

# Audit Strategy Memorandum

Durham County Council



For the year ending 31 March 2017



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# Executive summary

## Purpose of this report

The Audit Strategy Memorandum sets out our audit plan in respect of the audit of Durham County Council ('the Council') for the year ending 31 March 2017, and forms the basis for discussion at the Audit Committee meeting on 24 February 2017.

The plan sets out our proposed audit approach and is prepared to assist you in fulfilling your governance responsibilities. The responsibilities of those charged with governance are defined as overseeing the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the financial reporting process. We have determined that the Audit Committee is those charged with governance for the purpose of our audit.

<b>Timing of our work</b>	<p>Our audit will be delivered in four main phases as outlined in page 9 of this report. The statutory deadline for the completion of our audit work is 30 September 2017.</p> <p>In 2018 the statutory deadline for preparation of draft accounts will move forward from 30 June to 31 May, and the statutory deadline for completion of audit work will move forward from 30 September to 31 July. To help prepare them for the 2018 revised deadlines, officers are aiming for 31 May 2017 deadline for preparation of the 2016/17 accounts. As agreed with officers we are aiming to issue the Audit Completion Report and audit opinion by 31 July 2017. This is on the basis that the draft accounts are available to audit by the 31 May 2017 and all necessary working papers and third party confirmations are received as requested.</p>
<b>Financial Statements audit</b>	<p><b>Significant risks</b></p> <p>We have identified the following areas on which we will carry out specific audit procedures to mitigate the risks of material misstatements in the Council's financial statements:</p> <ul style="list-style-type: none"><li>• management override of controls;</li><li>• revenue recognition; and</li><li>• valuation of the defined benefit pension scheme</li></ul> <p><b>Materiality</b></p> <p>At the planning stage of the audit we have set materiality for the financial statements as a whole at £24.627 million. In reporting the results of our work we do not report identified misstatements below a clearly trivial level. We have set this level at £0.739 million.</p>
<b>Value for Money conclusion</b>	<p>The work we carry out to form a conclusion on whether the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources is summarised on page 11. This details our initial risk assessment and areas our additional work will focus on. We have not identified any significant risk in respect of our VFM work.</p>

## Independence

We have considered any actual, potential or perceived threats to our independence on page 18. We have not identified any such threats at this stage of the audit.

# Audit scope and approach

## **The scope of our work**

The detailed scope of our work as your appointed auditor for 2016/17 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 ('the 2014 Act') and are summarised below.

### Opinion on the financial statements

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.

Our audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

### Value for Money conclusion

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 Value for Money work in greater detail later in this report.

### Whole of Government Accounts (WGA)

We report to the NAO on the consistency of the Council's financial statements with its 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 by an elector. 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 response to the risk of fraud**

International Standards on Auditing (ISAs) require us to obtain reasonable assurance that the financial statements are free from material fraud and/or error. There are a range of ways in which fraud may arise in the context of your financial statements and we formally consider the risk of fraud as part of our planning work and design appropriate procedures to mitigate risks identified. We maintain an appropriate level of professional scepticism throughout the audit and are mindful that a material misstatement due to fraud is possible, however our audit should not be relied upon to identify all such misstatements.

Management and the Audit Committee, as those charged with governance also have responsibilities in respect of fraud. They are responsible for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with laws and regulations.

Our enquiries will focus on:

- what role the Audit Committee has in relation to fraud and how it is kept informed of fraud related matters by management;
- what anti-fraud measures you have in place and how your policies and procedures are monitored; and
- whether you are aware of any actual, alleged or suspected fraud.

We will formally write to you, in your role as those charged with governance, making the enquiries above, during our audit.

## Our use of experts and other auditors

### Management and auditor experts

There are material entries in your financial statements which are provided by management experts. For some of these entries, we will use our own expert to provide us with the assurance we require in relation to the work of your expert.

In addition to setting out information in respect of service organisations, Appendix A also summarises management's experts and our planned audit approach to obtaining assurance over their work.

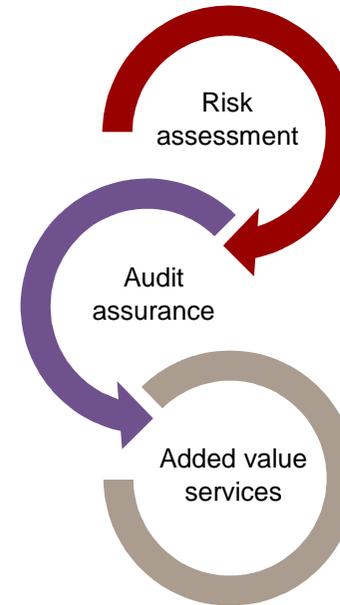
### Internal audit

Where appropriate, we will seek to rely on work performed by internal audit where it provides us with the required assurance. We will meet with internal audit to discuss their work programme and findings, and factor this in when determining the most efficient testing strategy.

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

## Audit efficiency and our use of IT

Innovative and integrated use of IT drives the efficiency and effectiveness of our audit. Your audit team uses the latest IT-based audit solutions and is supported by a team of IT auditors each of who have extensive knowledge of providing assurance and advisory services across the public sector.



We know that all organisations are different and face different risks. Our audit platform is modern and flexible and allows us to tailor our audit approach to the specific risks relevant to the Council, while ensuring compliance with underlying auditing standards.

We focus on the risks to your business continuity and those that give rise to a risk of material misstatement in the financial statements. Your audit team has access to a full suite of data analytics tools which allow them to determine the most effective and efficient testing strategy using IT-audit techniques where appropriate.

# Significant risks and key judgements

## Identified significant risks

As part of our planning procedures we have considered whether there are risks of material misstatement in the Council's financial statements that require special audit consideration. Although we report identified significant risks at the planning stage of the audit, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to mitigate these risks. Where we identify any significant risks in addition to those set out below, we will report these to the Audit Committee as part of our Audit Completion Report.

Significant risk	How we will mitigate the risk
<p><b>Management override of control</b></p> <p>In all entities, 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 overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We will 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 selections 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>
<p><b>Revenue recognition</b></p> <p>There is a risk of fraud in financial reporting relating to income recognition due to the potential to inappropriately record revenue in the wrong period. ISA 240 allows the presumption of fraud relating to revenue recognition to be rebutted in exceptional circumstances, but given the Council's range of revenue sources we have concluded that there are insufficient grounds for rebuttal in 2016/17.</p>	<p>We will evaluate the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition, we will undertake a range of substantive procedures including:</p> <ul style="list-style-type: none"> <li>• testing revenue items recorded to ensure they have been recognised in the appropriate year;</li> <li>• testing adjustment journals; and</li> <li>• for major grant income, agree amounts to third party documentation.</li> </ul>
<p><b>Valuation of defined benefit pension scheme</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>

## Identified key areas of management judgement

Key management judgement	How we will address this judgement
<p><b>Valuation of property, plant and equipment</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>The value of the Council's PPE is material to the accounts and involve management judgements over the valuations and useful lives of assets.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>• consider the Council's arrangements for ensuring that PPE values are reasonable;</li><li>• engage our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuer (where appropriate);</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 that the basis and level of valuation is appropriate.</li></ul>

# Timetable and communication

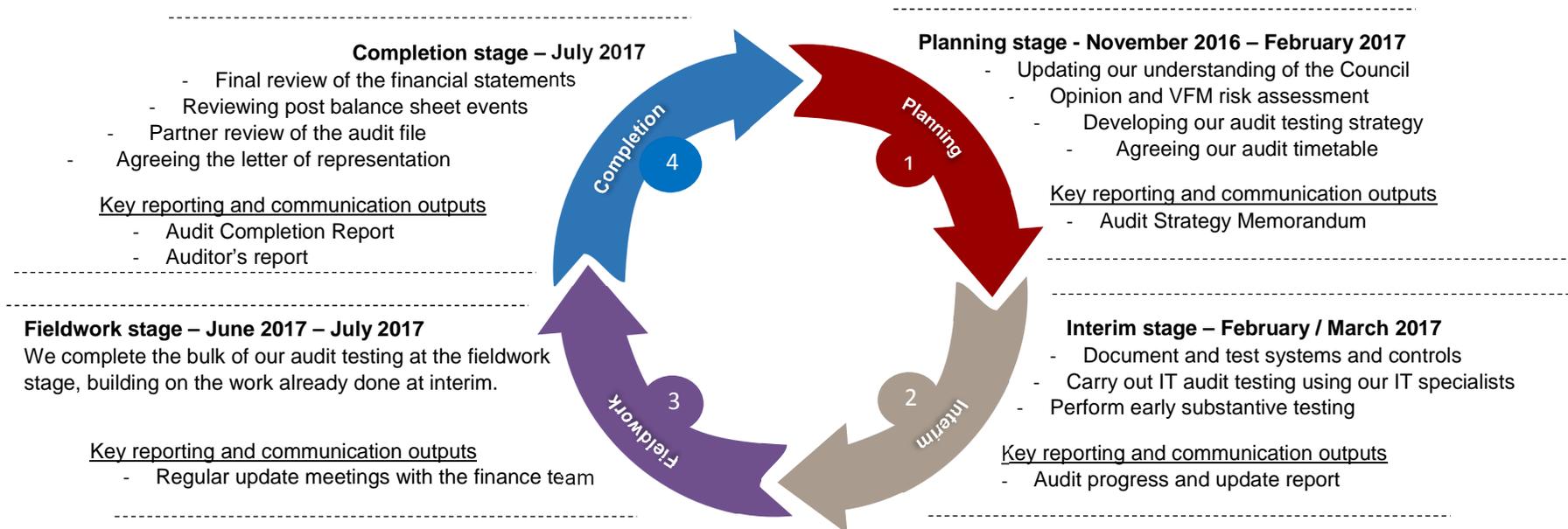
## Our approach to communication

International Standards on Auditing require us to communicate a number of matters with you at various points during the audit cycle. Later in this section we outline exactly how we will communicate with the Audit Committee as those charged with governance. As well as being an integral part of our responsibilities under auditing standards, we see two-way communication with the Audit Committee and officers as being critical to building a robust knowledge of your services, the risks and challenges you face and the plans you have in place to meet those challenges.

## Audit timetable

The diagram below outlines the main phases of your audit, when each will be carried out and the outputs that you will receive at each stage. This is underpinned by a 'no surprises' approach to communication that ensures management and the Audit Committee are kept aware of significant issues on a timely basis. We intend to issue our Audit Strategy Memorandum in February 2017, our Audit Completion Report in July 2017 and our Annual Audit Letter in September 2017.

The timetable is based on the Council providing a complete statement of accounts and supporting working papers by the end of May 2017.



### Key communication points

ISA 260 'Communication with those charged with governance' and ISA 265 'Communicating deficiencies in internal control to those charged with governance and management', require us to communicate a number of matters to you. These matters are set out below:

Matter to be communicated	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	✓	
Confirmation of our independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Conclusions on the significant audit risks and areas of management judgement		✓
Summary of unadjusted misstatements		✓
Management representation letter		✓
Our proposed audit report		✓

In addition to the matters outlined above which we are required to communicate under auditing standards, we also communicate regularly with the Audit Committee through our Audit Progress Reports, presented on a quarterly basis. We also report to the Council on an annual basis to summarise our work and main conclusions through our Annual Audit Letter.

# Value for Money Conclusion

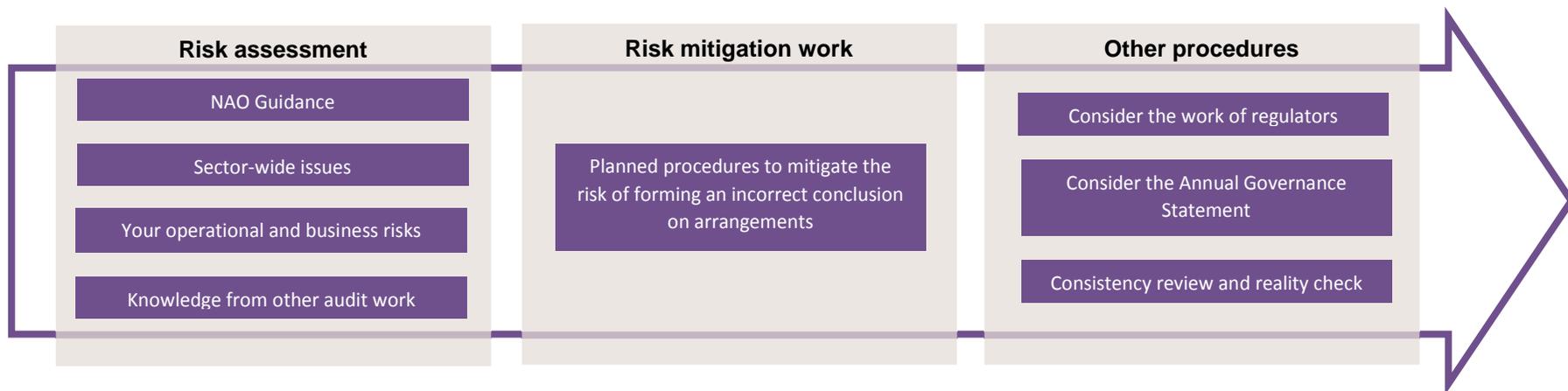
## Our approach to Value for Money work

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 in order to form our conclusion, and sets out the 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 provided set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below.



## Significant Value for Money risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a risk to the VFM conclusion exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

For 2016/17, we have not identified a significant risk for our VFM conclusion.

## Initial audit risk assessment

We undertook our initial risk assessment, based on the sub-criteria, using ratings with the following definitions.

<b>Low</b>	No risks to our vfm conclusion identified to date and no further work planned.
<b>Medium</b>	Not considered to be an audit risk at this stage, however, risk indicators to be followed up as further information becomes available.
<b>Significant</b>	Significant audit risk identified. This denotes risk to us as auditors, it is not an assessment or rating of the Council's arrangements.

Our risk assessment, by sub criteria, is shown in the tables on the following pages. Based on the risk assessment we have identified a number of areas which we do not consider to represent a significant risk to our VFM conclusion, but where further work is required for us in seeking sufficient assurance to inform our conclusion. In particular additional work is required for sustainable resource deployment, this work is detailed in the following table.

Area of additional work	Work we intend to carry out
<p><b>Sustainable resource deployment</b></p> <p>Our audit work in previous years has concluded that the Council has robust arrangements in place for medium term financial planning. We are not aware of any matters to suggest a significant change in arrangements.</p> <p>The Council continues to face financial pressure in the coming years and the Council is updating its medium term financial plan (MTFP) to meet these pressures. We need to ensure our knowledge of the Council's MTFP arrangements and its monitoring of the planned delivery of savings, remains up to date in order to ensure we give the correct VFM conclusion.</p>	<p>Building on our work from previous years, our work will include reviewing:</p> <ul style="list-style-type: none"> <li>• how the Council has developed its MTFP and updated for LG Spending review;</li> <li>• the delivery of 2016/17 savings against plans;</li> <li>• the arrangements for 2017/18 savings, including review of robustness of identified plans, and the arrangements for the Transformation Programme; and</li> <li>• the arrangements for identifying savings in 2018/19 to 2019/20</li> </ul>

We will also continue to monitor the Council's arrangements through:

- ongoing meetings with officers; and
- ongoing review of relevant meeting agenda papers and minutes where decisions relevant to our responsibilities are taken.

Sub-criteria	Proper arrangements	Audit risk rating at planning stage	Arrangements at Durham County Council
<b>Informed decision making</b>	Acting in the public interest, through demonstrating and applying the principles and values of sound governance	Low	<ul style="list-style-type: none"> <li>• Constitution in place which is available on the Council's website.</li> <li>• Active Audit Committee in place.</li> </ul>
	Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.	Medium	<ul style="list-style-type: none"> <li>• Arrangements for ensuring data quality in respect of performance information in place. Final position to be confirmed at year end.</li> <li>• Regular reporting to Cabinet of financial information, including variances against budget. Final position to be confirmed at year end.</li> <li>• Performance indicators are reviewed by officers and members to ensure those used are still relevant. Regular performance reporting to Cabinet. Final position to be confirmed at year.</li> <li>• Medium term planning undertaken and plans in place – MTFP (7). MTFP is updated at least annually.</li> <li>• Reporting to Cabinet during the year sets out position on MTFP and any impact for future years.</li> </ul>
	Reliable and timely financial reporting that supports the delivery of strategic priorities.	Medium	<ul style="list-style-type: none"> <li>• Regular and timely reporting to members. Final position to be confirmed at year end.</li> <li>• MTFP is updated as part of budget setting. Final position to be updated and considered at year end.</li> </ul>
	Managing risks effectively and maintaining a sound system of internal control.	Low	<ul style="list-style-type: none"> <li>• Risk register and risk management arrangements in place. Risks reported to Audit Committee.</li> <li>• Corporate Risk Management Group which has senior officer and member representation.</li> <li>• Regular reporting by Internal Audit to Audit Committee.</li> <li>• Annual governance statement prepared, reviewed and approved by Members.</li> </ul>

Sub-criteria	Proper arrangements	Risk rating at planning stage	Arrangements at Durham County Council
<b>Sustainable resource deployment</b>	Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.	Medium	<ul style="list-style-type: none"> <li>Financial and performance reports demonstrate a history of achieving financial targets. This includes delivery of significant savings.</li> <li>MTFP in place which is updated regularly.</li> <li>Transformation Programme initiated with Transformation Board in place. This will sit alongside the Council's current arrangements which have delivered significant levels of savings in recent years.</li> </ul>
	Managing and utilising assets effectively to support the delivery of strategic priorities.	Low	<ul style="list-style-type: none"> <li>Adequate levels of reserves which are regularly reviewed. Budget Support Reserve is available to support delivery of MTFP.</li> <li>Asset Register in place.</li> <li>Capital Strategy in place.</li> </ul>
	Planning, organising and developing the workforce effectively to deliver strategic priorities.	Low	<ul style="list-style-type: none"> <li>HR policies and procedures in place.</li> <li>Sickness information reported to Cabinet through performance reporting.</li> <li>Equality Impact Assessments (EIA) are used to consider fairness of savings plans.</li> </ul>

Sub-criteria	Proper arrangements	Risk rating at planning stage	Arrangements at Durham County Council
<b>Working with partners and other third parties</b>	Working with third parties effectively to deliver strategic priorities.	Low	<ul style="list-style-type: none"> <li>Better Care Fund (BCF) in place with Health and Wellbeing Board having oversight and receiving quarterly updates.</li> <li>Partnership management arrangements in place.</li> </ul>
	Commissioning services effectively to support the delivery of strategic priorities.	Low	<ul style="list-style-type: none"> <li>Better Care Fund in place and monitored.</li> <li>The Council's Constitution details the arrangements for contracting with third parties.</li> </ul>
	Procuring supplies and services effectively to support the delivery of strategic priorities.	Low	<ul style="list-style-type: none"> <li>The Council's Constitution details the arrangements for contracting with third parties.</li> </ul>

# Fees

## 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 Public Sector Audit Appointments Ltd (PSAA) as communicated to you in our fee letter dated 12 April 2016.

Area of work	2016/17 proposed fee	2015/16 final fee
Code audit work	£250,688	£250,688
Housing Benefit Subsidy certification	£24,158	£20,062

## 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 outlined 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 Appendix B.

Area of work	2016/17 proposed fee	2015/16 final fee
Teachers Pensions	TBC**	£4,850
Skills Funding Agency	TBC**	£2,000

\*\* We have not been engaged by the Council to complete this work for 2016/17. If we are, we will report the fees in future correspondence with the Audit Committee.

# Our team



**Mark Kirkham**

[Mark.kirkham@mazars.co.uk](mailto:Mark.kirkham@mazars.co.uk)

0191 383 6300

This is Mark's first year as engagement lead at Durham County Council. Mark has been an external audit engagement lead since 2002



**James Collins**

[james.collins@mazars.co.uk](mailto:james.collins@mazars.co.uk)

0191 383 6331

James has been manager at the Council since 2015. Prior to this he was the Team Leader on the audit. James will manage and coordinate the different parts of the audit. He will be the key point of contact for the finance team.



**Sharon Liddle**

[Sharon.liddle@mazars.co.uk](mailto:Sharon.liddle@mazars.co.uk)

0191 383 6311

Sharon has been team leader on the audit since 2015. Sharon will be a key contact for the finance team, leading the day-to-day audit, reviewing the work of more junior members of the team and performing the audit work in more specialised areas.

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 to the Council's audit who will bring an additional level of quality control to the engagement team.

# Appendix A – Experts

## Experts

The Council uses experts to provide entries in its financial statements. The table below outlines the areas of the financial statements where we expect the Council to use experts and an explanation of the approach we will take to obtaining assurance over those entries.

Financial statement area	Management's expert	Planned audit approach
Defined benefit liability and associated IAS 19 entries and disclosures.	Actuary (Aon Hewitt).	Review and consideration of work undertaken by the NAO's consulting actuary (PWC).
Property, plant and equipment valuations.	Internal valuer from the Council.	Review and consideration of the NAO's consulting valuer (Gerald Eve).
Financial instruments: fair value estimates.	Capita Asset Services.	Consider the reasonableness of Capita's output, referring to central assurances commissioned annually by the National Audit Office.
Business Rates Appeals provision	Analyse Local	We will consider the Council's arrangements for assessing the provision. Consider the reasonableness of Analyse Local's output, the Council's own review of the information provided and the likely impact on the financial statements.

# Appendix B – Independence

We are required by the Financial Reporting Council to confirm to you at least annually in writing, that we comply with the Auditing Practices Board’s Ethical Standards. 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 who are required to rotate off a client after a set number of years; 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 wish to confirm that in our professional judgement, as at the date of this document, we are independent and comply with UK regulatory and professional requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with either Mark or James.

Prior to the provision of any non-audit services, Mark will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. The following table outlines the potential threats to our independence and the safeguards put in place.

Area	Perceived threat	Safeguards and procedures
Services in relation to grant and returns certification and assurance.	Self -review	The review does not involve the preparation of information that has a material impact upon the financial statements subject to audit by Mazars.
	Self interest	The total fee level is not deemed to be material to the Council or Mazars. The work undertaken is not paid on a contingency basis.
	Management	The work does not involve Mazars making any decisions on behalf of management.
	Advocacy	The work does not involve Mazars advocating the Council to third parties.

	Familiarity	Work is not deemed to give rise to a familiarity threat given these pieces of assurance work used to fall under the Audit Commission's certification regime and were the responsibility of the Council's appointed auditor.
	Intimidation	The nature of the work does not give rise to any intimidation threat from management to Mazars.

At the time of writing this report Mazars is considering relocating its North East office from the Rivergreen Centre to Salvus House, both in Aykley Heads. Salvus House is a building owned by Durham County Council and managed by Business Durham. If Mazars were to move into the building it would become a tenant of the Council. We met with the Chair of the Audit Committee on the 19 January 2017 to discuss the potential move and identify the potential threats and safeguards to our independence as the Council's external auditors. The following table outlines the potential threats to our independence and the safeguards we intend to put in place.

Area	Perceived threat	Safeguards and procedures
Mazars office relocation to Salvus House	Self-review	The transaction does not result in the auditor providing accounting services to Durham County Council (the Council). The transaction will not have a material impact on the financial statements of the Council.
	Self-interest	The amount paid to the Council in rent will be neither significant to Mazars LLP or the Council. Other office space would be 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, are involved in the negotiation of the office lease. The overall decision to rent space in the property will be taken by the firm's UK Executive.</li> <li>• The lease will be managed by the firm's estates team who are independent of the audit team.</li> <li>• The lease is 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 will include 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. As a safeguard Mazars will refrain from any marketing activities on behalf of the Council.
	Familiarity	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>Safeguards to mitigate the risk would include:</p> <ul style="list-style-type: none"> <li>• The negotiation and management of the lease will be independent of the audit team. The final decision will be taken by the firm's UK Executive.</li> </ul>
	<p>Intimidation</p>	<p>It could be feasible that the Council use the rent or lease as a means to intimidate the auditor. 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>

# Appendix C - 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.

Whilst planning our audit, 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.

We discuss with management any significant misstatements or anomalies that we identify during the course of the audit and we report in our Audit Completion Report all unadjusted misstatements we have identified other than those which are clearly trivial, and obtain written representation that explains why these remain unadjusted.

# Appendix D – Our added value

Our primary responsibilities as the Council's external auditor are outlined in the main body of this report. As your external auditor we are ideally placed to provide added value in delivering those responsibilities and the diagram below provides a summary of how we do this.

