

Audit Strategy Memorandum

Gateshead Council and Group

Year ending 31 March 2020





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This document is to be regarded as confidential to Gateshead Council and Group. It has been prepared for the sole use of the Accounts 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.

Accounts Committee
Gateshead Council
Civic Centre
Regent Street
Gateshead
NE8 1HH

April 2020

Dear Members

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for Gateshead Council and Group (Council and Group) 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 the Council and Group 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 0781 375 2053.

Yours faithfully

Signed: { {_es_:signer1:signature } }

Cameron Waddell, Partner

For and on behalf of Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of the Council and Group 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.psa.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 and Group for the year.

Value for Money

We are required to conclude whether of the Council and Group has proper arrangements 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.

Reporting to the NAO

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

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 Group 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 and Group 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 Accounts Committee as Those Charged with Governance.



2. YOUR AUDIT ENGAGEMENT TEAM



- Cameron Waddell, Partner
- cameron.Waddell@mazars.co.uk
- 0781 375 2053



- Jim Dafter, Senior Manager
- jim.dafter@mazars.co.uk
- 0781 587 6042



- Elaine Hall, Assistant Manager
- Elaine.hall@mazars.co.uk
- 07881 283350

In addition, as outlined in our engagement letter, an engagement control reviewer (EQCR) has been appointed for this engagement.

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.

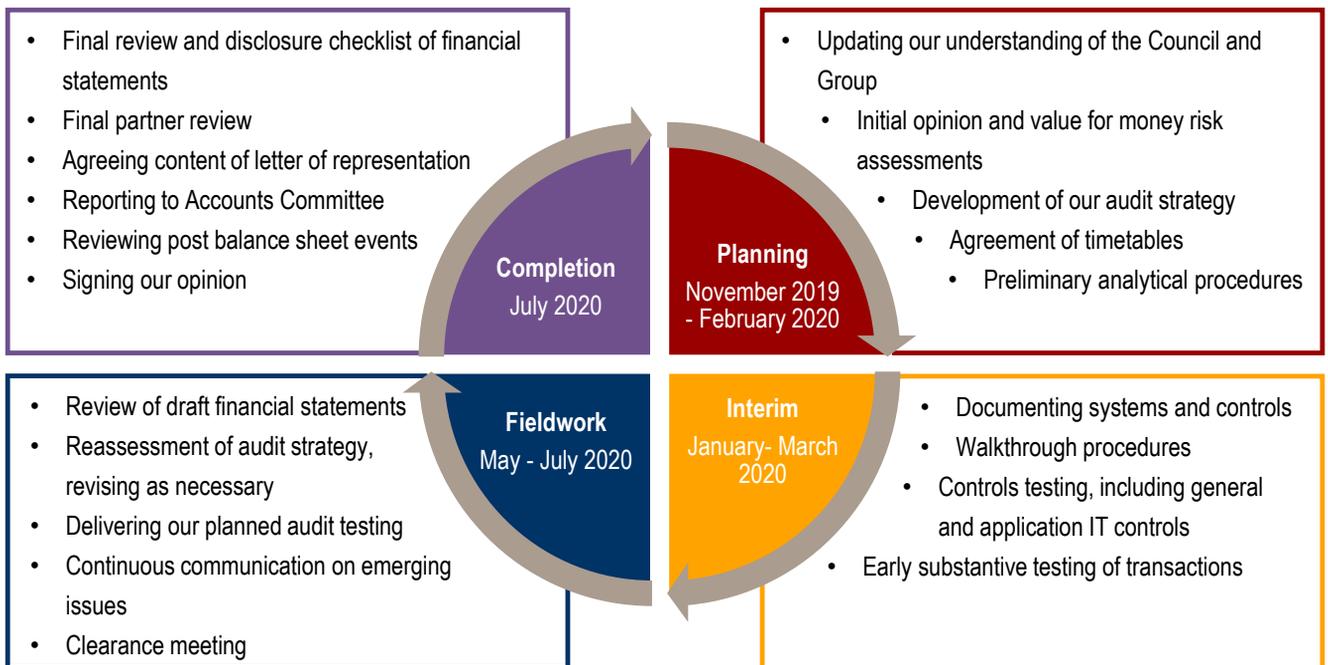
Audit approach

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.



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

Where we intend to rely on the work of internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing the Group'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	AON Hewitt Limited for Local Government Scheme	National Audit Office (NAO), prepared by PwC.
Property, plant and equipment valuations	BNP Paribas Real Estate (UK).	NAO's consulting valuer (Gerald Eve).
Financial instrument disclosures	Link Asset Services	Not required

Group audit approach

In line with the requirements of the CIPFA Code of Practice on Local Authority Accounting ('the Code'), officers have considered the Council's interests in other entities and determined that it will prepare group accounts which will consolidate The Gateshead Housing Company.

Component	Nature of component/ownership	Auditor
Gateshead Council	Parent – local authority	Mazars LLP
The Gateshead Housing Company	Subsidiary 100% owned by the Council. The principal activity of the Company is the day to day management, maintenance and improvement of the housing stock of the Council.	KPMG LLP

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 any component exceeds a minimum of 15% of key benchmarks (revenues, expenditure, profit/loss before tax, total assets, net assets/liabilities);



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Group audit approach (continued)

- whether any financial statement area (FSA) is greater than 15% of the relevant FSA in the consolidated accounts and greater than performance materiality – this change, as a result of the EU audit directive, results 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 a significant component; and
- whether there are any risks of material misstatement in the components likely to result in material misstatement in the group financial statements.

Our assessment is summarised in the table below. Overall we have assessed that there are two significant components.

Component	Significant in terms of benchmarks?	Risks of material misstatement?	Commentary
The Council	Yes	Yes	Being the ultimate parent.
The Gateshead Housing Company (TGHC)	No	yes	material transactions and balances exist in relation to pensions.

Nature and scope of planned work

The table below sets out the estimated proportion of each component, relative to the overall group, as well as the nature and scope of planned work. Note that these are estimates and may be subject to change. The work described below is in addition to our review of group-wide controls and the consolidation process. The objective of the analytical procedures is to critically corroborate the group engagement team’s conclusions that there are no significant risks of material misstatement of the aggregated financial information of components that are not significant components.

Component	% of total group revenues	% audited by Mazars	Nature of work	Scope of work
The Council	99.7%	100%	Parent – audited by Mazars.	Not applicable - parent
The Gateshead Housing Company (TGHC)	0.3%	0%	Group analytical procedures. Review of work undertaken by auditors of TGHC in relation to pensions.	Critical evaluation of the group engagement team’s conclusion that there are no significant risks of material misstatement of the aggregated financial information of TGHC.
	100%	100%		



4. SIGNIFICANT 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:

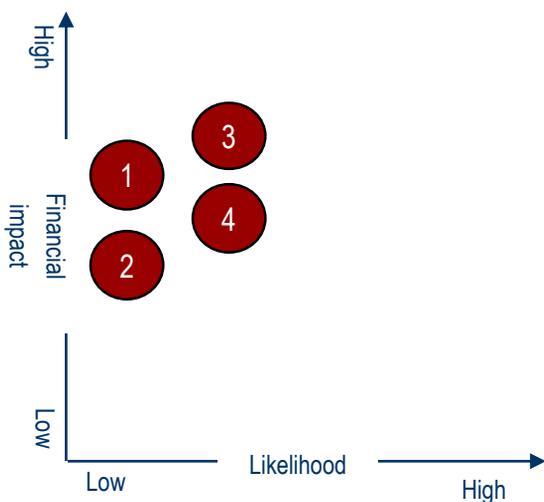
Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to 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 table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



Risk	
1	Management override of control
2	Revenue recognition (miscellaneous income only) for Council only
3	Defined benefit liability valuation
4	Property, plant and equipment valuation for Council only

4. SIGNIFICANT 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 Accounts Committee.

Significant risks

	Description of risk	Planned response
1	<p>Management override of controls</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>	<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.</p>
2	<p>Revenue recognition (relevant to the Council)</p> <p>Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable. We have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Council's revenue streams, consisting largely of taxation, business rates and grant income.</p> <p>However, we do not feel that sufficient scope exists to rebut this risk in respect of the recognition of fees, charges and other income given the demand led nature of these revenue streams. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p>	<p>We will:</p> <ul style="list-style-type: none"> • substantively test fees, charges and other income to ensure it has been correctly classified and recognised; • test journals; and • obtain direct confirmation of year-end bank balances and test the reconciliations to the ledger.
3	<p>Defined benefit liability valuation</p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We will discuss with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we will evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is carried out annually by the NAO's consulting actuary (PWC).</p>



4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

	Description of risk	Planned response
4	<p>Property, plant and equipment – valuation (relevant to the Council)</p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of PPE.</p> <p>Although the Council employs an external valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of PPE to be an area of risk.</p>	<p>We will consider the Council's arrangements for ensuring that PPE values are reasonable and will use an external expert (Gerald Eve) to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuer. We will also assess the competence, skills and experience of the valuer.</p> <p>Where necessary we will also perform further audit procedures on individual assets to ensure that the basis and level of revaluation is appropriate.</p>

Key areas of management judgement

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.

We have not identified any key areas of management judgement as part of our audit planning.

5. VALUE FOR MONEY

Our approach to Value for Money

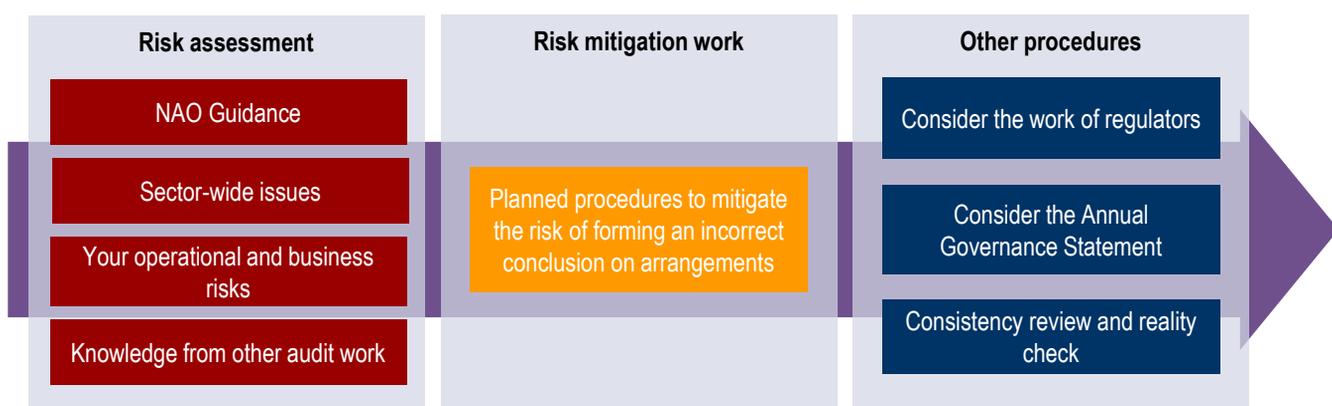
We are required to form a conclusion as to whether the Council and Group has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion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

The overall criterion is that, 'in all significant respects, the Group 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 Value for Money 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 Group 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.

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

Description of significant risk	Planned response
<p>Sustainable resource deployment</p> <p>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</p> <p>The Council continues to face financial pressures from reduced funding, increased demand and changing responsibilities. The Council is responding to the challenges with a programme of efficiencies, service reviews and developing new ways to manage demand and deliver services. Failure to have appropriate arrangements in place to identify and deliver this programme poses a significant risk to the Council's ability to deliver its strategic priorities and maintain statutory functions.</p>	<p>We will review:</p> <ul style="list-style-type: none"> • monitoring and action plans for a sample of savings included in the budget; • the updated Medium-Term Financial Strategy; • budget monitoring reports and other finance updates; and • the progress made in identifying further savings required;



6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

We communicated our proposed fee of £100,329 in our fee letter dated 17 April 2019, which was in line with the scale fee set by PSAA. In 2018/19, the Council also prepared group financial statements alongside the Council's financial statements, as referenced in section 3 of this Memorandum, and we agreed a fee variation with the Council which was approved by PSAA for this additional audit work. Group accounts will continue to be produced in 2019/20, so this variation will again be required. We will write to PSAA in due course seeking approval of this variation for 2019/20.

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

Regulatory recommendations

We continually strive to maintain high standards of audit quality. One mechanism for doing this is to consider the outcome of independent quality reviews, in particular by the Financial Reporting Council, of our audit work and that of other audit suppliers. In particular we are planning increases in the level of work we do on:

- defined benefit pension schemes; and
- valuation of property, plant and equipment.

We will discuss the driving factors with Council officers and the audit fee for 2019/20 will be revisited to reflect the increased level of work that was not considered when the scale fee was set. Any agreed additional fee is also subject to detailed scrutiny by the PSAA as part of the approval process.

Service	2018/19 fee	2019/20 fee
Code audit work	£100,329	£100,329
Plus; additional fees in respect of audit of group consolidation	£9,724	£9,724
Total fees for Code audit work	£110,053	£110,053*
Plus; Additional work in response to regulatory recommendations to increase level of audit work on the valuation of property plant and equipment.	n/a	To be agreed
Plus; Additional work in response to regulatory recommendations to increase level of audit work on defined benefit liability schemes.	n/a	To be agreed

* Subject to agreement by PSAA and confirmation from PSAA of 2019/20 scale rates for additional work.

All fees shown above are subject to VAT

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.

Service	2018/19 fee	2019/20 fee
Assurance services: Housing Benefits Subsidy	£10,000 plus VAT	To be agreed
Assurance services: Teachers' Pensions	£3,750 plus VAT	To be agreed
Assurance services: Pooling of Housing Capital Receipts return	£2,200 plus VAT	To be agreed

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 partner.

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 Cameron Waddell in the first instance.

Prior to the provision of any non-audit services Cameron Waddell will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. Included in this assessment is consideration of Auditor Guidance Note 01 as issued by the NAO, and the PSAA Terms of Appointment.

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

Our assessment of perceived threats and safeguards for non-audit services in respect of 2019/20, as detailed in section 6, is set out in the table overleaf.

No threats to our independence have been identified.

Area of work	Perceived threat	Safeguards and commentary
Assurance Services: Housing Benefits Subsidy return	Self-review threat	No safeguards required. The fee for this work is neither significant to Mazars LLP nor the Council and Group and work undertaken will not be relied upon by the audit team.
Assurance Services: Pooling of Housing Capital Receipts return	Self-review threat	No safeguards required. The fee for this work is neither significant to Mazars LLP nor the Council and Group
Assurance Services: Teachers' Pensions Return	Self-review threat	No safeguards required. The fee for this work is neither significant to Mazars LLP nor the Council and Group



8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold - Council (£'000s)	Initial threshold - Group (£'000s)
Overall materiality	14,173	14,274
Performance materiality	10,630	10,706
Specific materiality:		
• Members allowances	10% of total amount disclosed	10% of total amount disclosed
• Termination benefits/exit packages	10% of total amount disclosed	10% of total amount disclosed
• Senior employees remuneration	100%	100%
Trivial threshold for errors to be reported to the Audit Committee	425	428

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.



8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Our provisional materiality is set based on a benchmark of gross expenditure at the surplus/deficit on provision of services level. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that gross expenditure at the surplus/deficit on provision of services level remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of gross revenue expenditure.

Based on last year's audited financial statements, we anticipate the overall materiality for the year ending 31 March 2020 to be in the region of £14.173 million for the Council (£14.173 million in the prior year) and £14.274 million for the Group (£14.274 million in the prior year).

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.

Our initial assessment of performance materiality is based on low inherent risk, meaning that we have calculated performance materiality as being 75% of overall materiality. 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.

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 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 £425,000 (the Council) and £428,000 (Group) based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Cameron Waddell.

Reporting to the Audit Committee

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

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



APPENDIX 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

Financial reporting changes relevant to 2019/20

There are no significant changes in the Code of Practice on Local Authority Accounting for the 2019/20 financial year.

Financial reporting changes in future years

Accounting standard	Year of application	Commentary
IFRS 16 – Leases	2020/21	<p>The CIPFA/LASAAC Code Board has determined that the Code of Practice on Local Authority Accounting will adopt the principles of IFRS 16 Leases, for the first time from 2020/21.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes to the way bodies account for leases, which will have substantial implications for the majority of public sector bodies.</p> <p>The most significant changes will be in respect of lessee accounting (i.e. where a body leases property or equipment from another entity). The existing distinction between operating and finance leases will be removed and instead, the new standard will require a right of use asset and an associated lease liability to be recognised on the lessee's Balance Sheet.</p> <p>In order to meet the requirements of IFRS 16, all local authorities will need to undertake a significant project that is likely to be time-consuming and potentially complex. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed at an early stage of the project.</p>

1. Engagement and responsibilities

2. Your audit team

3. Audit scope

4. Significant risks and key judgements

5. Value for Money

6. Fees

7. Independence

8. Materiality and misstatements

Appendices

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.

