

Audit Strategy Memorandum

Durham County Council Council

Year ending 31 March 2021



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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 Those 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
DH1 5UQ

February 2021

Dear Audit Committee Members

Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

Audit Strategy Memorandum – Year ending 31 March 2021

We are pleased to present our Audit Strategy Memorandum for Durham County 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 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 0191 383 6300.

Yours faithfully

Signed: 
Mark Kirkham (FSA-15, 2021 F1, 15 GMP)

Mark Kirkham

Mazars LLP

01

Section 01:

**Engagement and
responsibilities summary**

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Durham 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 the 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 and Internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Our audit should not, however, 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 and the Director of Resources is responsible for carrying out an assessment of whether the presumption remains appropriate. As auditors, we are required to obtain sufficient appropriate audit evidence and conclude on the appropriateness of the Director of Resources' 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 also carry out audit work to assess the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach 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

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Section 02:

Your audit engagement team

2. Your audit engagement team



Mark Kirkham

Partner

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0191 383 6300



James Collins

Senior Manager

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0191 383 6331



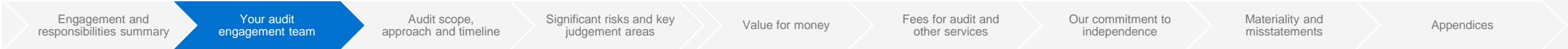
Joanne Greener

Assistant Manager

joanne.greener@mazars.co.uk

0191 383 6353

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



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.

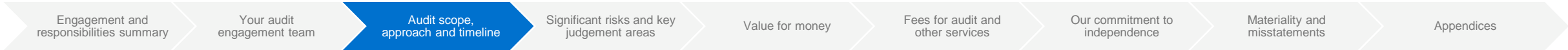
Audit approach

Our audit approach is risk based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. When 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.



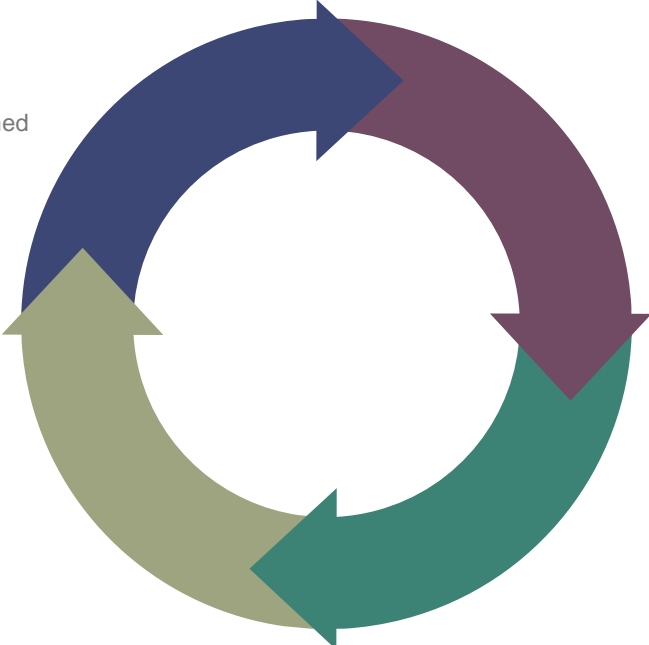
3. Audit scope, approach and timeline

Planning January – February

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

Completion September

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

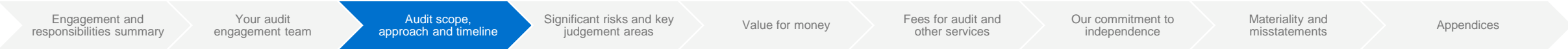


Interim February – April

- 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 - 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
- ATS review of financial statements
- Clearance meeting



3. Audit scope, approach and timeline

Reliance on internal audit

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

Where we intend to rely on the work on 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.

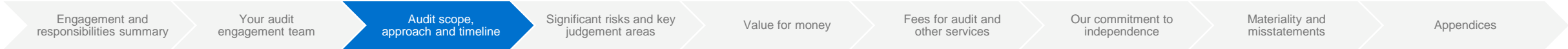
Management’s and our experts

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.

Item of account	Management’s expert	Our expert
Defined benefit liability	Actuary (Aon Hewitt)	NAO’s consulting partner (PWC)
Property, plant and equipment valuation	In-house valuer (with support of external valuer)	We will take into account any relevant information which is available from third parties
Financial instrument disclosures	Link Asset Services (formerly Capita)	No expert required.

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. We have not identified any relevant 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.

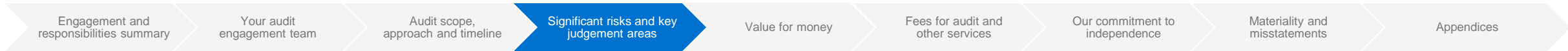
Enhanced risk

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

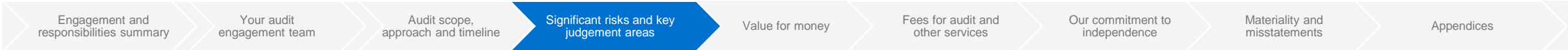
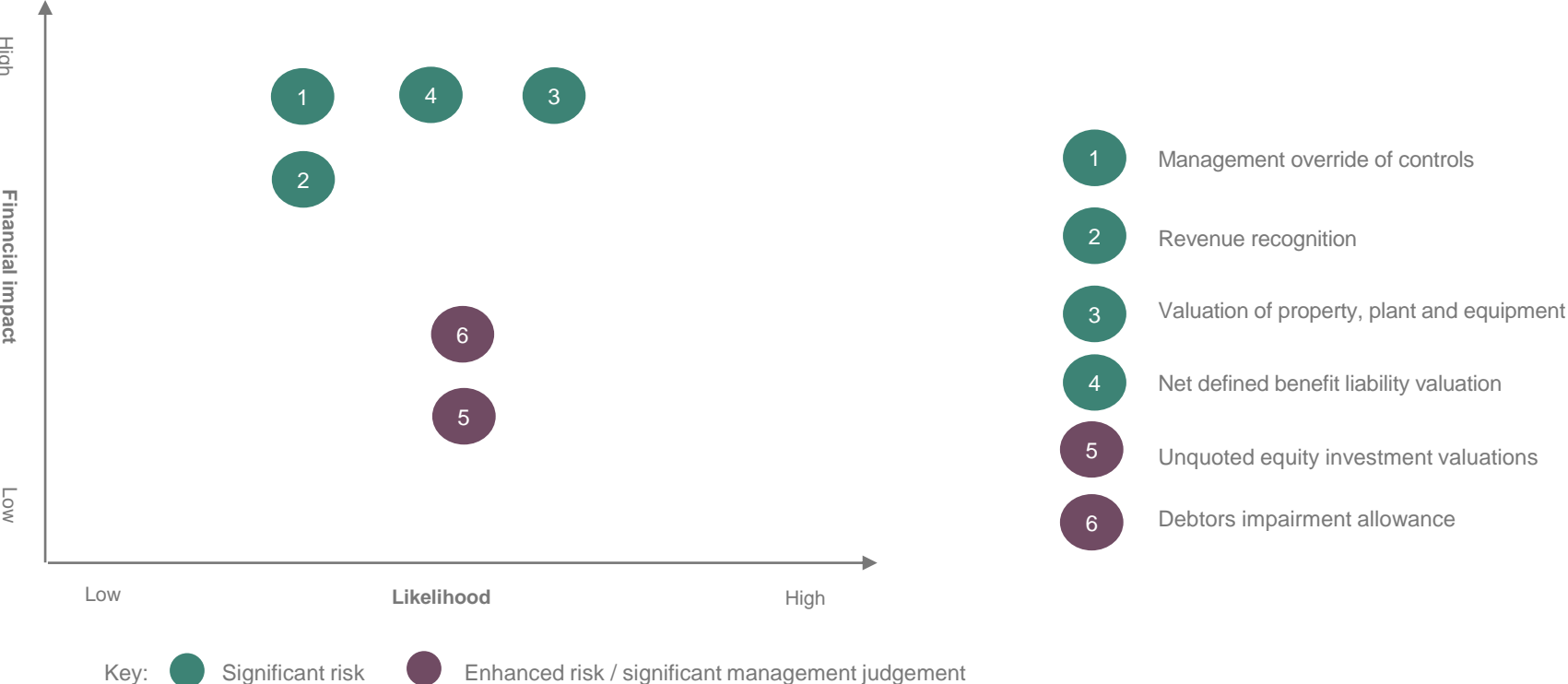
This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.



4. Significant risks and other key judgement areas

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Council. We have summarised our audit response to these risks on the next page.



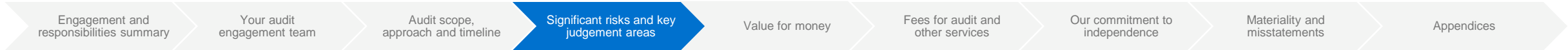
4. Significant risks and other key judgement areas

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 the 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. Because of 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 (meeting fraud risk characteristics) 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>Revenue Recognition</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 2020/21. We have identified income from fees and charges and other income 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"> • testing revenue items recorded around year end to ensure they have been recognised in the appropriate year; • testing year end receivables; and • obtaining direct confirmations of year-end bank balances and testing the reconciliations to the ledger.
3	<p>Valuation of property, plant and equipment (PPE)</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 a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE as a results of the significant judgements and number of variables involved. 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"> • consider the Council's arrangements for ensuring that PPE values are reasonable; • challenge the reasonableness of the valuations provided by the Council's valuer using other sources of data; • assess the competence, skills and experience of the valuer and the instructions issued to the valuer; and • where necessary, perform further audit procedures on individual assets to ensure the basis of valuations is appropriate

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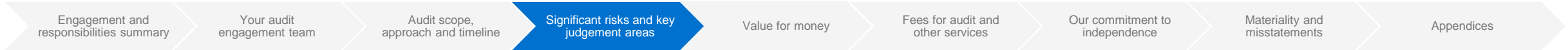
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4. Significant risks and other key judgement areas

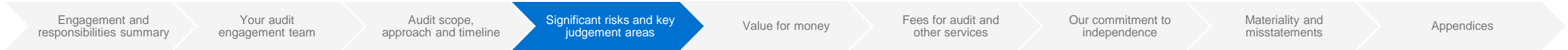
	Description	Fraud	Error	Judgement	Planned response
4	<p>Net defined benefit liability valuation</p> <p>The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant 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"> • evaluate the Council’s arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and • 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.



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>Unquoted equity investment valuations 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>We plan to address this judgement by :</p> <ul style="list-style-type: none"> critically reviewing the basis of valuation for the Council’s unquoted equity investments; and assessing whether disclosures are in line with the Code of Audit Practice.
6	<p>Debtors impairment allowance The Council has disclosed its impairment of debtors allowance as an area of estimation uncertainty.</p>	○	○	●	<p>We will:</p> <ul style="list-style-type: none"> critically review the Council’s calculation of its impairment of debtors allowance; and assess whether disclosures are in line with the Code of Audit Practice, including any exemptions relevant to non-contractual debt.



05

Section 05:

Value for Money

6. Value for money

The framework for our work

We are required to be satisfied that the Council has 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 and sets out 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. While 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 arrangements will be a commentary on those arrangements which will form part of the Auditor's Annual Report.

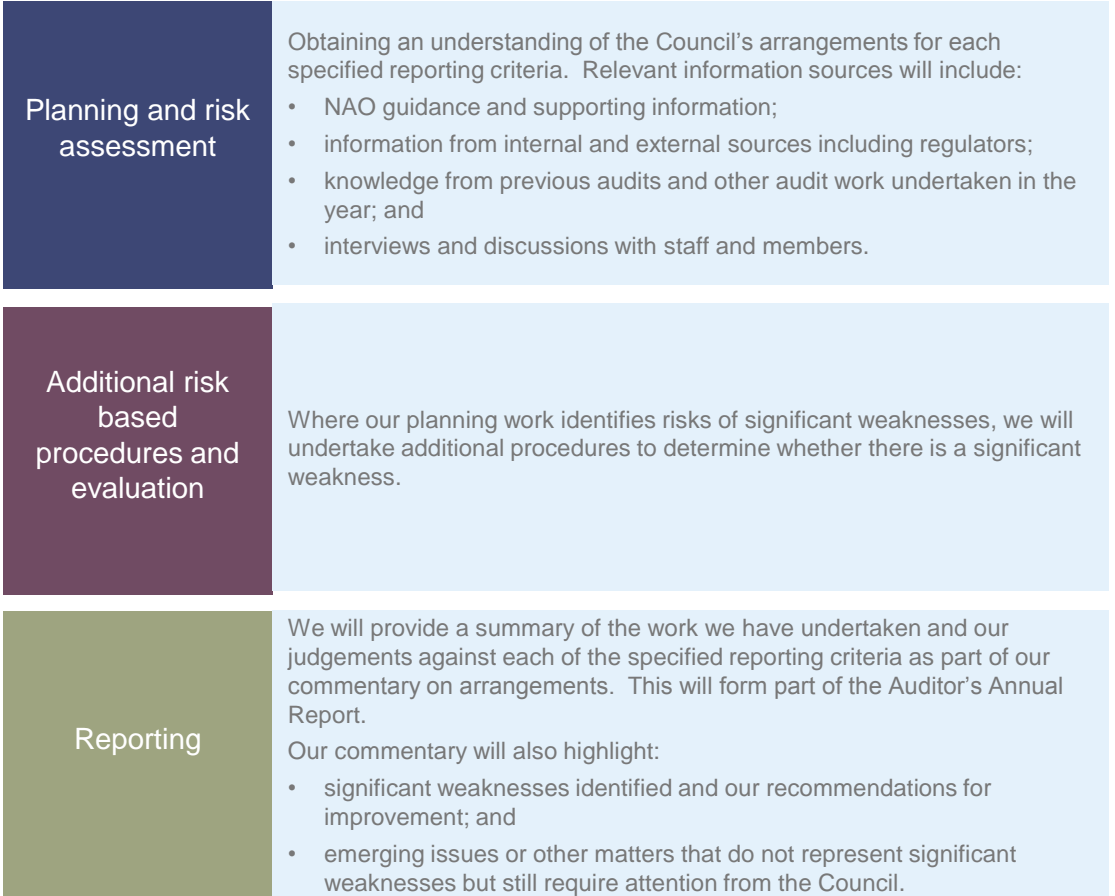
Specified reporting criteria

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 will 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.

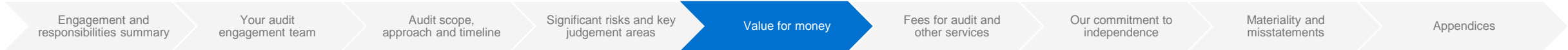


5. Value for money

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.

We have not yet fully completed our planning and risk assessment work. We will report the results of our initial work to the Audit Committee on completion. This includes reporting any risk of significant weakness in arrangements that we identify.



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 fee ¹	£193,030	£193,030
Fee variations – opinion	To be confirmed.	£17,400 ²
Fee variations – value for money ³	To be confirmed.	
Total	To be confirmed	£210,430

Fees for non-audit 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.

Agreed upon procedures work	2020/21 Proposed Fee	2019/20 Actual Fee
Housing Benefits Subsidy	To be confirmed.	£18,800
Teachers' Pensions	To be confirmed.	£4,900
Skills Funding Assurance	To be confirmed.	£3,850

¹ This scale fee was initially set by PSAA in 2018.

² The additional audit cost in 2019/20 relates to additional testing of property valuations, enhanced pension liability procedures in response to increased regulatory expectations, and reporting of uncertainties in key estimates as a result of Covid-19.

³ The new Code of Audit Practice will lead to a substantial amount of additional audit work to support the new value for money report. Our review of the Code and supporting guidance notes has led us to estimate that the additional fee impact for Code audits will be at least £10,000 or 20% of the final 2019/20 fee. The actual fee will take into account the extent and complexity of any significant weaknesses in arrangements we identify.

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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:

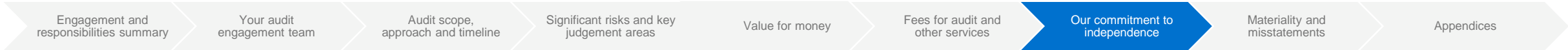
- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the 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 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 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
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	<p>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.</p> <p>Safeguards to mitigate the risk include:</p> <ul style="list-style-type: none"> • 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. • The lease is managed by the firm's estates team who are independent of the audit team. • 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). • Like any commercial deal the lease includes break clauses allowing Mazars to move without having to incur costs for the full lease term.
	Management	No threat identified as this business transaction does not see the auditor making decisions on behalf of the Council.
	Advocacy	<p>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.</p> <p>Safeguards to mitigate the risk include:</p> <ul style="list-style-type: none"> • Mazars will refrain from any marketing activities on behalf of the Council.
	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"> • The negotiation and management of the lease is independent of the audit team. • The final decision to rent the office was taken by the firm's UK Executive.
	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"> • The lease is negotiated on a commercial basis by officers independent of the audit team. • 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. • 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. • The lease is managed by a separate team within the Council to those responsible for the Council accounts. • The auditor has direct access to the Audit Committee as those charged with governance if any threats were to appear.

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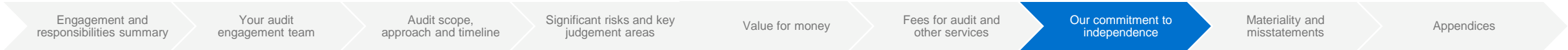
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7. Our commitment to independence

Area	Perceived threat	Safeguards and procedures
Assurance services: Housing Benefits Subsidy Assurance , Skills Funding Agency Review of Subcontracting arrangements and Teachers' Pension return (if engaged)	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	£28,015
Performance materiality	£22,412
Specific materiality:	
Senior officer remuneration	£5
Termination payments	£5
Members Allowances	£101
Trivial threshold for errors to be reported to the Audit Committee	£840

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
- make reasonable economic decisions on the basis of the information reported.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

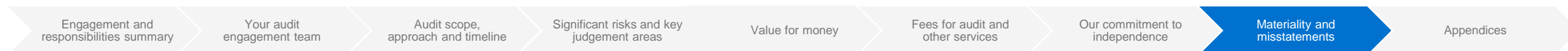
In planning our work we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing 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% of Gross Revenue Expenditure (at 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 the Gross Revenue Expenditure (at Surplus/deficit on Provision of Services level) remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.



8. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 2% of Gross Revenue Expenditure (at Surplus/deficit on Provision of Services level). Based on the prior year gross expenditure we anticipate the overall materiality for the year ending 31 March 2021 to be in the region of £28m.

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 80% of overall materiality as performance materiality.

Misstatements

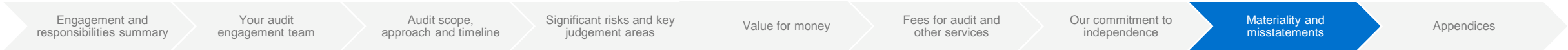
We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be 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 £0.840m 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 Audit Committee

The following three types of audit differences will be presented to 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:

- Audit Strategy Memorandum;
- 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.
- 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.
- 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

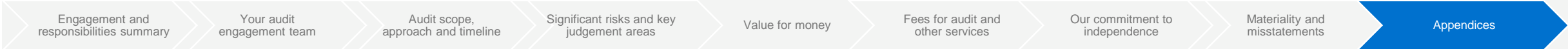
Materiality and misstatements

Appendices

Appendix: Key communication points

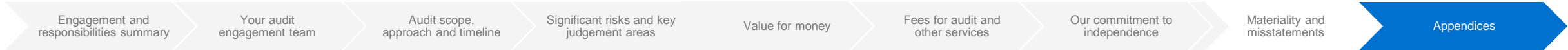
ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

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 the 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 Audit Committee, Audit Planning and Clearance meetings



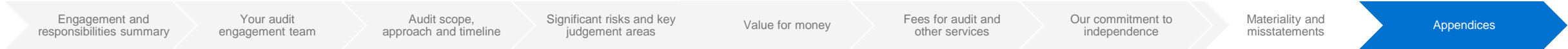
Appendix: Key communication points

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 the 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 the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.</p>	<p>Audit Completion Report 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>



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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.