the Council's anticipated actual liability; and • assessing whether the reconciliation of movements during the period and description of the nature of the provision have been adequately disclosed in the financial statements.
2	**Minimum revenue provision (MRP)** Local authorities are normally required each year to set aside some of their revenues as a provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements, by reference to the prior year's closing Capital Financing Requirement. The amount to be set aside each year is not prescribed although an overarching principle of prudency is expected to be adopted. This is supported by statutory guidance as to how this could be achieved and the Council is required to have regard to this in setting its MRP policy. Management judgement is therefore exercised is determining the level of its prudent provision.	We plan to address this judgement by: • reviewing the Council's MRP policy to ensure that it has been developed with regard to the statutory guidance; • assessing whether the provision has been calculated and recorded in accordance with the Council's policy; • assessing whether the amount provided for the period is appropriate, taking into account the Council's Capital Financing Requirement; and • confirming that any charge has been accounted for in accordance with the Code.

5. VALUE FOR MONEY

Our approach to Value for Money

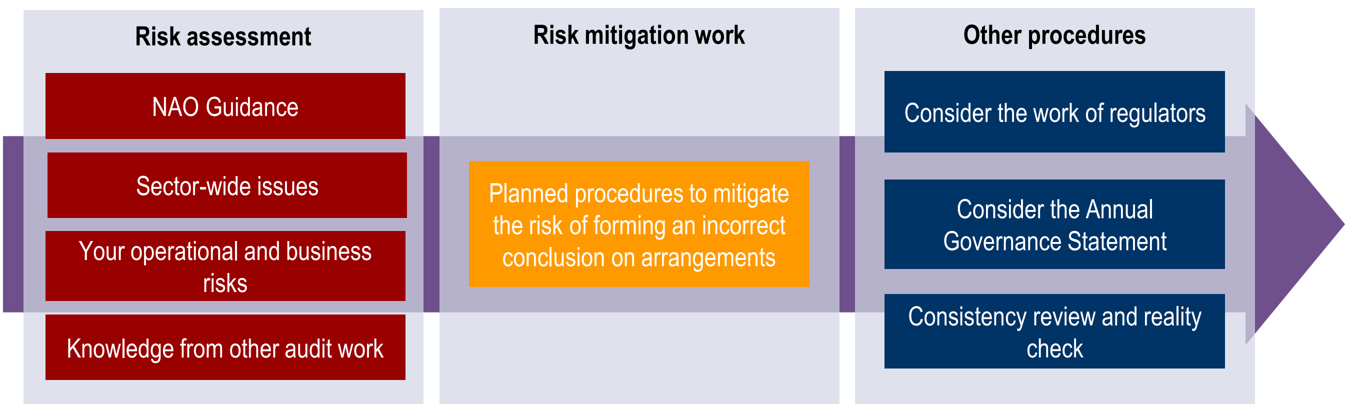
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria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

The overall criterion is that, ‘in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.’

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below:



Significant risks

The NAO’s guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

5. VALUE FOR MONEY (CONTINUED)

Significant risks (continued)

For the 2019/20 financial year, we have identified the following significant risk to our VFM work:

Description of significant risk	Planned response
Achievement of savings and income generation targets *VFM Criteria: Sustainable Resource Deployment* The continual pressures on Local Government finances are well documented and led to another challenging budget setting process for 2019/20, being the last year of the current Medium Term Financial Strategy. The Council's 2019/20 budget consolidated the organisational change and savings programmes undertaken in previous years and included £0.95million of savings and income generation proposals. On this basis, in February 2019, the Council approved a balanced 2019/20 budget. The budget included the required Section 151 Officer assurances relating to the robustness of the budget and the adequacy of the level of reserves. The Month 3 forecast shows that the Council may deliver an underspend of £0.1million on its general fund, but is anticipating that further in-year changes may occur which will require ongoing management. The Council acknowledged the risks around the delivery and timing of savings initiatives and the need to address medium term budget shortfalls from 2020/21 onwards. There will be significant changes in Local Government finances over the next few years, which will culminate in a major change in the way Local Government is financed from 2020/21 onwards. These include the Spending Review, the Fair Funding Review and the introduction of 75% local retention of business rates (up from 50% retention) and General Election. As a result, the need for savings (or income generation) will continue to have a significant impact on the Council's financial resilience.	We will examine the Council's arrangements to ensure financial resilience, specifically: • The level of additional income / savings delivered in 2019/20 against budget • The level of additional income / savings required to achieve a balanced budget from 2020/21 to 2022/23 • The robustness and existence of specific plans to deliver the additional income / savings between 2020/21 to 2022/23 • The impact of savings on useable reserves from 2020/21 to 2022/23.

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

At this stage of the audit we are planning for an additional fee of £750 for group accounts work above the scale fee set by PSAA for 2019/20 of £32,272 plus VAT which was communicated in our fee letter of 24 April 2019. The group accounts work involved was not required by the Council before 2018/19 and is not included in the PSAA scale fee.

Service	2018/19 fee	2019/20 fee
Code audit work	£33,772 plus VAT*	£33,022 plus VAT

*includes additional amounts of £750 plus VAT for group accounts work and £750 plus VAT in relation to the work associated with the GMP/McCloud pension liability issue.

Fees for existing non-PSAA work

We have not yet been separately engaged by the Council to carry out any assurance work.

Services provided to other entities within the Council's group

We have been appointed as auditor for the Council's subsidiary, Harborough District Commercial Services Limited. The fee for this audit is £4,600 plus VAT. In addition to this, we will review the subsidiary's tax computations and iXBRL tagging of its financial statements for £1,600 plus VAT.

Fees for any new non-PSAA work

Should the Council or entities within the Council's group wish us to undertake any other additional work, before agreeing to this we will 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 7.

7. 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 Financial Reporting Council'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.

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 ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- 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 lead.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and 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.

No threats to our independence have been identified in relation to our existing work. Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Group materiality - initial threshold	Council single-entity materiality £000
Overall materiality	£813,000	£812,000
Performance materiality	£610,000	£609,000
Trivial threshold for errors to be reported to the Governance and Audit Committee	£24,000	£24,000

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 2018/19 total gross expenditure. We have calculated a headline figure for materiality but have also identified separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Governance and Audit Committee.

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

8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

We have set our materiality threshold at 2% of the benchmark based on the 2018/19 audited financial statements.

Based on the 2018/19 audited financial statements we anticipate the overall group materiality for the year ending 31 March 2019 to be £813,000.

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 second year of audit and accordingly we now hold more cumulative audit knowledge about the Council's financial statements. We have therefore set our performance materiality at 75% of our overall materiality being £610,000.

As with overall materiality, we will remain aware of the need to change this performance materiality level through the audit to ensure it remains to be set at an appropriate level.

Specific items of lower 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 materiality
Officers' remuneration	£5,000 *
Members' allowances and expenses	£64,000
External audit costs	£7,000

* Reflecting movement from one salary band to another

Misstatements

We aggregate 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 Governance and 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 £24,000 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 Governance and Audit Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Governance and Audit Committee:

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

APPENDIX A – 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	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
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	✓	✓
Fees for audit and other services	✓	
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		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Changes relevant to 2019/20

IAS 40 Investment Property: Transfers of Investment Property - the amendments clarify the requirements on transfers to, or from, investment property.

Annual Improvements to IFRS Standards - the amendments that may apply to local authorities include:

- IFRS 12 Disclosure of Interests in Other Entities – this offers clarification of the scope of the standard; and
- IAS 28 Investments in Associates and Joint Ventures: Measuring an Associate or Joint Venture at Fair Value - the amendments involved clarify whether a local authority should apply IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that forms part of the net investment in the associate or joint venture.

IFRIC 22 Foreign Currency Transactions and Advance Consideration - clarifies which exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency.

IFRIC 23 Uncertainty over Income Tax Treatments - aims to reduce diversity in how organisations recognise and measure a tax liability or tax asset when there is uncertainty over income tax treatments.

Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation - these amendments enable entities to measure at amortised cost some prepayable financial assets with so-called negative compensation.

There are no other significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2019/20.

Changes in future years

Issue / Accounting standard	Year of application	Implications
IFRS 16 – Leases	2020/21	We anticipate that the new leasing standard will be adopted by the Code for the 2020/21 financial year. IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17. Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed. The introduction of this standard is likely to lead to significant work being required in order to identify all leases to which the Council is party to.
Consultation on a new Code of Audit Practice from 2020	2020/21	Currently, auditors report against a single overall VFM criterion as to whether: “In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.” The NAO plans to consider how auditors should report their findings on the adequacy of arrangements, and whether this should be replaced, or supplemented, by a commentary on the specified areas set out in auditor guidance, namely: financial sustainability; financial governance; and wider partnership working. This would result in a more detailed approach to the VFM work undertaken.

APPENDIX C – MAZARS' CLIENT SERVICE COMMITMENT

We are here because of our clients; serving them in the best way we can is part of our DNA. We operate a Code of Conduct which drives our client service commitment in all areas, as set out below.