

# Audit Strategy Memorandum

West Lindsey District Council

Year ending 31 March 2022



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This document is to be regarded as confidential to West Lindsey District Council. It has been prepared for the sole use of Governance and 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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West Lindsey District Council  
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DN21 2NA

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3 Wellington Place  
Leeds  
LS1 4AP

7 February 2022

Dear Committee Members

## **Audit Strategy Memorandum – Year ending 31 March 2022**

We are pleased to present our Audit Strategy Memorandum for West Lindsey District Council for the year ending 31 March 2022. 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 West Lindsey District 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 and subject to completion of the full planning procedures, as being the basis for a discussion around our audit approach. 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 on 07795 506766.

Yours faithfully

Mark Dalton, Director

Mazars LLP

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We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861. VAT number: 839 8356 73

# 01

Section 01:

**Engagement and  
responsibilities summary**

# 1. Engagement and responsibilities summary

## Overview of engagement

We are appointed to perform the external audit of West Lindsey District Council (the Council) for the year to 31 March 2022. 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.psa.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.

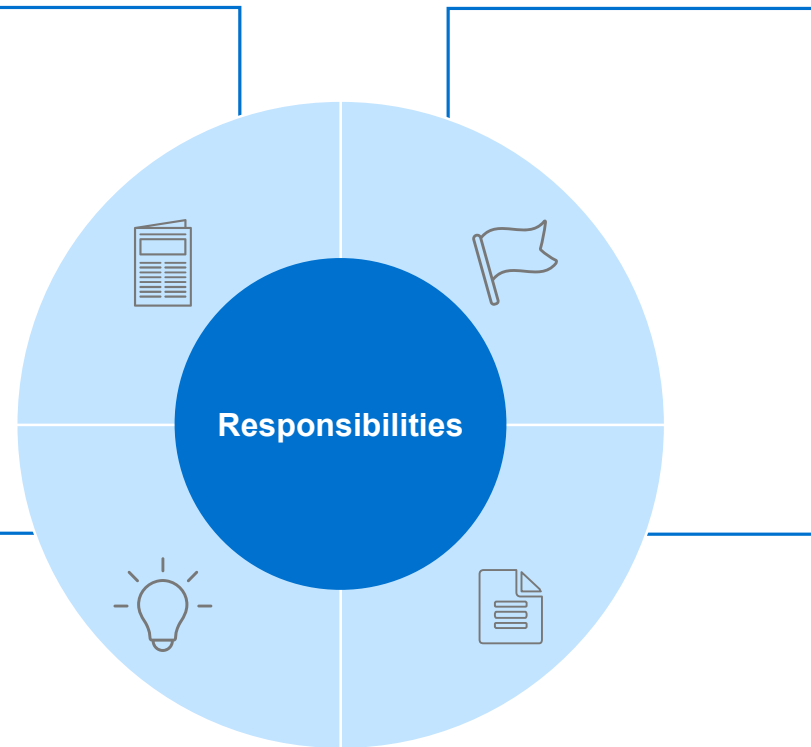
### Audit opinion

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

The Assistant Director Finance, Business Support and Property Services (the Chief Finance 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: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements.

### Value for money

We are also responsible for forming a commentary 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.



### Fraud

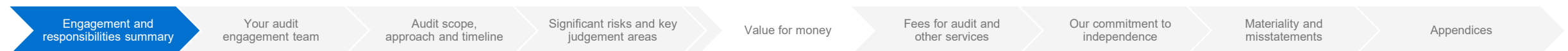
The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and Internal Audit 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.

### Wider reporting and electors' rights

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.

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



# 02

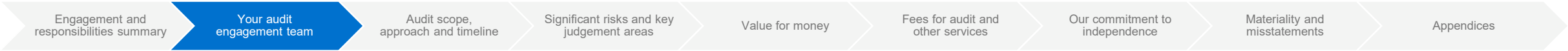
Section 02:

**Your audit engagement team**

# 2. Your audit engagement team

Your external audit service continues to be led by Mark Dalton.

Who	Role	E-mail
Mark Dalton Director	Engagement Lead	<a href="mailto:mark.dalton@mazars.co.uk">mark.dalton@mazars.co.uk</a>
Mike Norman Senior Manager	Engagement Manager	<a href="mailto:michael.norman@mazars.co.uk">michael.norman@mazars.co.uk</a>



# 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 8.

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 (the specific deadlines for completion have not been confirmed yet).

## Group audit requirements

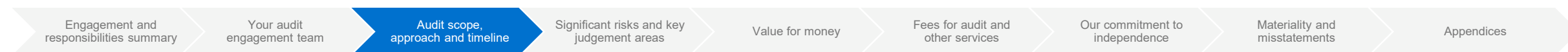
The Council's group structure for 2021/22 will include:

- WLDC Trading Limited (the holding company)
- Surestaff Lincs Limited
- WLDC Staffing Services Limited

The Council has not in previous years prepared group accounts on the grounds that these companies were not material and are not therefore expected to fall within the scope of our audit. We will review the Council's updated assessment of these arrangements for this year's financial statements.

## COVID-19 Working Arrangements and other matters impacting on the accounts production and our audit

The national timetable for 2021/22 has now been confirmed, with draft and audited financial statements expected to be published by 31 July 2022 and 30 November 2022 respectively. The Council is introducing a new General Ledger and associated systems in February 2022 and there are a number of staffing changes within the finance team. The outline timetable on the following page reflects the national deadlines and the likely pressures on the finance team. It is important that we continue to keep in close contact with the finance team and are able to respond to any emerging issues regarding Covid-19 and the Council's working arrangements. We will keep the Governance and Audit Committee updated on progress.



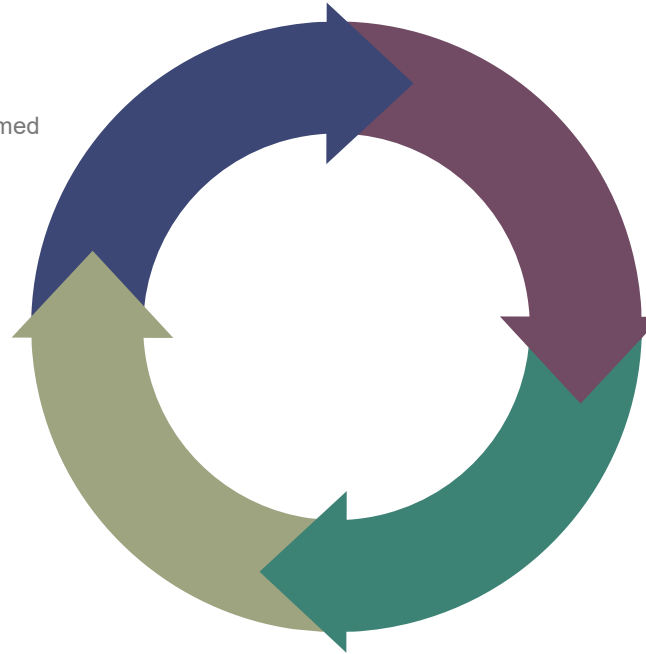
# 3. Audit scope, approach and timeline

## Planning – January/February

- 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 – by 30<sup>th</sup> November

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

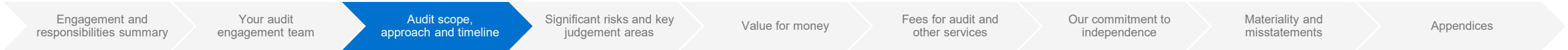


## Interim – February/March

- Documenting systems and controls
- Performing walkthroughs including information of the procedures in place both before and after the deployment of the new financial systems.
- Interim controls testing including tests of IT general controls and testing the changeover from the old to the new financial systems.
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

## Fieldwork – September/October

- Receiving and reviewing draft 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



# 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

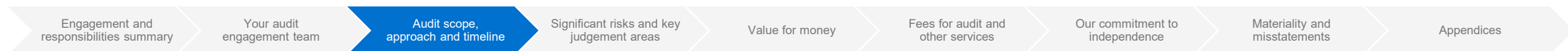
Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

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 the NAO</i>
Property, plant and equipment valuation	Wilks, Head and Eve LLP <i>External valuation specialist</i>	Not applicable
Business Rates Appeals valuation	Inform CPI Ltd <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 and business rates service and whether we will be able to audit these items of account based on the records held at the entity.
Business Rates Income	City of Lincoln Council <i>The Business Rates system is administered by City of Lincoln Council on the Council's behalf</i>	



# 04

Section 04:

**Significant risks and other key judgement areas**

# 4. Significant risks 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.

## 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:

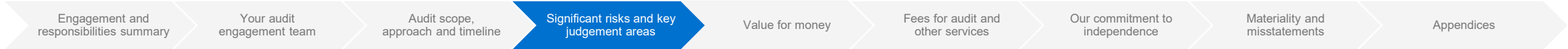
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

## 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, 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.

## Audit Focus

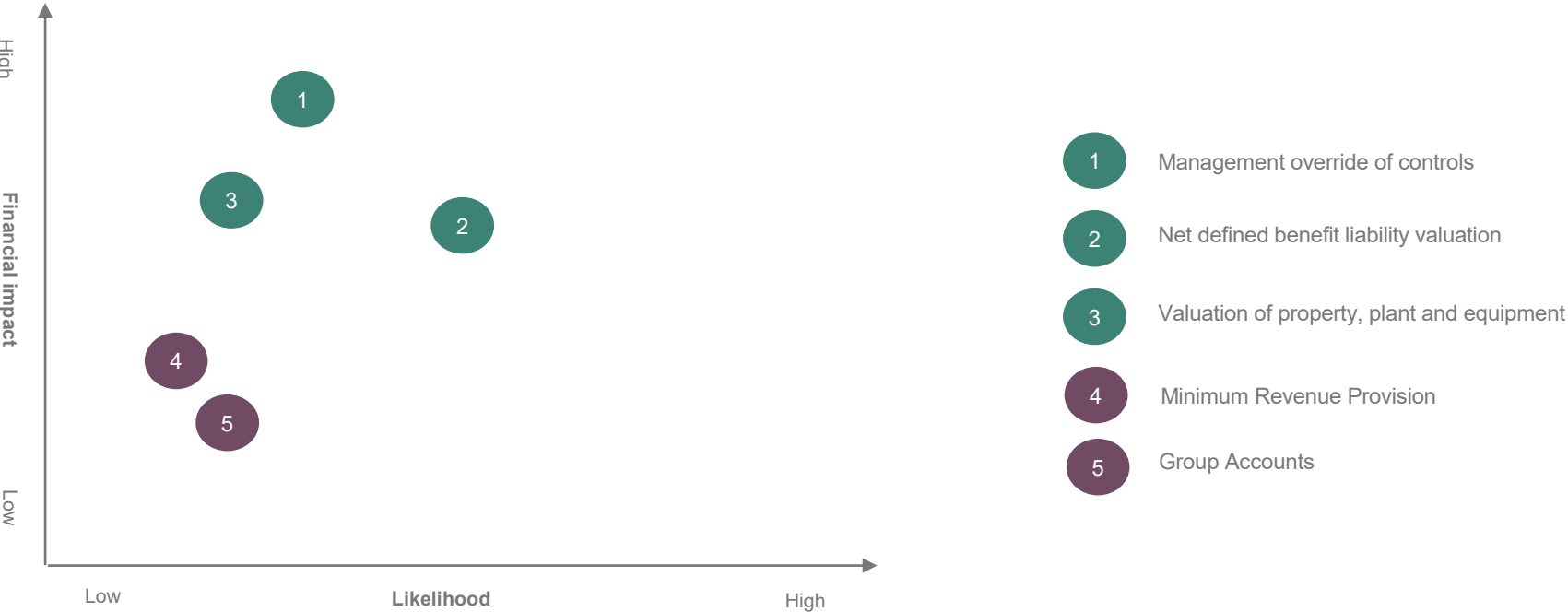
A point of audit focus is an area requiring additional auditor consideration which has the potential to impact several items in the accounts and so cannot be addressed in the same manner as an enhanced risk. For the year ended 31 March 2022 this will include but may not be limited to the steps taken by management to effectively introduce the new general ledger in the year and to completely and accurately transfer information between the old and new systems.



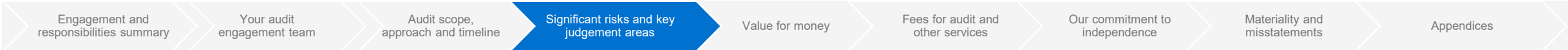
# 4. Significant risks and other key judgement areas

## 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. We have summarised our audit response to these risks on the next page.



Key: ● Significant risk ● Enhanced risk / significant management judgement



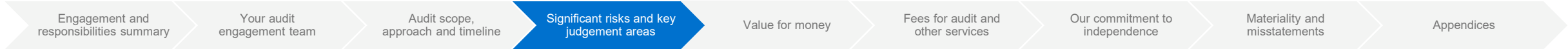
# 4. Significant risks and other key judgement areas

## 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 Governance and Audit Committee.

## Significant risks

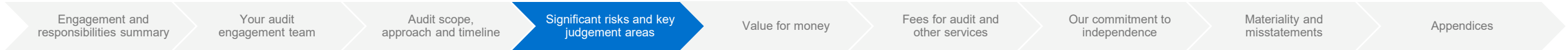
	Description	Fraud	Error	Judgement	Planned response
1	<p><b>Management override of controls</b> This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate 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.



# 4. Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p><b>Net defined benefit liability valuation</b></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>In relation to the valuation of the Council's defined benefit pension liability we will:</p> <ul style="list-style-type: none"> <li>• Critically assess the competency, objectivity and independence of the Lincolnshire Pension Fund's Actuary;</li> <li>• 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;</li> <li>• 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;</li> <li>• 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</li> <li>• 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.</li> </ul>

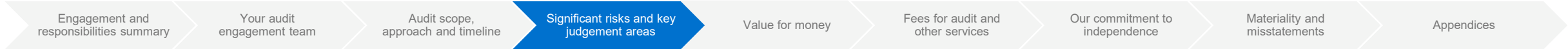




# 4. Significant risks and other key judgement areas

## Significant risks

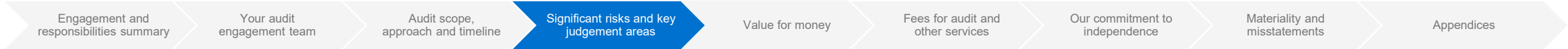
	Description	Fraud	Error	Judgement	Planned response
3	<p><b>Valuation of property, plant and equipment and Investment Properties</b></p> <p>The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment, and investment properties with the majority of land and building and investment property 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.</p>	○	●	●	<p>In relation to the valuation of property, plant &amp; equipment, and investment properties we will:</p> <ul style="list-style-type: none"> <li>• Critically assess the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations;</li> <li>• Consider whether the overall revaluation methodologies used by the Council's valuer's are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies;</li> <li>• Critically assess the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice;</li> <li>• Critically assess the approach that the Council adopts to ensure that any assets not subject to revaluation in 2021/22 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer's; and</li> <li>• Consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that values have moved materially over that time.</li> </ul>



# 4. Significant risks and other key judgement areas

## Other key areas of management judgement and enhanced risks

	Description	Fraud	Error	Judgement	Planned response
4	<p><b>Minimum revenue provision (MRP)</b></p> <p>Local authorities are normally required each year to set aside some of their revenues as 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 prudence 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 in determining the level of its prudent provision.</p> <p>Under its current policy the Council does not commit to set aside a MRP for commercial investment properties where the asset is expected to be held for a set period, at the end of which a capital receipt is expected to be realised and therefore funds will be available to repay borrowing. The policy does state that the Council may chose to make a voluntary MRP and we understand that, as in the previous year, such a payment is proposed for 2021/22. In our 2020/21 Audit Completion Report we stressed that it was important that the Council continues to ensure that, in departing from Statutory Guidance, it is able to demonstrate that it is continuing to act reasonably, that Members understand the implications, and that its approach is prudent.</p>	○	○	●	<p>We plan to address this judgement by:</p> <ul style="list-style-type: none"> <li>• Reviewing the Council's MRP policy to ensure that it has been developed with regard to the statutory guidance;</li> <li>• Assessing whether the provision has been calculated and recorded in accordance with the Council's policy;</li> <li>• Assessing whether the amount provided for the period is appropriate, taking into account the Council's Capital Financing Requirement; and</li> <li>• Challenging management's justification for the policy in the context of the Statutory Guidance and the Council's expenditure and borrowing..</li> </ul>



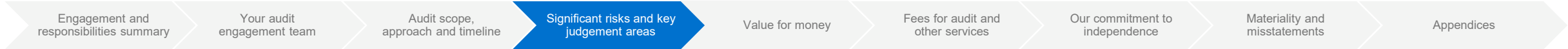
# 4. Significant risks and other key judgement areas

## Other key areas of management judgement and enhanced risks

	Description	Fraud	Error	Judgement	Planned response
5	<p><b>Group Accounts</b></p> <p>The Council has interests in companies and other entities that have the nature of joint ventures. Management’s judgement in 2020/21 was that there was no material impact on the Statement of Accounts and Group Accounts were not prepared. It is expected that a similar line is to be followed for the Council’s 2021/22 accounts.</p>	○	○	●	We will review the assessment carried out by management for 2021/22 and challenge the reasonableness of judgments management has made.

## Areas of audit focus

Description	Planned response
<p><b>IT system change</b></p> <p>The Council has changed its core financial accounting systems in the year. The Council needs to have effective arrangements in place for managing the changeover and completely and accurately transferring information between the old and new systems.</p>	We will review the steps taken by management to ensure the changeover has been effective and test the reconciliations carried out on the systems’ data transfer. We will engage our IT audit specialists to support the local audit team in this work.



# 05

Section 05:

**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. We are still required to be satisfied that the Council has proper arrangements in place and to report in the auditor's report where we identify significant weaknesses in arrangements. However, the key output of our work on VFM arrangements will now be a commentary on the Council's 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

We reported our 2020/21 VFM commentary in the Annual Auditor's Report issued to the Council in January 2022. We reported that we had not identified any risks of, or actual, significant weaknesses in the Council's VFM arrangements and there were no recommendations arising from our work. We have not fully completed our 2021/22 planning and risk assessment work at this stage but have so far not identified any risks of, or actual, significant weaknesses. We will, if necessary, report any identified risks or weaknesses to the Governance and Audit Committee on completion of our planning and risk identification work.

<p><b>Planning</b></p>	<p>Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include:</p> <ul style="list-style-type: none"> <li>• NAO guidance and supporting information</li> <li>• Information from internal and external sources including regulators</li> <li>• Knowledge from previous audits and other audit work undertaken in the year</li> <li>• Interviews and discussions with staff and members</li> </ul>
<p><b>Additional risk based procedures and evaluation</b></p>	<p>Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.</p>
<p><b>Reporting</b></p>	<p>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 (further details of the specified reporting criteria are provided on the following page).</p> <p>Our commentary will also highlight:</p> <ul style="list-style-type: none"> <li>• Significant weaknesses identified and our recommendations for improvement</li> <li>• Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.</li> </ul>



# 06

Section 06:

**Fees for audit and other services**

## 6. Fees for audit and other services

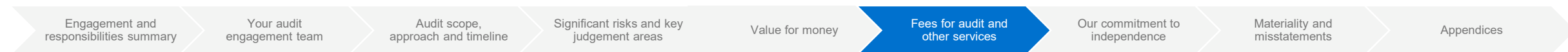
### Fees for work as the Council's appointed auditor

Details of the 2020/21 actual and planned 2021/22 fees are set out below:

Area of work	2021/22 Fees	2020/21 Actual Fee
Scale audit fee	£33,420	£33,420
<i>Fee variations:</i>		
Additional Testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes as a result of changes in regulatory expectations	£7,067	£7,067
Additional testing as a result of the implementation of new auditing standards	TBC	£2,000
Additional work arising from the change in the Code of Audit Practice	£8,000	£8,000
Additional work arising from the changes to the Council's core accounting systems	TBC	n/a
<b>Total</b>	<b>£48,487</b>	<b>£50,487</b>

As reported to you in previous Audit Strategy Memoranda, the scale fee needs to be adjusted to take into account the additional work required as a result of increased regulatory expectations. The specific 2020/21 fee variations are still subject to PSAA approval.

We have identified in this Memorandum the additional audit work, including our IT audit specialists, expected to be required as a result of the changes to the Council's core financial systems. This work is being scoped and we will confirm the fee implications with management. This and the other 2021/22 fee variations are subject to change and any variations will be discussed with management.

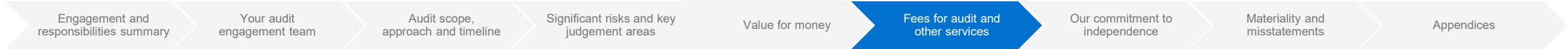


# 6. Fees for audit and other services

## 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 7.

Area of work	2021/22 Expected Fee	2020/21 Actual Fee
Other services - Housing Benefits Subsidy Assurance	£5,900	£5,900





# 07

Section 07:

**Our commitment to independence**

# 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 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.

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:

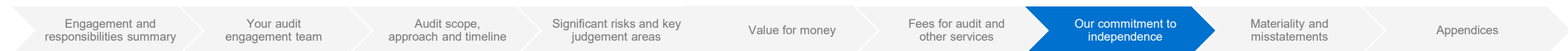
- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the 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 Dalton in the first instance.

Prior to the provision of any non-audit services Mark Dalton 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 in relation to the planned non-audit work for 2021/22 are set out below. Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

Issue	
Housing benefit subsidy certification	We have considered threats and safeguards as follows: <ul style="list-style-type: none"> <li>• 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;</li> <li>• 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;</li> <li>• Management: The work does not involve Mazars making any decisions on behalf of management;</li> <li>• Advocacy: The work does not involve Mazars advocating the Council to third parties;</li> <li>• 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</li> <li>• Intimidation: The nature of the work does not give rise to any intimidation threat from management to Mazars.</li> </ul>



# 08

Section 08:

**Materiality and other misstatements**

# 8. Materiality and misstatements

## Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	990
Performance materiality	740
Specific materiality: - Senior Officers' remuneration and Exit Packages	5
Trivial threshold for errors to be reported to Governance and Audit Committee	30

## 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.

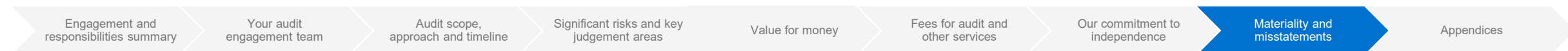
Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and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

We consider that the 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

## Materiality (continued)

We expect to set a materiality threshold at 2% of total gross expenditure. Based on the 2020/21 audited financial statements we anticipate the overall materiality for the year ending 31 March 2022 to be £990,000 (£900,000 in 2020/21).

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 are aware though that there have been changes to key staff involved in the draft accounts production, and the Council is introducing a new General Ledger in February 2022. These factors are relevant to our assessment and we have therefore set our performance materiality at 75% (80% in 2020/21) of our overall materiality being £740,000.

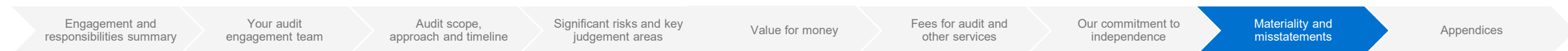
## Misstatements

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 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 £30k based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Dalton.

## Reporting to Governance and Audit Committee

The following three types of audit differences will be presented to Governance and 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.

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

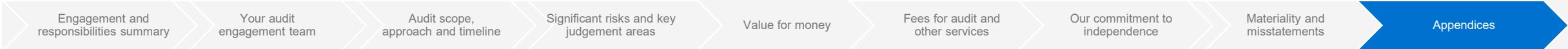
Materiality and misstatements

Appendices

# 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:

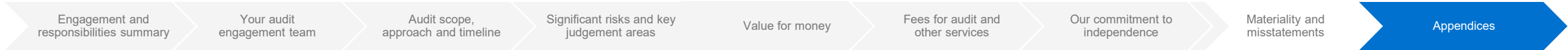
Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant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





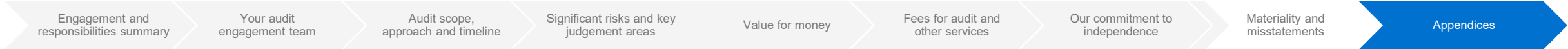
# Appendix: Key communication points

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"> <li>• Non-disclosure by management;</li> <li>• Inappropriate authorisation and approval of transactions;</li> <li>• Disagreement over disclosures;</li> <li>• Non-compliance with laws and regulations; and</li> <li>• Difficulty in identifying the party that ultimately controls the entity.</li> </ul>	<p>Audit Completion Report</p>
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;</li> <li>• Significant difficulties, if any, encountered during the audit;</li> <li>• Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management;</li> <li>• Written representations that we are seeking;</li> <li>• Expected modifications to the audit report; and</li> <li>• 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 Governance and Audit Committee in the context of fulfilling their responsibilities.</li> </ul>	<p>Audit Completion Report</p>
<p>Significant deficiencies in internal controls identified during the audit.</p>	<p>Audit Completion Report</p>
<p>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.</p>	<p>Audit Completion Report</p>



# Appendix: Key communication points

Required communication	Where addressed
<p>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 Governance and Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that Governance and Audit Committee may be aware of.</p>	<p>Audit Completion Report and Governance and Audit Committee meetings</p>
<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"> <li>• Whether the events or conditions constitute a material uncertainty;</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and</li> <li>• The adequacy of related disclosures in the financial statements.</li> </ul>	<p>Audit Completion Report</p>
<p>Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods</p>	<p>Audit Completion Report</p>
<p>Indication of whether all requested explanations and documents were provided by the entity</p>	<p>Audit Completion Report</p>



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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

\*where permitted under applicable country laws.