

# Audit Strategy Memorandum

Durham County Council

Year ending 31 March 2019





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This document is to be regarded as confidential to Durham County Council. It has been prepared for the sole use of the 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.

Audit Committee  
Durham County Council  
County Hall  
Durham  
DH1 5UQ

February 2019

Dear Audit Committee Members

### **Audit Strategy Memorandum – Year ending 31 March 2019**

We are pleased to present our Audit Strategy Memorandum for Durham County Council for the year ending 31 March 2019

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 Durham County 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 0191 383 6300.

Yours faithfully

**Signed:**   
MJ Kirkham (Feb 14, 2019)

Mark Kirkham  
Mazars LLP

# 1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

## Overview of engagement

We are appointed to perform the external audit of Durham County Council (the Council) for the year to 31 March 2019. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>

## Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

### Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

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

### 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.

### Value for money

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach in section 5 of this report.

### Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or the Audit Committee, as 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.



## 2. YOUR AUDIT ENGAGEMENT TEAM



- Mark Kirkham, Partner
- [mark.Kirkham@mazars.co.uk](mailto:mark.Kirkham@mazars.co.uk)
- 0191 383 6300



- James Collins, Senior Manager
- [james.collins@mazars.co.uk](mailto:james.collins@mazars.co.uk)
- 0191 383 6331



- Joanne Greener, Assistant Manager
- [joanne.greener@mazars.co.uk](mailto:joanne.greener@mazars.co.uk)
- 0191 383 6300

In accordance with our internal policies for audit quality and risk management, we consider the audit of the Council to be a 'major audit'. As a result, and in line with the requirements of International Standards on Quality Control (ISQC) 1, the firm's Risk Management Partner has appointed an Engagement Quality Control Reviewer (EQCR) to the Council's audit who will bring an additional level of quality control to the engagement team.

# 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.

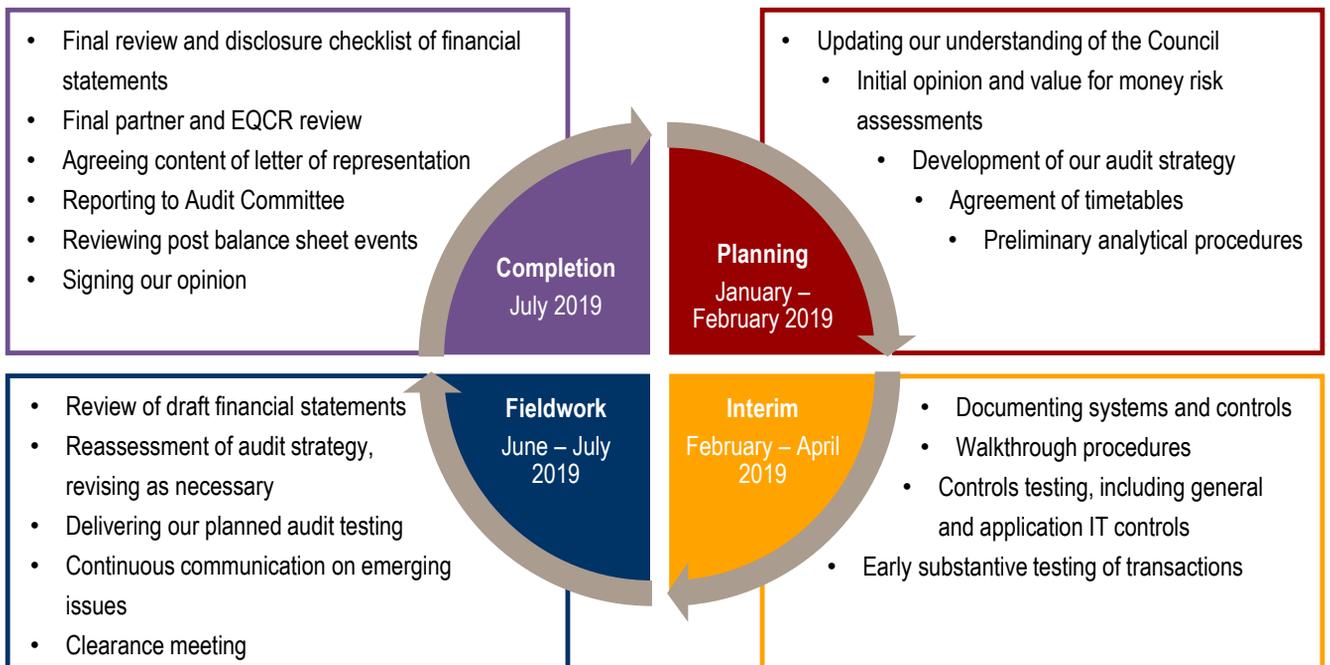
## Audit approach

Our audit approach is risk-based and primarily driven by the issues that lead to in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

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



### 3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

#### Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

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

#### Management's and our experts

Management makes use of experts in specific areas when preparing the 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	Actuary (Aon Hewitt)	Consulting actuary (PWC) appointed on our behalf by the NAO.
Property, plant and equipment valuation	In-house Valuer	We will take into account any relevant information which is available from third parties.
Financial instrument disclosures	Link Asset Services (formerly Capita)	
Business rates provision	Analyse Local	

#### 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. We have not identified any relevant 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:

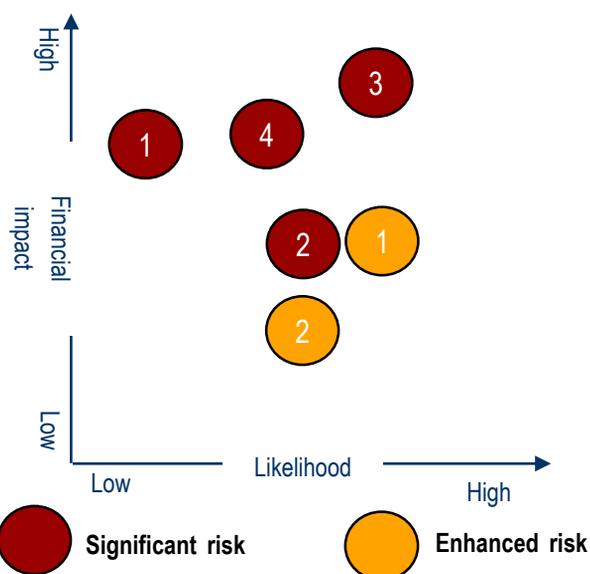
**Significant risk** A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant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



Significant Risk	
1	Management override of control
2	Revenue recognition
3	Property, plant and equipment valuation
4	Defined benefit liability valuation
Enhanced risk	
1	Unquoted equity investment valuations
2	Debtors impairment allowance



## 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 Audit Committee.

### Significant risks

	Description of risk	Planned response
1	<p><b>Management override of controls</b></p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We plan to address this risk by performing work in the following areas:</p> <ul style="list-style-type: none"> <li>• accounting estimates affecting amounts included in the financial statements;</li> <li>• significant transactions outside the normal course of business;</li> <li>• the selection and application of accounting policies; and</li> <li>• journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>
2	<p><b>Revenue recognition</b></p> <p>In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted but, given the Council's range of revenue sources, we have concluded that there are insufficient grounds for rebuttal for all income streams in 2018/19. We have identified income from fees and charges as the key areas for audit testing.</p> <p>This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p>	<p>We plan to address this risk through a range of substantive procedures including:</p> <ul style="list-style-type: none"> <li>• testing revenue items recorded around year end to ensure they have been recognised in the appropriate year;</li> <li>• testing year end receivables;</li> <li>• testing adjustment journals; and</li> <li>• obtaining direct confirmations of year-end bank balances and testing the reconciliations to the ledger.</li> </ul>
3	<p><b>Property, plant and equipment valuation</b></p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of PPE.</p> <p>Although the Council employs an internal valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of PPE to be an area of risk.</p>	<p>We plan to address this risk through the following procedures:</p> <ul style="list-style-type: none"> <li>• consider the Council's arrangements for ensuring that PPE values are reasonable;</li> <li>• challenge the reasonableness of the valuations provided by the Council's Valuer using other sources of data;</li> <li>• assess the competence, skills and experience of the Valuer and the instructions issued to the Valuer; and</li> <li>• where necessary, perform further audit procedures on individual assets to ensure the basis of valuations is appropriate</li> </ul>



## 4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

### Significant risks (continued)

	Description of risk	Planned response
4	<p><b>Defined benefit liability valuation</b></p> <p>The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and</li> <li>• consider the reasonableness of the Actuary's assumptions that underpin the relevant entries made in your financial statements, through the use of an expert commissioned by the National Audit Office.</li> </ul>

### Key areas of management judgement

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

	Area of management judgement	Planned response
1	<p><b>Unquoted equity investment valuations</b></p> <p>The Council has to make judgements in respect of the fair value measurements of unquoted equity investments it holds, including those in Newcastle Airport and several others.</p> <p>The underlying accounting requirements are subject to change in 2018/19, which increases the risk in respect of these valuation judgements, therefore they have been assessed as enhanced risks.</p>	<p>We plan to address this judgement by :</p> <ul style="list-style-type: none"> <li>•critically reviewing the basis of valuation for the Council's unquoted equity investments; and</li> <li>•assessing whether disclosures are in line with the Code of Practice on Local Authority Accounting</li> </ul>
2	<p><b>Debtors impairment allowance</b></p> <p>The Council has disclosed its impairment of debtors allowance as an area of estimation uncertainty.</p> <p>The underlying accounting requirements are subject to change in 2018/19, which increases the risk in respect of the assumptions and uncertainties relevant to this area, therefore they have been assessed as enhanced risks.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>•critically review the Council's calculation of its impairment of debtors allowance; and</li> <li>•assess whether disclosures are in line with the Code of Practice on Local Authority Accounting, including any exemptions relevant to non-contractual debt</li> </ul>

# 5. VALUE FOR MONEY CONCLUSION

## Our approach

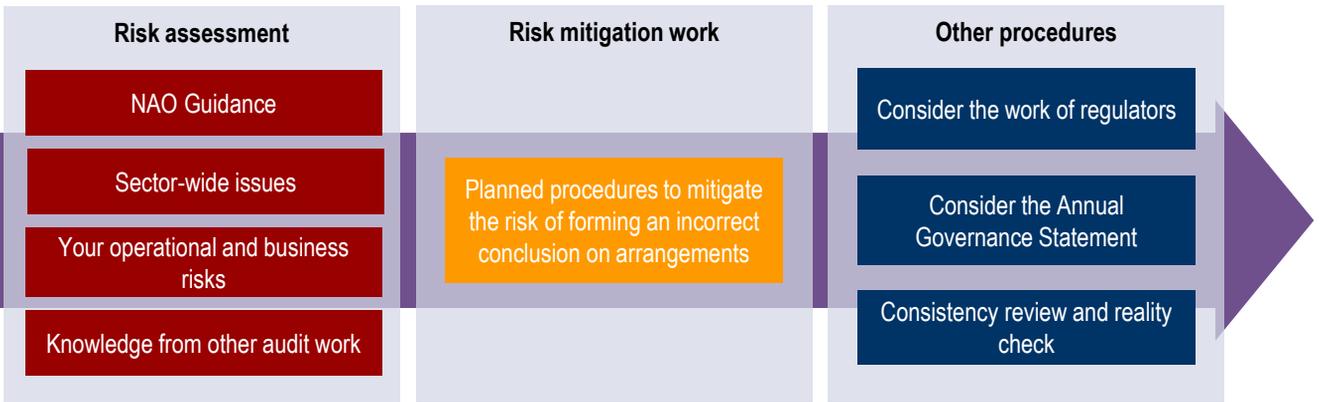
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria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

The NAO's guidance requires us to identify whether or not a value for money (VFM) audit risk 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. In reaching our conclusion we draw on our understanding of the Council and its partners, the local and national economy and our wider knowledge of the public sector.

For the 2018/19 financial year we have identified the following significant audit risk:

Description of significant risk	Planned response
<p><b>Sustainable resource deployment</b></p> <p>The Council has a good track record of delivering to budget. Reduced funding means the Council continues to require significant levels of savings in the coming years. The medium term financial plan (MTFP) is in place to meet these pressures. To ensure our conclusion is correct we need to update our understanding of the Council's MTFP arrangements and how it monitors the planned delivery of savings.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• review arrangements for developing the MTFP;</li> <li>• consider the delivery of 2018/19 savings against plans;</li> <li>• review the arrangements for future savings, including review of robustness of identified plans for 2019/20 and beyond; and</li> <li>• review the arrangements for the Transformation Programme.</li> </ul>



## 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 of 29 March 2018.

Service	2017/18 fee	2018/19 fee
Code audit work	£250,688	£193,030

### 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	2017/18 fee	2018/19 fee
Other services: Housing Benefits Subsidy Assurance	£20,062	£16,500
Other services: Teachers' Pensions	£4,900	TBC*
Other services: Skills Funding Agency Review of Subcontracting arrangements	£2,500	TBC*

\* Subject to us being engaged to again carry out this work for 2018/19.

## 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 Mark Kirkham in the first instance.

Prior to the provision of any non-audit services Mark Kirkham 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 below.

Area	Perceived threat	Safeguards and procedures
Mazars renting office space at Salvus House, Durham	Self Review	The transaction does not result in the auditor providing accounting services to the Council. The transaction does not have a material impact on the financial statements
	Self interest	The amount paid to the Council in rent is neither significant to Mazars LLP or the Council. Other office space is available to the auditor were they required to move from the premises. Safeguards to mitigate the risk include: <ul style="list-style-type: none"> <li>• None of the audit team, including the Engagement Lead, were involved in the negotiation of the office lease. The overall decision to rent space in the property was taken by the firm's UK Executive.</li> <li>• The lease is managed by the firm's estates team who are independent of the audit team.</li> <li>• The lease was negotiated on normal commercial terms. There are no favourable treatment or incentives being provided to the auditor by the Council or by Business Durham (who are managing the property).</li> <li>• Like any commercial deal the lease includes break clauses allowing Mazars to move without having to incur costs for the full lease term.</li> </ul>
	Management	No threat identified as this business transaction does not see the auditor making decisions on behalf of the Council.
	Advocacy	The transaction does not involve Mazars advocating a position for the client. A threat may exist if the auditor, as tenant of the Council, is asked to take part in any commercial activities undertaken by the Council to encourage new tenants into the building.  Safeguards to mitigate the risk include: <ul style="list-style-type: none"> <li>• Mazars will refrain from any marketing activities on behalf of the Council.</li> </ul>



## 7. OUR COMMITMENT TO INDEPENDENCE

Area	Perceived threat	Safeguards and procedures
Mazars renting office space at Salvus House, Durham (continued)	Familiarity	<p>The nature of the transaction does not increase the familiarity threat as the building is one of many owned by the Council and Mazars will be one of many tenants.</p> <p>Safeguards to mitigate the risk would include:</p> <ul style="list-style-type: none"> <li>The negotiation and management of the lease is independent of the audit team.</li> <li>The final decision to rent the office was taken by the firm's UK Executive.</li> </ul>
	Intimidation	<p>It could be feasible that the Council use the rent or lease as a means to intimidate the auditor.</p> <p>Safeguards to mitigate the risk would include:</p> <ul style="list-style-type: none"> <li>The lease is negotiated on a commercial basis by officers independent of the audit team.</li> <li>Terms of the lease will give the auditor and the Council rights which are expected in any commercial lease and will therefore reduce the risk of the client using the lease as a threat to the auditor.</li> <li>There is other office accommodation available in the area so the auditor is not restricted to this office location if a threat were to be made.</li> <li>The lease is managed by a separate team within the Council to those responsible for the Council accounts.</li> <li>The auditor has direct access to the Audit Committee as those charged with governance if any threats were to appear.</li> </ul>

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.
Skills Funding Agency Review of Subcontracting arrangements and Teachers' Pension return (if engaged)	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.

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	Initial threshold (£'000s)
Overall materiality	£26,071
Performance materiality	£19,553
Trivial threshold for errors to be reported to the Audit Committee	£782

### 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.



## 8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

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 on a benchmark of the 2017/18 gross expenditure at the surplus/deficit on provision of services level. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

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

We expect to set a materiality threshold at 2% of the surplus/deficit on provision of services.

Based on last years audited accounts we anticipate the overall materiality for the year ending 31 March 2019 to be in the region of £26.071m ( £24.246 m 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 aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £0.782m based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Kirkham.

### Reporting to the Audit Committee

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

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



# APPENDIX A – KEY COMMUNICATION POINTS

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

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

# APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

## Changes relevant to 2018/19

IFRS 9 Financial Instruments - the standard replaces IAS 39 and introduces significant changes to the recognition and measurement of the Council's financial instruments, particularly its financial assets.

Although the accounting changes may be complex and may require the reclassification of some instruments, it is likely that the Council will continue to measure the majority of its financial assets at amortised cost.

For Councils that hold instruments that will be required to be measured at fair value under the new standard, there may be instances where changes in these fair values are recognised immediately and impact on the general fund.

IFRS 15 Revenue from Contracts with Customers - the 2018/19 Code also applies the requirements of IFRS 15, but it is unlikely that this will have significant implications for most local authorities.

There are no other significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2018/19.

## Changes in future years

Accounting standard	Year of application	Implications
IFRS 16 – Leases	2020/21	<p>We anticipate that the new leasing standard will be adopted by the Code for the 2020/21 financial year.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17.</p> <p>Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed.</p> <p>The introduction of this standard is likely to lead to significant work being required in order to identify all leases to which the Council (and its schools) are party to.</p>