

Audit Strategy Memorandum

City of Bradford Metropolitan District Council

Year ending 31 March 2021



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This document is to be regarded as confidential to City of Bradford Metropolitan 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.

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

March 2021

Dear Governance and Audit Committee Members

Audit Strategy Memorandum – Year ending 31 March 2021

We are pleased to present our Audit Strategy Memorandum for City of Bradford Metropolitan Council for the year ending 31 March 2021. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 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 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, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit,

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0781 375 2053.

Yours faithfully



Cameron Waddell

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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 under reference number C001139861. VAT number: 839 8356 73

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01

Section 01:

**Engagement and
responsibilities summary**

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of City of Bradford Metropolitan Council (the Council) for the year to 31 March 2021. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.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 Governance and Audit Committee, as those charged with governance, of their responsibilities.



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 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.



Going concern

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



Value for money

We are also responsible for forming a conclusion 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.



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

Engagement and responsibilities summary

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Section 02:

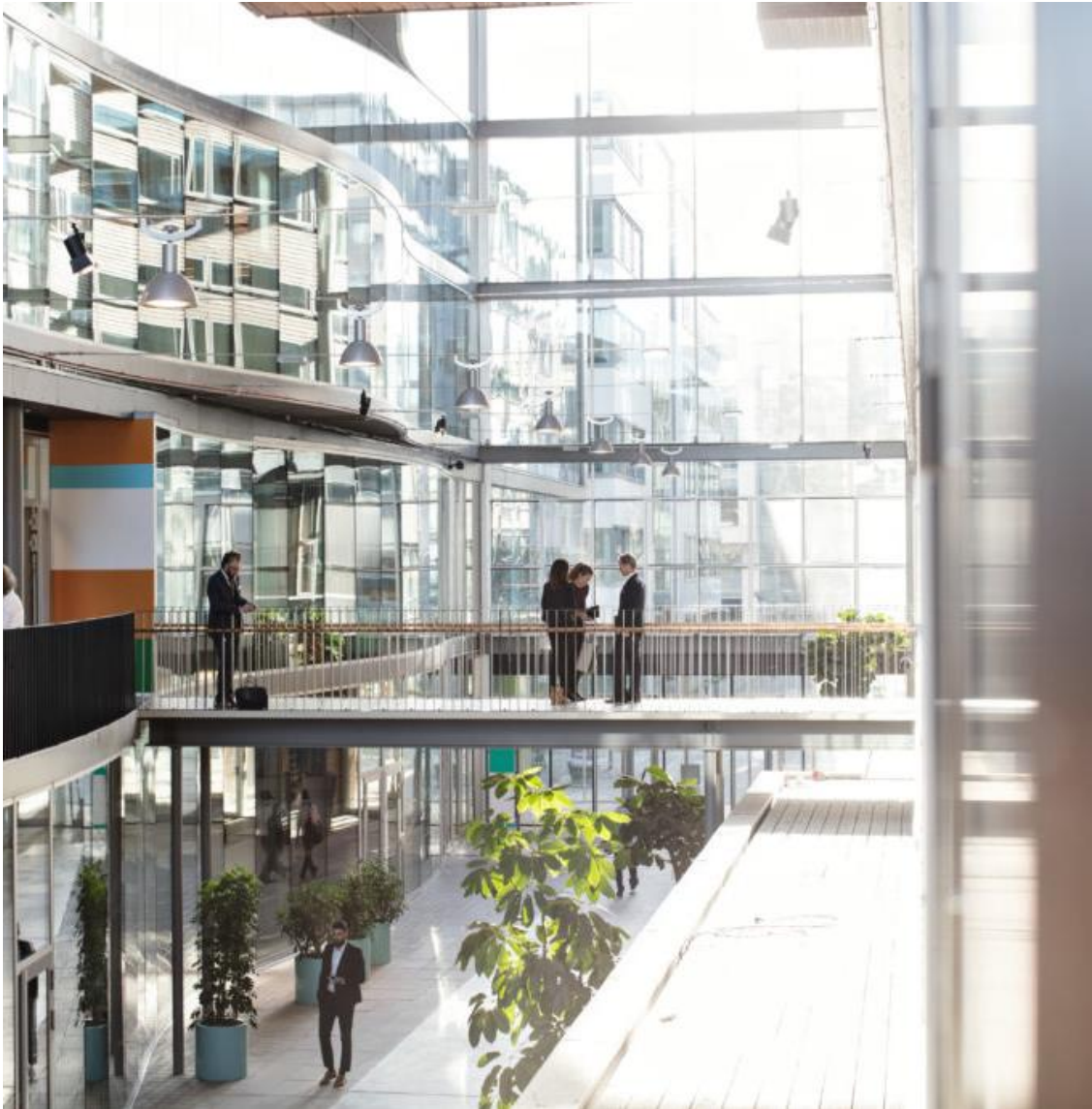
Your audit engagement team

2. Your audit engagement team

Your external audit service will be led by Cameron Waddell.

Who	Role	E-mail
Cameron Waddell	Engagement Lead	cameron.waddell@mazars.co.uk
Mark Outterside	Engagement Manager	mark.outterside@mazars.co.uk
Abi Medic	Engagement team leader	abi.medic@mazars.co.uk

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



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
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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.

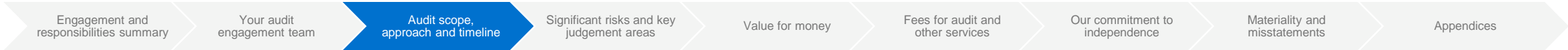
Audit approach

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.



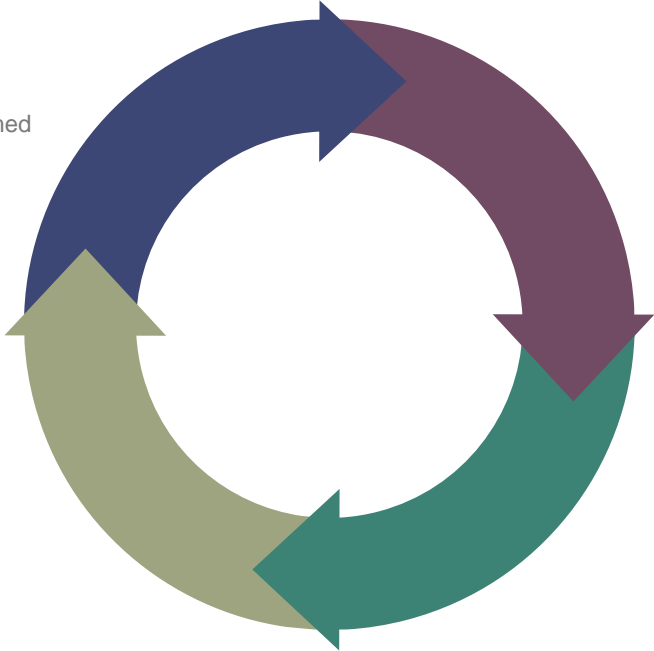
3. Audit scope, approach and timeline

Planning (March)

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

Completion (September)

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

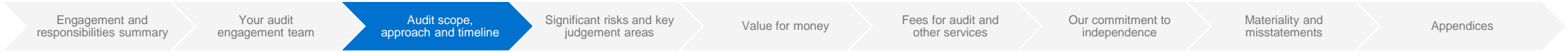


Interim (April)

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

Fieldwork (June to September)

- 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

Management’s and our experts

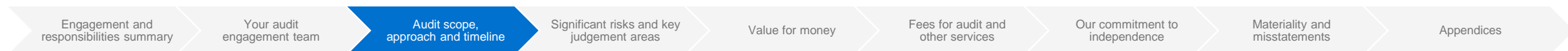
Management makes use of experts in specific areas when preparing the Council’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management’s expert	Our expert
Defined benefit liability	AON Hewitt	PwC, consulting actuary, on behalf of National Audit Office
Property, plant and equipment valuation	Council’s valuer	We will take into account relevant information which is available from third parties.
Financial instrument disclosures	Link Asset Services	We will review Link Asset Services' methodology to gain assurance that the fair value disclosures of the Council's financial assets and liabilities are materially correct.

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
School’s 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.



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:

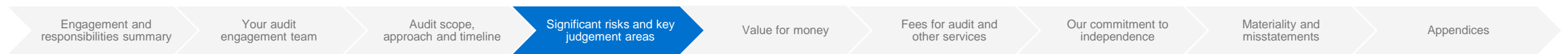
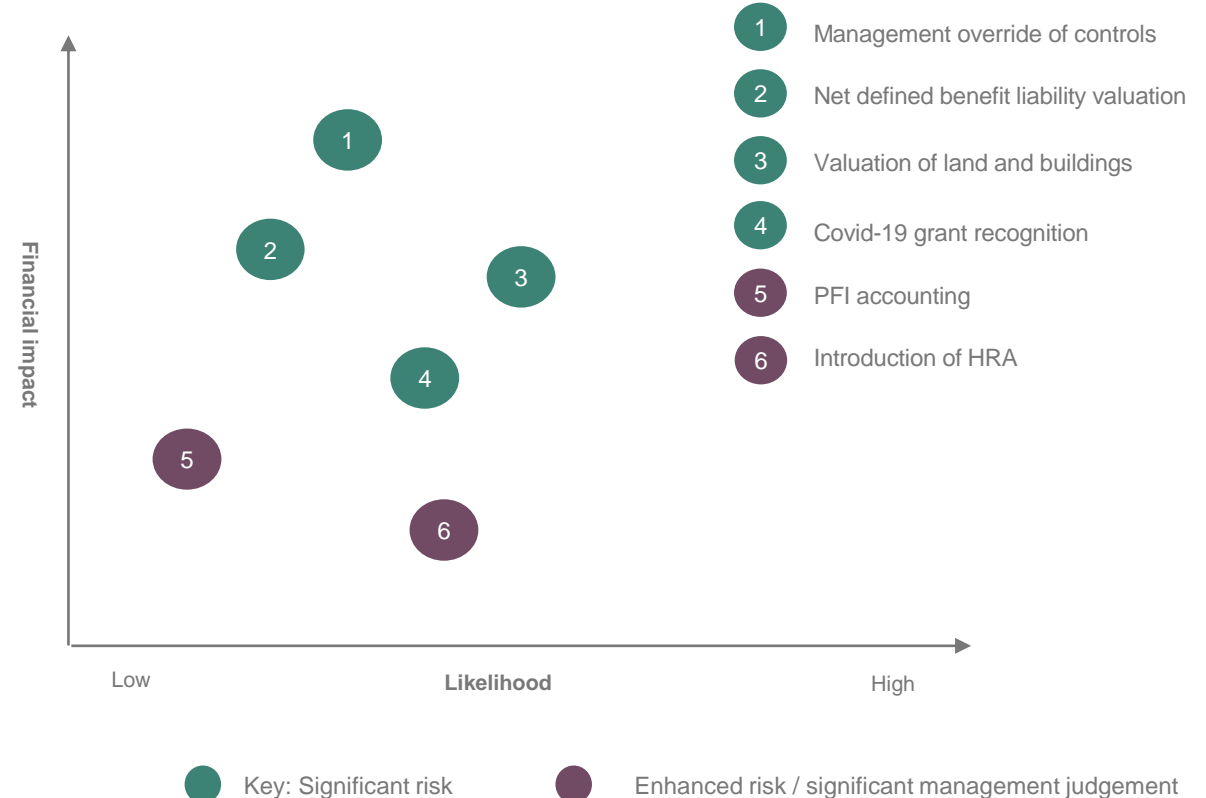
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

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 (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

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.



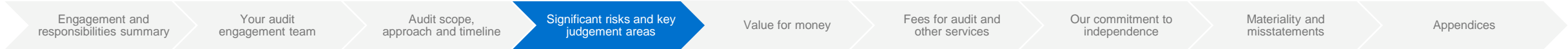
4. Significant risks and other key judgement areas

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

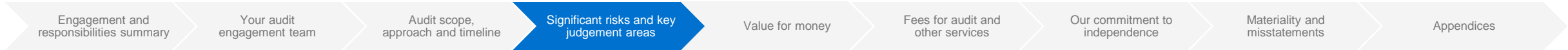
	Description	Fraud	Error	Judgement	Planned response
1	<p>Management override of controls This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate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

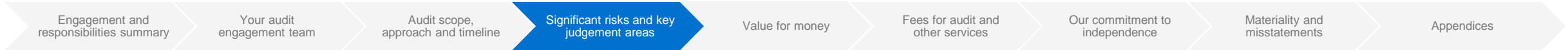
	Description	Fraud	Error	Judgement	Planned response
2	<p>Net defined benefit liability valuation The defined benefit liability relating to the Local Government pension scheme represents a significant balance on the Council's balance sheet.</p> <p>The Council uses an actuary to provide an annual valuation 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>We plan to address the risk by:</p> <ul style="list-style-type: none"> critically assessing the competency, objectivity and independence of the West Yorkshire Pension Fund's Actuary, Aon Hewitt; liaising with the auditors of the West Yorkshire Pension Fund to gain assurance over the design and implementation of controls in place at the Pension Fund. 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; reviewing 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 by the consulting actuary engaged by the National Audit Office; and agreeing 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. <p>In line with 2019/20 and the continuing Covid-19 pandemic, we will monitor the valuation approach and whether a material uncertainty disclosure will be required for 2020/21</p>



4. Significant risks and other key judgement areas

Significant risks

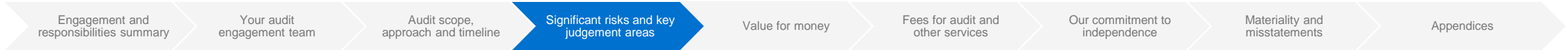
	Description	Fraud	Error	Judgement	Planned response
3	<p>Valuation of land and buildings Council dwellings, infrastructure assets, other land and buildings were the Council’s highest value assets totalling £835.2 million in 2019/20. The balance sheet also included investment properties totalling £54.6 million, and assets held for sale totalling at £2.5 million in 2019/20.</p> <p>Per the CIPFA Code, each of these class of asset requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date.</p> <p>Management engages its own Valuer as an expert to assist in determining the fair value of land and buildings to be included in the financial statements, however there remains a high degree of estimation uncertainty associated with the valuation of land and buildings due to the significant judgements and number of variables involved.</p>	○	●	●	<p>We will evaluate the design and implementation of any controls which mitigate the risk. This includes liaising with management to update our understanding on the approach taken by the Council in its valuation of land and buildings. We will:</p> <ul style="list-style-type: none"> • assess the scope and terms of engagement with the Valuer; • assess the competence, skills and objectivity of the Valuer; • assess how management use the Valuer’s report to value land and buildings included in the financial statements; • test the accuracy of the data used in valuations; • challenge the Council and Valuer’s assumptions and judgements applied in the valuations; • review valuation methodology used, including the appropriateness of the valuation basis; • consider the reasonableness of the valuation by comparing the valuation output with market intelligence; and <p>In line with 2019/20 and the continuing Covid-19 pandemic, we will monitor the valuation approach and whether a material uncertainty disclosure will be required for 2020/21.</p>



4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
4	<p>Covid-19 grant recognition Throughout 2020/21, the Government has provided substantial sums of financial support to local authorities.</p> <p>Use of management judgement will be required to determine if the Council is acting as an agent or principal in relation to the administration of these grants, and in relation to determining whether the recognition criteria have been met.</p> <p>We have therefore identified accounting for the completeness and accuracy of this income as a risk.</p>	○	●	●	<p>We plan to address this risk by:</p> <ul style="list-style-type: none"> reviewing the Council’s approach in determining whether grants are or are not ring-fenced for specified areas of expenditure; testing grant income recorded in the ledger to grant allocations/ notifications; and reviewing a sample of grants to ensure conditions to recognise the income in 2020/21 have or have not been met.



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>PFI accounting The method of accounting for PFI assets can be complex and involve management judgement.</p> <p>Therefore there is a potential risk of material misstatement if the Council fails to appropriately apply judgement and update their accounting model.</p>	○	●	●	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.
6	<p>Introduction of HRA In 2020/21 the Council plans to introduce a Housing Revenue Account (HRA).</p> <p>On 15 July 2019 the Ministry of Communities, Housing and Local Government wrote to the Council confirming that the Council must reopen a Housing Revenue Account (HRA) from 1 April 2020 as the number of dwellings held in the General Fund exceeded the current threshold stated in the Written Ministerial Statement</p> <p>As this is the first year of the HRA, there is a risk that the accounting treatment could be incorrect, resulting in misstatement.</p>	○	●	●	<p>We plan to complete the following:</p> <ul style="list-style-type: none"> review the Council's HRA accounting policies to ensure they are compliant with the CIPFA Code, regulations and are consistent with our understanding; consider the reasonableness of any judgements applied by the management and external guidance considered by management when setting up the HRA; review of HRA asset values, per the significant risk outlined on page 16; If material, develop and complete a testing strategy for HRA income, expenditure and year end balances; and review and document any new systems and key controls relating to the HRA.

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Section 05:

Value for Money

5. Value for Money

The framework for Value for Money work

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

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

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

Specified reporting criteria

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

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

Our approach

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



5. Value for money conclusion

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

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

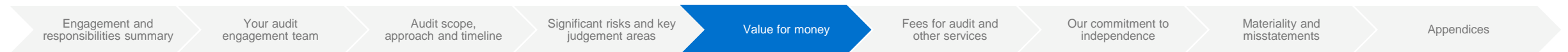
- how the Council ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them
- how the Council plans to bridge its funding gaps and identifies achievable savings
- how the Council plans finances to support the sustainable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

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

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

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

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



5. Value for Money

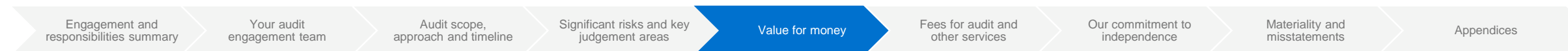
Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand the Council's arrangements and to identify risks that significant weaknesses in arrangements may exist.

Due to the late release of the NAO's Auditor Guidance Note and supporting information to auditors, we have not yet fully completed our planning and risk assessment work. On completion of our risk assessment, we will report any risks of significant weaknesses in arrangements identified to the Governance and Audit Committee.

For the 2020/21 financial year, we have however identified the issues below that will form an area of focus for our VFM work.

	Risk of significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Planned procedures
1	<p>Issues which led to a qualified 'except for' VFM conclusion in the 2019/20 audit</p> <p>Although we are no longer required to provide a qualified or unqualified conclusion, in 2019/20 we reported - Ofsted's monitoring visit letter of 19 March 2020 highlighted that there are several areas in which improvement was required. We expect an updated assessment in 2021 (originally the full visit was going to be in 2020, before COVID-19), however until then children's social care services continue to be rated as 'inadequate' by Ofsted.</p> <p>We therefore consider this to be a potential weaknesses in arrangements to be followed up in 2020/21.</p>	○	●	○	<p>We will:</p> <ul style="list-style-type: none"> review the latest Ofsted reports or correspondence issues to the Council (if available in 2020/21); consider what progress the Council has put in place to address the issues highlighted in the last Ofsted letter (March 2020); and consider how we will report any issues per the requirements of the Code.
2	<p>Financial sustainability</p> <p>In February 2020, the Council refreshed its MTFS (2020/21 to 2022/23 and beyond), which identified a budget gap of £11.86 million.</p> <p>This financial challenge is not new and or unique to the Council, however, it does present a significant area of focus in respect of the arrangements the Council has in place to deliver financially sustainability over the medium term.</p>	●	○	○	<p>We will:</p> <ul style="list-style-type: none"> review the Council's financial planning arrangements, including the adequacy of budget assumptions and saving plans; assess the Council's arrangements to monitor progress in delivering the financial plan and savings; and consider the robustness of the Council's judgements relating to the impact of the pandemic on the Council's financial plans, including reliance on any additional central government support.



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

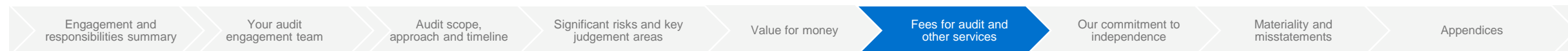
Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Scale audit fee	£142,694	£142,694
<i>Fee variations:</i>		
Additional testing on pension valuations, property valuations, consideration of statutory requirements, additional work required by the regulator, consideration of the impact of COVID-19, quality and preparation issues ¹	TBC	£39,541
Additional work relating to the establishment of the HRA in 2020/21	TBC	-
Additional work arising from the change in the Code of Audit Practice (indicative) ²	TBC	-
Total	£142,694	£182,235

¹ As previously reported, the 2019/20 scale fee had been adjusted to take into account the additional work. In common with our other local government clients, we will be completing work in these areas in 2020/21 and expect to raise fee variations for this additional work.

² The new Code of Audit Practice and associated guidance changes the way in which we undertake and report our value for money work in 2020/21 (as detailed in section 5) and will require additional audit input. We expect the fee impact to be 15-20% of the statutory audit fee. The final fee will take into account the extent of the additional work actually required. We will continue to liaise with Management on any proposed changes to the fee.

Fee variations are subject to confirmation from PSAA.

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

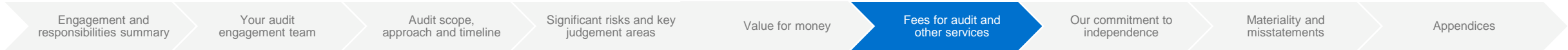


6. Fees for audit and other services

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	2020/21 Proposed Fee	2019/20 Actual Fee
Other services - Housing Benefits Subsidy Assurance	TBC	£9,210



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.

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:

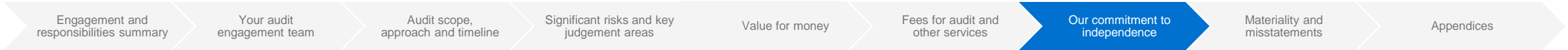
- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the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

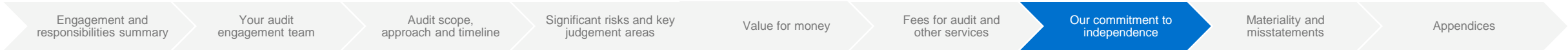
Principal threats to our independence and identified associated safeguards are set out in the table on the following page.

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



7. Our commitment to independence

Area	Perceived threat	Safeguards and procedures
Assurance services: Housing Benefits Subsidy Assurance	Self Review	No threat identified. None of the engagements result in the auditor providing accounting services to the Council.
	Self interest	No threat identified. The fees for each of the engagements is neither significant to Mazars LLP nor the Council. Safeguards include clear rules set by PSAA which limit additional services an external auditor can provide.
	Management	No threat identified as none of the engagements require the auditor to make decisions on behalf of the Council.
	Advocacy	No threat identified as none of the engagements require the auditor advocating a position on behalf of the Council.
	Familiarity	No threat identified. Safeguards include firm policies and procedures detailed on previous page.
	Intimidation	No threat identified.



08

Section 08:

Materiality and other misstatements

8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	22,500
Performance materiality	16,875
Specific materiality (specify and add rows as necessary)	
• Senior officer remuneration	5
• Senior officer exit packages	5
• Member allowances	50
• Related party transactions	50
Trivial threshold for errors to be reported to Governance and Audit Committee	675

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.

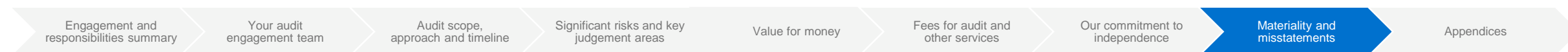
Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and 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 gross revenue 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 gross revenue 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 circa 2% of based on gross revenue expenditure (cost of services level) we anticipate the overall materiality for the year ending 31 March 2021 to be in the region of £22.5 million (£22.98 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 applied 75% of overall materiality as performance materiality.

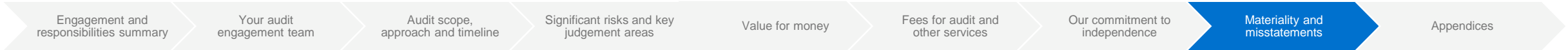
Misstatements

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 £675 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 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

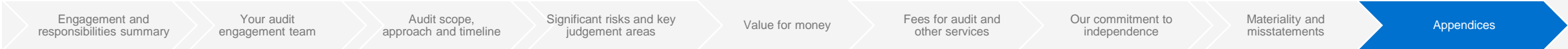
Materiality and misstatements

Appendices

Appendix: Key communication points

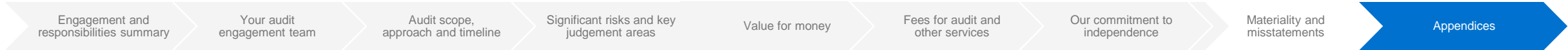
ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

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"> • Uncorrected misstatements and their effect on our audit opinion; • The effect of uncorrected misstatements related to prior periods; • A request that any uncorrected misstatement is corrected; and • In writing, corrected misstatements that are significant. 	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> • Enquiries of Governance and Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • A discussion of any other matters related to fraud. 	Audit Completion Report and discussion at Governance and Audit Committee, Audit Planning and Clearance meetings



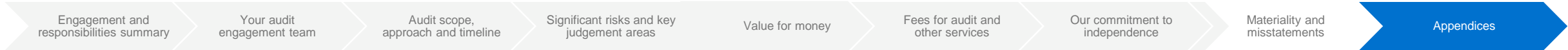
Appendix: Key communication points

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



Appendix: Key communication points

Required communication	Where addressed
<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"> • Whether the events or conditions constitute a material uncertainty; • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • The adequacy of related disclosures in the financial statements. 	<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>



Contact

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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.