Audit Strategy Memorandum

Ashfield District Council

Year ending 31 March 2020

CONTENTS

Mazars LLP

Park View House
58 The Ropewalk
Nottingham
NG1 5DW

Audit Committee

Council Offices
Urban Road
Kirkby in Ashfield
Nottinghamshire
NG17 8DA

February 2020

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for Ashfield District Council for the year ending 31 March 2020

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Ashfield District Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0115 964 4744 .

Yours faithfully

David Hoose

Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Ashfield District Council (the Council) for the year to 31 March 2020. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/

Our responsibilities

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

Audit opinion

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

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

Value for Money

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

Reporting to the NAO

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission. We expect that Ashfield District Council will be below the thresholds required for this reporting, but we are required to issue an assurance statement to the National Audit Office confirming income, expenditure, assets and liabilities of the Council.

Electors' rights

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

Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Audit Committee as those charged with governance.

2. YOUR AUDIT ENGAGEMENT TEAM

Engagement Partner

David Hoose
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Audit Manager

Michael Butler
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Audit Assistant Manager

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3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

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

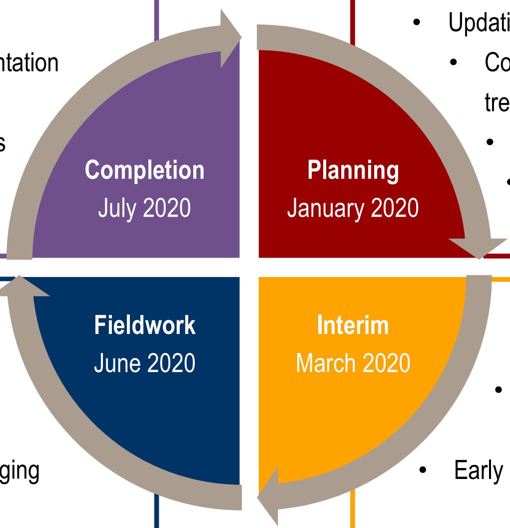
If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures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

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

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

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

- Initial opinion and value for money risk assessments
- Updating our understanding of the Council
- Considering proposed accounting treatments and accounting policies
- Development of our audit strategy
- Agreement of timetables
- Preliminary analytical procedures



- Review of draft financial statements
- Reassessment of audit strategy, revising as necessary
- Delivering our planned audit testing
- Continuous communication on emerging issues
- Clearance meeting

- Documenting systems and controls
- Walkthrough procedures
- Controls testing, including general and application IT controls
- Early substantive testing of transactions

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

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

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	**Barnett Waddingham** *Actuary for Nottinghamshire Pension Fund*	**PWC** Consulting actuary appointed by the NAO
Property, plant and equipment valuation	**Internal Valuer** *Valuation of Council Dwellings* **External Valuer** *Other PPE Assets and Investment Properties*	None. We expect to use third party information provided via the NAO to support our challenge of valuation assumptions.
Financial instrument disclosures	**Link Asset Management** *Treasury management advisors*	Not applicable

Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Council and our planned audit approach.

Items of account	Service organisation	Audit approach
Pension cost (cost of services) Net Interest on defined benefit liability Re-measurements of the net defined benefit liability (OCI) Net Pension liability	**Nottinghamshire Pension Fund** *The IAS 19 pension entries that form part of the Council's financial statements are material and are derived from actuarial valuations. The process of obtaining these is co-ordinated by and uses information held and processed by the service organisation.*	We will review the controls operating at the Council over these transactions to gain an understanding of the services provided by the service organisation. Where we conclude that we do not have a sufficient understanding of the services by the service organisation we will seek to obtain assurance by using another auditor to perform procedures that will provide the necessary information about relevant controls at the service organisation.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

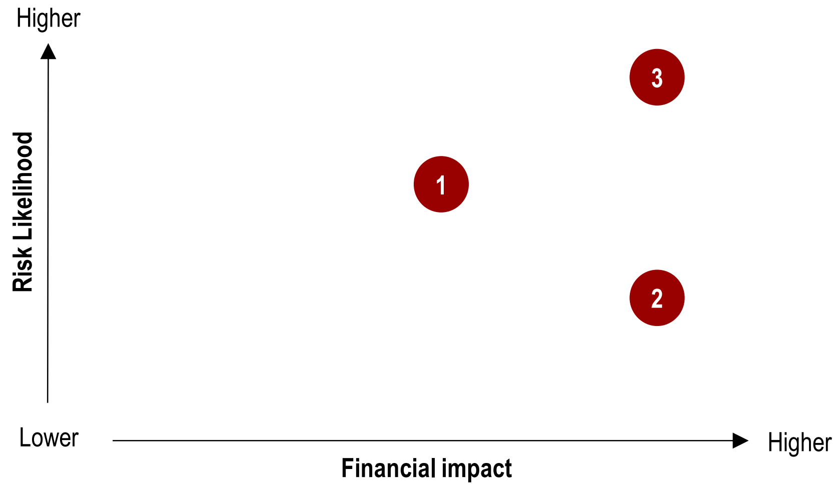
Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to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

Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

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

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

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



4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process; should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

	Description of risk	Planned response
1	**Management override of controls** Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.
2	**Property, plant and equipment valuation** Land and buildings are a significant balance on the Council's balance sheet. The valuation of land and buildings is complex and is subject to a number of management assumptions and judgements. Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area. This risk covers: - HRA Council Dwellings - Investment Properties - Other PPE related assets	We plan to address this risk by: • critically assess the Council's valuers scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; • consider whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; • assess whether valuation movements are in line with market expectations by using third party information provided by Gerald Eve to provide information on regional valuation trends; • critically assess the treatment of the upward and downward revaluation movements in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; • critically assess the approach that the Council adopts to ensure that assets are not subject to revaluation in 2019/20 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers; and • test a sample of items of capital expenditure, disposals and reclassifications (where balances are material) to confirm that the amounts used and accounting treatment applied is appropriate in line with the CIPFA Code of Practice.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

	Description of risk	Planned response
3	**Defined benefit liability valuation** The defined benefit liability relating to the Local Government pension scheme represents a significant balance on the Council's balance sheet. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.	We plan to address this risk by: • critically assess the competency, objectivity and independence of the Nottinghamshire Pension Fund's Actuary; • liaise with the auditors of the Nottinghamshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; • test payroll transactions at the Council to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by the Council; • review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information by PWC and consulting actuary engaged by the National Audit Office; and • agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.
4	**Revenue recognition** Auditing standards include a presumption that there is a significant risk in relation to the timing of income recognition, and in relation to the judgements made by management as to when income has been earned. However, audit teams are allowed to consider the level of risk associated with each organisation and rebut where appropriate.	We do not consider this to be a significant risk for Ashfield District Council for the following reasons: • the level of risk is considered to be low for Local Authorities; • majority of the Council's income is derived from grant funding, taxation (Council Tax and Business Rates) or rental income with the remaining balance considered to be low and generally represents a number of low value, high volume transactions; and • incentive and/ or opportunity to commit material fraudulent revenue recognition is deemed low We therefore rebut this risk and do not incorporate specific risk procedures over and above our standard fraud procedures to address the management override of controls risk (Identified at point 1).

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

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	**Provision for the impairment of doubtful debts** Given the current economic climate, there is a level of uncertainty to the appropriateness of the Council's doubtful debt provision. This could result is an overstatement of receivables.	We plan to address this judgement by: • reviewing the level of reported debt as at 31 March and consider the implications for any material change; • ensuring that management's methodology for calculating the provision has been consistency applied and is in line with the requirements of the Code; • testing the collectability of both significant and a sample of other non-significant debtor balances; and • re-performing the basis of the calculation for the impairment of debtors.
2	**Business rate appeals provision** Due to the timing of appeals and the process itself, management have to make an assumption over the likelihood of these appeals being successful. Therefore, the provision contains a level of judgement and associated risk. This could result an understatement of liabilities.	We plan to address this judgement by: • reviewing the basis of the Council's calculation of its provision by recalculating the provision, evaluating the key assumptions of the provision, vouching movements in the provision and confirming completeness of entries; • assessing whether the provision has been calculated and recorded in accordance with the Council's accounting policy; • assessing whether the amount provided as at 31 March is appropriate, taking in to consideration the Council's anticipated actual liability; and • assessing whether the reconciliation of movements during the period and description of the nature of the provision have been adequately disclosed in the financial statements.
3	**Minimum revenue provision (MRP)** Local authorities are required each year to set aside part of their revenues as a provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements. The amount set aside is not prescribed and statutory guidance is available for the Council to adopt and interpret. Therefore, the provision contains a level of judgement and associated risk.	We plan to address this judgement by: • reviewing the Council's MRP policy to ensure that it has been developed with regard to the statutory guidance and asses for any change; • assessing whether the provision has been calculated and recorded in accordance with the Council's policy; • assessing whether the amount provided for the period is appropriate, taking in to account the Council's Capital Financing Requirement; and • confirming that any charge has been accounted for in accordance with the Code.

5. VALUE FOR MONEY

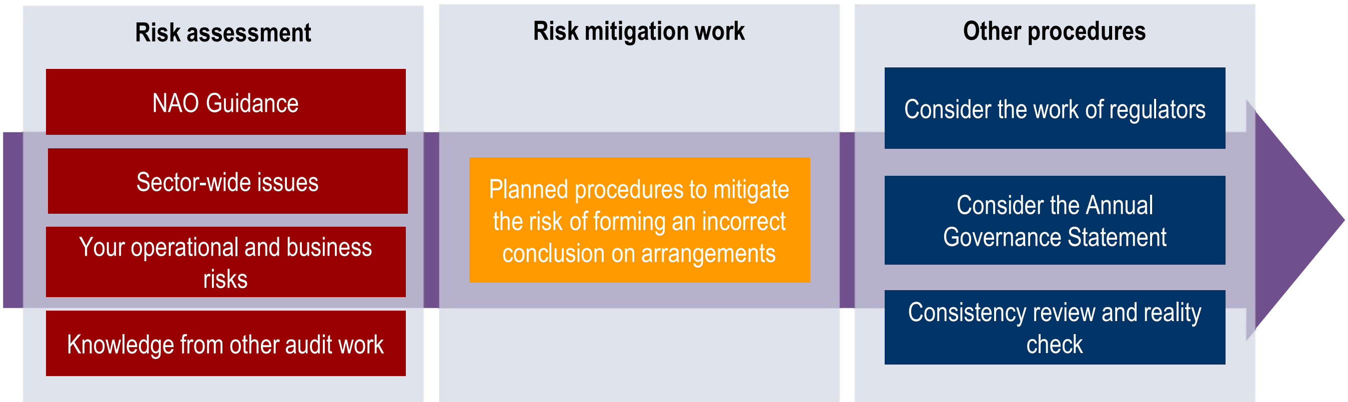
Our approach to Value for Money
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out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

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

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

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



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

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

- **Financial Sustainability – Sustainable resource deployment**
- **Commercialisation of Investment Properties strategy – Informed decision making**

These risks have been identified and further details document on the next page.

5. VALUE FOR MONEY (CONTINUED)

Description of significant risk	Planned response
Financial Sustainability – Sustainable resource deployment *The continued financial pressure that all Local Government bodies are facing; both locally and within the wider sector are well documented. There is an increased/ significant pressure on bodies to identify cost saving measures to ensure a balanced budget, whilst dealing with a significant decrease in grant funding and an increase in service demand.* *The Council have reviewed their budgets under their current medium term financial plan arrangements with the expectation of obtaining a balanced budget for 2020/21, whilst currently identifying a gap for the following financial years (although the Council has strategies in place going forward to address this gap).* *The budget is based on a number of assumptions and holds a level of risk to whether the Council will be able to generate additional revenues or deliver any cost savings that are crucial in order to meet and deliver the associated budget gap.*	We will critically review whether the Council has arrangements in place to ensure financial sustainability, specifically that the Medium Term Financial Plan (MTFP) has duly taken in to consideration the latest available information on factors such as: • funding reductions; • business rates reform; • fair funding; • salary and general inflation; • demand pressures • restructuring costs; and • sensitivity analysis given the degree of variability in the above factors. We will review the delivery of savings in 2019/20 and progress to identify savings for 2020/21 and future financial years, to understand and evaluate the financial impact on the Council's revenue reserves. We will also review any strategy's that the Council have in place to reduce the budget gap and ensure that theses appear reasonable and in line with the Council's expected activities.
Commercialisation of Investment Properties strategy – Informed decision making *The Council has identified the use of its capital and treasury activities as a way of establishing a new income stream and in turn obtaining additional revenue over a number of financial year's.* *The Council has made a number of material purchases over the past 12 months, with the potential investment of around £22m in 2019/20 in addition to what has already been spent.* *Whilst the investment strategy is projected to deliver financial returns for the Council (both revenue and capital), the strategy represents a significant monetary value and exposure to risk that may have not been anticipated or carefully evaluated.* *Risk factors include:* • *insufficient commercial investment experience, including both the property and the wider market itself; and* • *poor investment decisions due to the controls and processes currently in place (i.e. Due Diligence).*	We will critically review whether the Council has: • exposed itself to too much financial risk through its borrowing and investment decisions; • ensured that it has been mindful of changes in the accounting and regulatory environment when undertaking any sensitivity analysis as part of its investment decision making process; • ensured that an appropriate level of legal and due diligence work has been undertaken prior to making specific investment decisions; • responded appropriately to the revised Statutory Guidance on Local Government investments, to ensure that there is appropriate transparency to understand the exposure that the Council has a result of its borrowing and investment decisions; and • ensured that Members have sufficient expertise to understand the complex transactions that they have ultimate responsibility for approving.

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

The table below shows the scale fees set by PSAA as communicated in our fee letter of 25 April 2019. At this stage of the audit we are notifying clients that due to regulatory changes in audit requirements since the fees were agreed by PSAA – notably around increased work on PPE and Pensions – that fees are likely to have to increase in 2019/20. This is in line with other suppliers under the PSAA audit contracts who increased fees substantially in 2018/19. Any proposed increases to the fee to address, for example, changes to the identified risks or other additional required work will be discussed with the S151 Officer before approval is sought from PSAA.

Service	2018/19 fee	2019/20 fee (as per fee letter)	2019/20 Actual fee
Code audit work	£43,148	£43,148	TBC

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have not been separately engaged by the Council to carry out any additional work.

Should the Council wish us to undertake any additional work, before agreeing to this week 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.

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 David Hoose in the first instance.

Prior to the provision of any non-audit services David Hoose will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. Included in this assessment is consideration of Auditor Guidance Note 01 as issued by the NAO, and the PSAA Terms of Appointment.

No threats to our independence have been 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	1,740
Performance materiality	1,392
Trivial threshold for errors to be reported to the Audit Committee	52

Materiality
Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

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

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of gross revenue expenditure. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that gross revenue expenditure remains 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 gross revenue expenditure.

8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based on 2018/19 audited financial statements we anticipate the overall materiality for the year ending 31st March 2020 to be in the region of £1,740k.

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 and that minimal errors were identified in last year's audit, meaning that we have applied 80% of overall materiality as performance materiality.

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account:

Item of account	Specific materiality (£'000s)
Officer's remuneration	5*
Termination payments	49
Member's allowances and expenses	52
External audit costs	6

** Reflecting movement from one salary band to another*

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Misstatements
We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the 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 £52k based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with David Hoose.

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

Financial reporting changes relevant to 2019/20

There are no significant changes in the Code of Practice on Local Authority Accounting for the 2019/20 financial year.

Financial reporting changes in future years

Accounting standard	Year of application	Commentary
IFRS 16 – Leases	2020/21	The CIPFA/LASAAC Code Board has determined that the Code of Practice on Local Authority Accounting will adopt the principles of IFRS 16 Leases, for the first time from 2020/21. IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes to the way bodies account for leases, which will have substantial implications for the majority of public sector bodies. The most significant changes will be in respect of lessee accounting (i.e. where a body leases property or equipment from another entity). The existing distinction between operating and finance leases will be removed and instead, the new standard will require a right of use asset and an associated lease liability to be recognised on the lessee's Balance Sheet. In order to meet the requirements of IFRS 16, all local authorities will need to undertake a significant project that is likely to be time-consuming and potentially complex. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed at an early stage of the project.