Report of external audit (Mazars) to the meeting of Governance and Audit to be held on 25 June 2020

AD

Subject:

External Audit – Audit Strategy Memorandum (ASM) 2019/20

Summary statement:

This report sets out the plan for the external audit of the Council for financial year 2019/20.

Cameron Waddell
Partner
Mazars LLP
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1. SUMMARY

The Audit Strategy Memorandum sets out our audit plan for 2019/20. The document:

- describes our approach to the audit of the Council's financial statements;
- includes our assessment of the significant risks of material misstatement in the
- financial statements; and
- outlines the proposed testing strategy to address the identified risks.

The Audit Strategy Memorandum also sets out our approach to our Value for Money work, sufficient to enable us to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

2. BACKGROUND

International Standards on Auditing (ISAs) require external auditors to communicate with Those Charged with Governance (TCWG) on a number of matters including significant audit risks and how the auditor proposes to address them.

3. OTHER CONSIDERATIONS

➢ Not applicable

4. FINANCIAL & RESOURCE APPRAISAL

➢ Not applicable

5. RISK MANAGEMENT AND GOVERNANCE ISSUES

➢ Not applicable

6. LEGAL APPRAISAL

➢ Not applicable

7. OTHER IMPLICATIONS

7.1 EQUALITY & DIVERSITY

➢ None

7.2 SUSTAINABILITY IMPLICATIONS

- None

7.3 GREENHOUSE GAS EMISSIONS IMPACTS

- None

7.4 COMMUNITY SAFETY IMPLICATIONS

- None

7.5 HUMAN RIGHTS ACT

- None

7.6 TRADE UNION

- None

7.7 WARD IMPLICATIONS

- None

7.8 AREA COMMITTEE ACTION PLAN IMPLICATIONS (for reports to Area Committees only)

- None

7.9 IMPLICATIONS FOR CORPORATE PARENTING

- None

7.10 ISSUES ARISING FROM PRIVACY IMPACT ASSESEMENT

- None

8. NOT FOR PUBLICATION DOCUMENTS

- None

9. OPTIONS

- None

10. RECOMMENDATIONS

- Members of the Committee note and consider and approve the ASM.

11. APPENDICES

- Audit Strategy Memorandum 2019/20

12. BACKGROUND DOCUMENTS

- None

Audit Strategy Memorandum

City of Bradford Metropolitan District Council

Year ending 31 March 2020

CONTENTS

Mazars LLP
5th Floor
3 Wellington Place
Leeds
LS1 4AP

Governance and Audit Committee
City of Bradford Metropolitan District Council
City Hall
Norfolk Gardens
Bradford
BD1 1UH

March 2020

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for City of Bradford Metropolitan 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 City of Bradford Metropolitan 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 0781 375 2053.

Yours faithfully

Cameron Waddell

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 City of Bradford Metropolitan 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.
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.
Reporting to the NAO	We report to the NAO on the consistency of the Council's 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 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

Engagement Partner

- Cameron Waddell – Partner
- cameron.waddell@mazars.co.uk
- 0191 383 6314

Engagement Manager

- Mark Outterside – Senior Manager
- Mark.Outterside@mazars.co.uk
- 07824 086 593

Engagement Team Leader

- Abi Medic - Assistant Manager
- abi.medic@mazars.co.uk
- 07881 283 644

In addition as outlined in our engagement pack an engagement quality control reviewer 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.

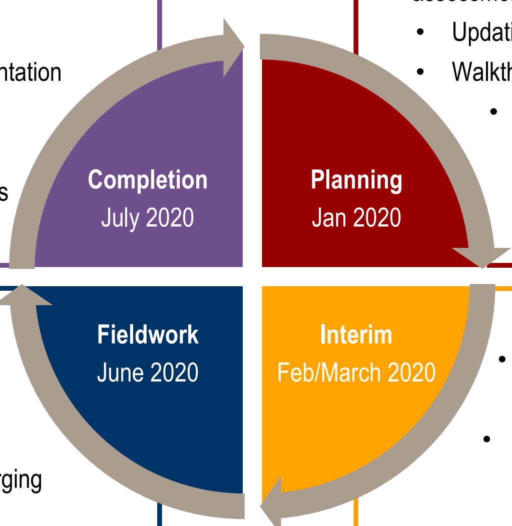
If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures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

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

- Initial opinion and value for money risk assessments
- Updating our understanding of the Council
- Walkthrough procedures
- Development of our audit strategy
- 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
- Controls testing, including general and application IT controls
- Early substantive testing of transactions

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.

We are not planning to rely on the work of internal audit, but should we do so, we would 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 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	AON Hewitt Actuaries	PwC, consulting actuary on behalf of the National Audit Office (NAO).
Property, plant and equipment valuation	Council's valuer	We will take into account relevant information which is available from third parties, relevant to valuations.
Financial instrument disclosures	Link Assets Services	n/a

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
Schools Payroll	Data-plan and Working for Schools. These are the two material providers.	Sufficient appropriate audit evidence is held at schools for us to substantively test schools' external payroll without contacting the service organisations.

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:

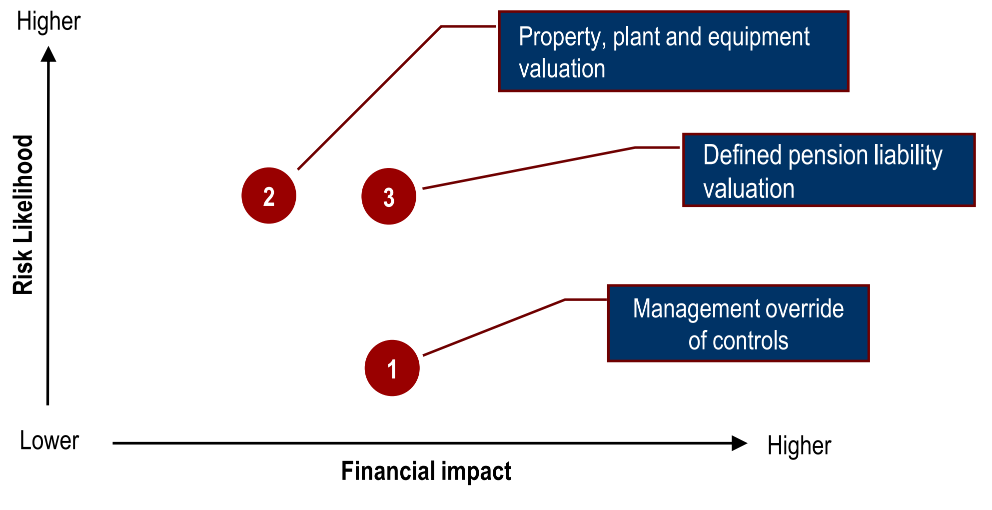
Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to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



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 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.	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.
2	**Property, plant and equipment valuation** The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. Investment property is valued annually to ensure it reflects market conditions at year end. The Council employs an internal valuation expert to provide information on valuations. There is a high degree of estimation uncertainty associated with the valuation of PPE due to the significant judgements and number of variables involved in providing valuations. In addition, as a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not materiality fairly stated at their fair value.	We will consider the Council's arrangements for ensuring that PPE values are reasonable and will consider corroborative evidence to enable us to assess the reasonableness of the valuations provided by the Council's in-house valuer. We will also assess the competence, skills and experience of the valuer. In relation to the assets which have been revalued during 2019/20 we will review the valuation methodology used, including testing the underlying data and assumptions. We will compare the valuation output with market intelligence, to obtain assurance that the valuations are in line with market expectations. We will review the approach that the Council has adopted to address the risk that assets not subject to valuation in 2019/20 are materially misstated and consider the robustness of that approach in light of the valuation information reported by the Council's in house valuers. In addition, we will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

	Description of risk	Planned response
3	**Defined benefit liability valuation** The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of the West Yorkshire Pension Fund, which had its last triennial valuation completed as at 31 March 2019. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2019/20.	As part of our work we will review the controls that the Council has in place over the information sent to the Scheme Actuary, including the Council's process and controls with respect to the assumptions used in the valuation. We will also evaluate the competency, objectivity and independence of the scheme Actuary, AON Hewitt. We will review the appropriateness of the methodology applied, and the key assumptions included within the valuation, compare them to expected ranges, utilising the information provided by PwC, consulting actuary engaged by the National Audit Office. We will review the methodology applied in the valuation of the liability by AON Hewitt.

Revenue recognition

International Auditing Standard (ISA) 240 includes a rebuttable presumption that the fraud risk from revenue recognition is a significant audit risk.

We recognise that the nature of revenue in local government differs significantly to the sources of income in the private sector which have driven the requirement in the ISA. We also note that the incentives in local government include the requirement to meet regulatory and financial covenants rather than share based management concerns.

Based on our understanding of the Council's revenue streams and consistent with the prior year (2018/19) we do not consider this to be a significant risk. We have therefore rebutted this risk and do not incorporate specific work into our audit approach in this area over and above our standard procedures.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Key areas of management judgement and enhanced risks

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 / enhanced risk	Planned response
1	**Accounting for PFI** The method of accounting for PFI assets can be complex and involve management judgement.	We will review the Council's adopted approach for accounting for its PFI assets including reviewing any changes to the long term financial model used.

5. VALUE FOR MONEY

Our approach to Value for Money

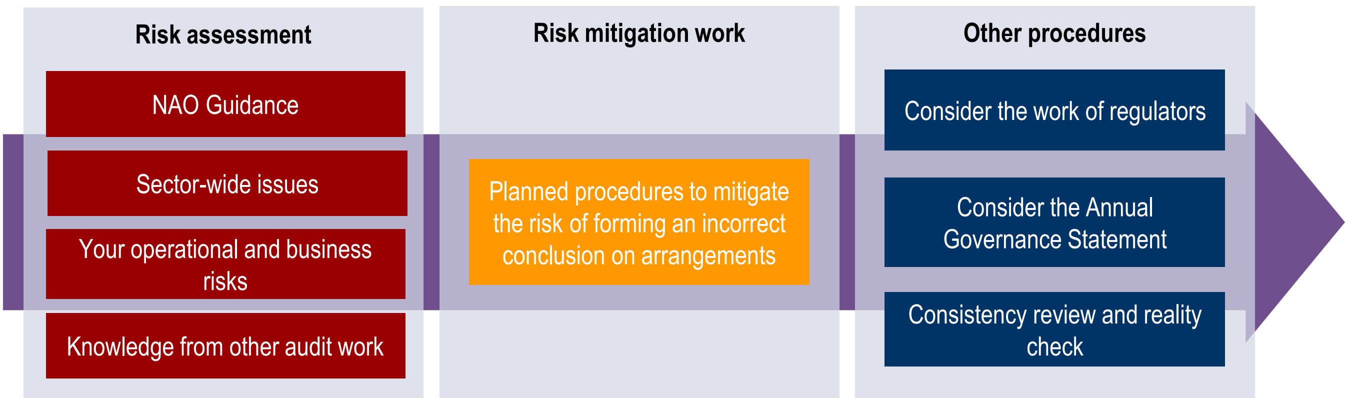
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria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

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

Description of significant risk	Planned response
Financial sustainability As in previous years, the Council continues to face significant financial challenges. In July 2019 the Council updated its medium term financial strategy for the period up to 2022/23, highlighting significant challenges faced by the Council. As at period 7, the Council is projecting a budget overspend of £1.3m, predicated by the delivery of £16.1m of savings. This challenging financial environment increases pressure of service delivery and could result in the increased reliance on reserves to achieve the Council’s planned financial position. The continuing challenges the Council faces are not new and are not unique to the City of Bradford Metropolitan District Council. However, the challenges do present a significant audit risk in respect of considering the arrangements that the Council has in place to deliver financially sustainability over the medium term.	Building on our work in previous years, we will review the arrangements the Council has in place for ensuring financial resilience. Specifically that the medium term financial plan has taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors. We will also review the arrangements in place to monitor progress in delivering the budget and related savings plans.

5. VALUE FOR MONEY CONCLUSION

Significant risks (continued)

	Description of significant VFM risk	Planned response
2	**Ofsted inspection: children's social care services** In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we are required to consider the reports issued by other regulators. In October 2018, Ofsted reported the results of an inspection of children's social care services and concluded that the overall effectiveness of these services was inadequate. Since this report was published, Ofsted has completed monitoring visits and in their latest letter to the Council (December 2019) they have highlighted that the service still has improvements to make to achieve its own targets. We therefore consider there to be a risk that the Council does not put in place proper arrangements to secure improvements to the service in a timely manner.	We will consider the progress made by the Council in response to the Ofsted report at the point we give our VFM conclusion. This will include any updated commentary from the regulator.

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter.

Service	2018/19 fee	2019/20 fee
Code audit work – scale fee	£142,694	£142,694
Additional work in response to questions from electors.	-	To be agreed
Additional work in response to regulatory recommendations to increase level of audit work on defined benefit liability schemes.	-	To be agreed
Additional work in response to regulatory recommendations to increase level of audit work on the valuation of property plant and equipment.	-	To be agreed
Total	**£142,69**	**To be agreed**

In common with other local government external auditors. we are required to carry out additional procedures which were not expected when fees were set. The table above lists the areas where we expect to complete additional work 2019/20.

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
Other services - Housing Benefits Subsidy Assurance	£9,201	£9,210

Fees for non-PSAA work at West Yorkshire Pension Fund (WYPF).

In 2018-19 Mazars completed an engagement to deliver a 'assurance report on controls at a service organisation' (ISAE3402) at WYPF. The total fee for this work was £10,500 and the PSAA confirmed there were no independence threats at the Pension Fund or Council.

In 2019-20 Mazars were invited to complete another ISAE3402 engagement at WYPF, with a proposed fee of circa £40,000. However, the firm is consulting to confirm if it is able to deliver this work under the PSAA fees framework.

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.

Issue	Our response
Housing benefit subsidy certification	We have considered threats and safeguards as follows: • 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; • Self Interest: The total fee level is not deemed to be material to the Council or Mazars. The work undertaken is not paid on a contingency basis; • Management: The work does not involve Mazars making any decisions on behalf of management; • Advocacy: The work does not involve Mazars advocating the Council to third parties; • Familiarity: Work is not deemed to give rise to a familiarity threat given this piece of assurance work used to fall under the Audit Commission / PSAA certification regimes and was the responsibility of the Council's appointed auditor; and • Intimidation: The nature of the work does not give rise to any intimidation threat from management to Mazars.

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 (set at planning)	Initial threshold (£'000s)
Overall materiality	£22,812
Performance materiality	£17,109
Trivial threshold for errors to be reported to the Governance and Audit Committee	£685

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 2% (1.8% in 2018/19) of gross expenditure totalling £1,140,601(k) per your 2018/19 audited financial statements. 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 Governance and Audit Committee.

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

At year-end we expect to set a materiality threshold at 2% of gross expenditure, per your draft 2019/20 financial statements.

8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

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 applied 75% of overall materiality as performance 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 (£'000s)
Senior Officers' remuneration (including exit packages)	£5
Members' allowances	£50
Related party transaction	£50

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is 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 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 £685,000 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 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

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	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. 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. 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. 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.