

Audit Strategy Memorandum

Northumberland County Council

Year ending 31 March 2021



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This document is to be regarded as confidential to Northumberland County Council. It has been prepared for the sole use of Audit Committee as the appropriate sub-committees 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.

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Northumberland
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Mazars LLP
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Newcastle upon Tyne
NE1 1DF

?? September 2021

Dear Members

Audit Strategy Memorandum – year ending 31 March 2021

We are pleased to present our Audit Strategy Memorandum for Northumberland County Council and Group (the Council and Group) 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 8 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 Northumberland County Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit.

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07813 752 053.

Yours faithfully



Cameron Waddell
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 Northumberland County Council and Group (the Council and Group) 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. However our audit should not be relied upon to identify all such misstatements.



Going concern

The Council and Group is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. The Interim Executive Director of Finance and s151 is responsible for the assessment of whether it is appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on the appropriateness of the Interim Executive Director of Finance and s151 Officer's use of the going concern basis of accounting in the preparation of the financial statements and the adequacy of disclosures made.



Value for money

We are also responsible for forming a conclusion on the arrangements that the Council and Group has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.



Reporting to the NAO

We report to the NAO on the consistency of the Council and Group'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 Group and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Engagement and responsibilities summary

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Section 02:

Your audit engagement team

2. Your audit engagement team

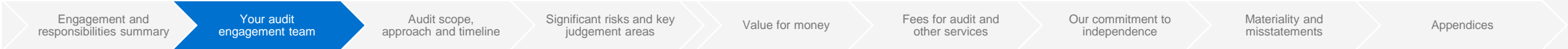


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In addition, an engagement quality control reviewer has been appointed for this engagement.



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.

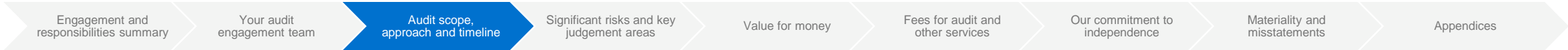
Audit approach

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

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

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

The diagram on the next page outlines the procedures we perform at the different stages of the audit.



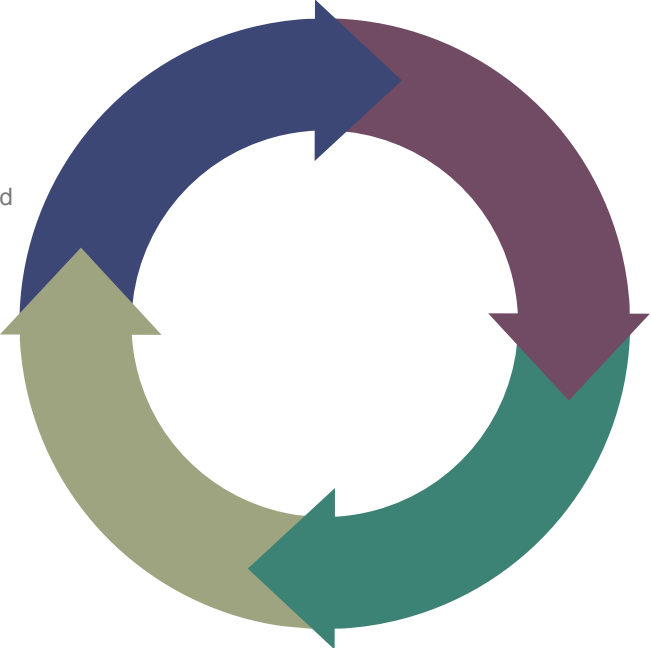
3. Audit scope, approach and timeline

Planning September – October 2021

- 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 December 2021

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

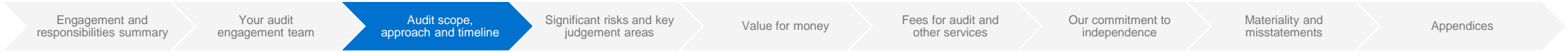


Interim September - October 2021

- 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 October – December 2021

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting



3. Audit scope, approach and timeline

Group audit approach

In line with the requirements of the CIPFA Code of Practice, the Council has considered its interests in other entities and determined that group accounts are required which will consolidate its interest in Advance Northumberland only. This section sets out the planned work in respect of those entities which we refer to here as components.

Group materiality

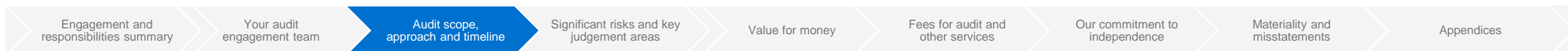
Our assessment of group materiality is set out in section 8.

We assess the significance of the component as part of determining the level of work required. In assessing the significance of components, we consider a range of quantitative and qualitative factors including:

- whether a component exceeds a minimum of 15% of key benchmarks (income, expenditure, assets and liabilities);
- whether any financial statement area (FSA) is greater than 15% of the relevant FSA in the consolidated accounts and greater than performance materiality; and
- whether there are any risks of material misstatement in the components likely to result in material misstatement in the group financial statements.

Our assessment is summarised in the table below.

Entity	Nature of component / ownership	Auditor	Significant in terms of benchmarks?	Risks of material misstatement?	Scope / Commentary
The Council	Parent – local authority.	Mazars LLP	Yes	Yes	Full – ultimate parent.
Advance Northumberland Group	100% owned company of the Council. The principal activities of the Company are in relation to housing, commercial property, regeneration and business growth.	Mazars LLP	No	Yes	Material transactions and balances exist in relation to investment properties, work in progress (developments for sale outside the group), borrowings, gross income and gross expenditure



3. Audit scope, approach and timeline

Group audit approach (continued)

Nature and scope of planned work

The table below sets out the estimated proportion of each component, relative to the overall Group, as well as the nature and scope of planned work. Note these are estimates and we will update our assessment for any significant changes. This work is in addition to our review of group-wide controls and the consolidation process.

Nature of work

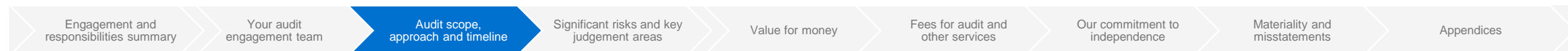
Planned procedures are split into the following categories:

- full scope audit;
- limited or specific review; and
- other audit procedures, including group analytical procedures.

The component being treated as 'significant' and subject to a full scope audit review is Advance Northumberland.

Analysis of components

Component	% of total group revenues	% audited by Mazars	Nature of work	Scope of work
The Council	92.9%	100%	Full scope audit	Not applicable – this is the 'parent'
Advance Northumberland	7.1%	100%	Review of work undertaken by auditors of Advance in relation to investment properties, work in progress, borrowings, gross income and gross expenditure.	Critical evaluation of the findings by auditor of Advance Northumberland Group in the areas stated.
	100%	100%		



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.

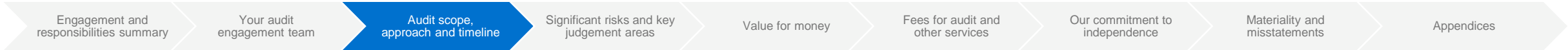
Management’s and our experts

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 net liability	AON Hewitt (Actuary)	We use the National Audit Office’s (NAO) consulting actuary (PWC) to provide us with assurance over the main assumptions used by your Actuary.
Property, plant and equipment	BNP Paribas Real Estate (UK)	We will take into account relevant information which is available from third parties, including the NAO’s consulting valuer (Gerald Eve).
Financial instrument disclosures	Link Asset Services	We do not typically engage an audit expert to assess the reasonableness for your expert’s financial instrument valuation estimates. Where this is required we will engage our own internal experts.

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. There are no material service organisations to consider for this Council.



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.

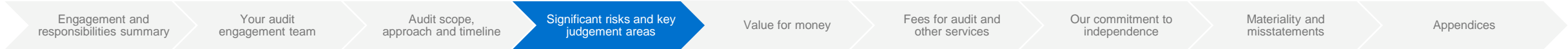
Enhanced risk

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

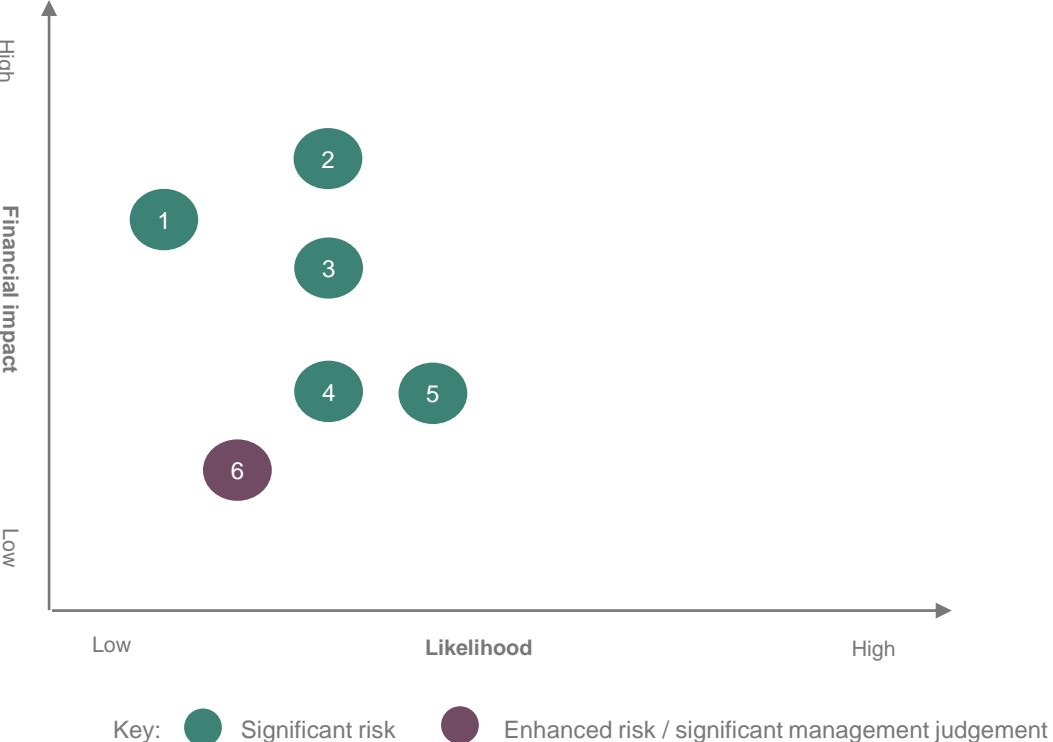
This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the 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 and Group. We have summarised our audit response to these risks on the next page.



- 1 Management override of controls (relevant to the Council and Group)
- 2 Defined benefit liability valuation (relevant to the Council and Group)
- 3 Property, plant and equipment valuation, including investment property (relevant to the Council and Group)
- 4 Valuation of long and short term debtors (Council only)
- 5 COVID-19 grant income recognition (Council only)
- 6 Valuation of Airport Shares including long-term investments (relevant to Council and Group)

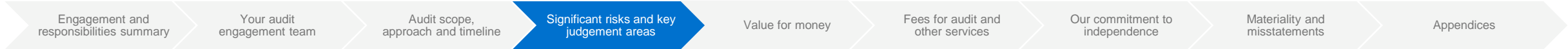
4. Significant risks and other key judgement areas

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 Audit Committee.

Significant risks

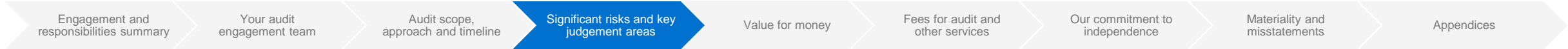
	Description	Fraud	Error	Judgement	Planned response
1	<p>Management override of controls</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.



4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p>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"> critically evaluate the Council’s arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and challenge the reasonableness of the Actuary’s assumptions that underpin the relevant entries made in the financial statements, through the use of an expert commissioned by the National Audit Office; critically assess the competency, objectivity and independence of the Actuary; liaise with the auditors of the Pension Fund to gain assurance that the overall IAS19 procedures and controls in place at the Pension Fund are operating effectively; compare assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office; agree data in the Actuary’s valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council’s financial statements; and critically review the component auditor’s work in respect of Advance Northumberland’s pensions liability which is consolidated in the group financial statements.



4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	<p>Property, plant and equipment valuation, including investment property</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 property, plant and equipment (including the Council's PFI waste facility).</p> <p>The Council employs valuation experts to provide information on valuations, however there remains a high degree of estimation uncertainty associated with the (re)valuations of property, plant and equipment due to the significant judgements and number of variables involved.</p> <p>The risk has increased as a result of the economic downturn arising from COVID-19.</p> <p>As a result of the pandemic, Valuers included material uncertainty statements in their 2019/20 valuation reports, which in turn led to local authorities disclosing this material uncertainty in their financial statements. We will consider the impact of any such disclosures as part of our audit work.</p>	○	●	●	<p>We will:</p> <ul style="list-style-type: none"> critically assess the Council's arrangements for ensuring that property, plant and equipment valuations are reasonable and not materially misstated; critically assess the basis of valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by Valuers, including the PFI shared waste facility; consider the competence, skills and experience of the Valuers and the instructions issued to the Valuers; critically review the output from our own expert's assessment of the valuation of the PFI shared waste facility; substantively test capital expenditure additions and disposals during the year; substantively test the Council's property, plant and equipment to gain assurance that they exist and are owned by the Council; substantively test revaluations, including critically reviewing the Council's own consideration of assets not revalued in the year and why they are not materially misstated; critically consider any material uncertainties expressed by the Valuers used by the Council and consider any implications on our audit work; and where necessary, perform further audit procedures on individual assets to ensure the basis of valuations is appropriate.

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
4	<p>Valuation of current and non-current debtors</p> <p>There is an increased risk that the valuation of debtors, both current and non-current, will be impacted by the economic downturn.</p> <p>The Council's non-current debtors also includes loans to other bodies and Newcastle Airport.</p> <p>The Council has provided for the potential impairment of short-term debtors which may also be impacted by the economic downturn.</p>	○	●	●	<p>We will:</p> <ul style="list-style-type: none"> critically review the basis of valuation of short and long-term debtors; challenge the assumptions made by the Council; and seek specific representations from management.
5	<p>Revenue recognition (relevant to the Council)</p> <p>Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable. We have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Council's revenue streams, consisting largely of taxation, business rates and some grant income.</p> <p>However, we do not feel that sufficient scope exists to rebut this risk in respect of the substantial sums of financial support that the Government provided to the Council throughout 2020/21. Use of management judgement will be required to determine if the Council is acting as an agent or principal in relation to the administration of these grants and in relation to determining whether the recognition criteria have been met. The recognition criteria can also differ, depending on whether there are conditions attached or not, as well as whether the grant has been fully spent.</p> <p>We have therefore identified accounting for the completeness, accuracy, classification and valuation and allocation of this income as a significant risk.</p>	●	●	●	<p>We will:</p> <ul style="list-style-type: none"> critically review the Council's approach in determining whether they have been acting as an agent or principal in relation to COVID 19 grants; substantively test COVID 19 grant income recorded in the ledger to grant allocations and notifications, including whether the appropriate accounting treatment has been followed (e.g. whether there are conditions attached and whether the grant amount has been fully spent).

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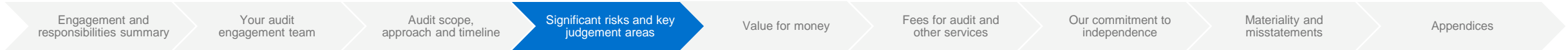
Materiality and misstatements

Appendices

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
6	<p>Valuation of Airport Shares including long-term investments</p> <p>The Council has to make judgements in respect of the fair value measurements of unquoted equity investments it holds, namely Newcastle Airport.</p>	○	●	●	<p>We will:</p> <ul style="list-style-type: none"> • assess the basis of valuation for the Council’s shares in the Airport; • critically review the assumptions made by management; and • assess whether disclosures are in line with the Code of Audit Practice.



05

Section 05:

Value for Money

5. Value for Money

The framework for our work

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

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

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

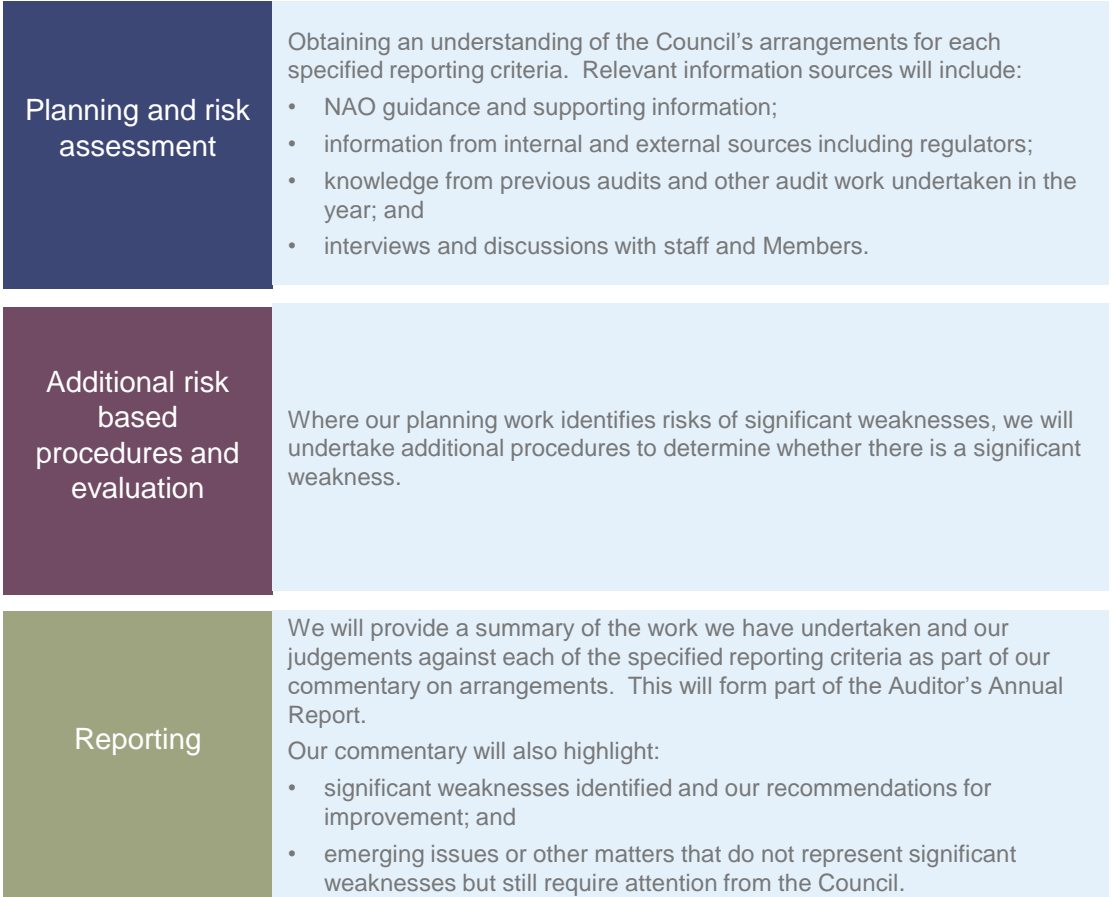
Specified reporting criteria

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

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

Our approach

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

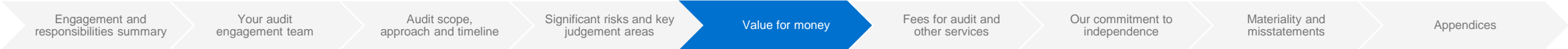


5. Value for Money

Identified risks of significant weaknesses in arrangements

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

Due to the delayed completion of our 2019/20 audit, we have not yet fully completed our planning and risk assessment work. Once completed, we will report our initial risk assessment to the Audit Committee.



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

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA, subject to consideration by Public Sector Audit Appointments Limited of any recurring fee increases arising from the 2019/20 audit, in relation to testing of:

- property, plant and equipment valuations; and
- audit work in respect of the net defined benefits liability.

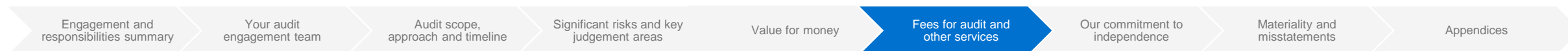
Area of work	2020/21 proposed fee	2019/20 fee
Code audit work – scale fee	£170,000	£190,000*
Additional work in response to regulatory recommendations to increase level of audit work on the valuation of property plant and equipment	To be agreed	To be agreed
Additional work in response to regulatory recommendations to increase level of audit work on defined benefit liability schemes.	To be agreed	To be agreed

* an additional fee in respect of 2019/20 work has been calculated and discussed with officers; the next stage is consideration and approval by Public Sector Audit Appointments Limited.

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Area of work	2020/21 proposed fee	2019/20 fee
Assurance Services: Housing Benefit Subsidy	£10,300	£10,000
Assurance Services: Teachers' Pension return	£4,120	£4,000
Assurance Services: Pooling of Housing Capital Receipts	£3,190	£3,100



07

Section 07:

Our commitment to independence

7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

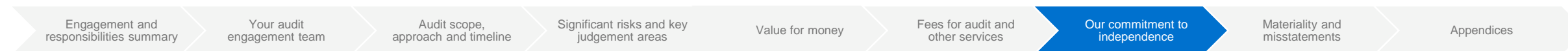
- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Cameron Waddell in the first instance.

Prior to the provision of any non-audit services Cameron Waddell will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report. Principal threats to our independence and identified associated safeguards in relation to the non-audit work listed in section 6, are summarised below.

Area of work	Perceived threat	Safeguards and commentary
Assurance Services: Housing Benefits Subsidy return	Self-review threat	No safeguards required. The fee for this work is neither significant to Mazars LLP nor the Council/Group.
Assurance Services: Teachers' Pensions Return	Self-review threat	No safeguards required. The fee for this work is neither significant to Mazars LLP nor the Council/Group.
Assurance Services: Pooling of Housing Capital Receipts return	Self-review threat	No safeguards required. The fee for this work is neither significant to Mazars LLP nor the Council/Group.



08

Section 08:

Materiality and other misstatements

8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Group initial threshold £'000s	Council initial threshold £'000s
Overall materiality	15,391	15,005
Performance materiality	10,774	10,503
Trivial threshold for errors to be reported to Audit Committee	462	450

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

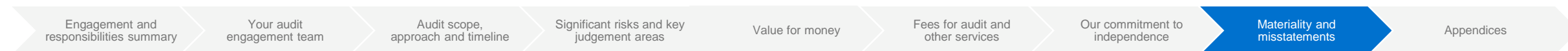
The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

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

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

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

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



8. Materiality and misstatements

Materiality (continued)

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

Our provisional materiality is set based on a benchmark of 2020/21 gross expenditure at the surplus/deficit on the provision of services level per the draft financial statements. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to Audit Committee.

We consider that the gross expenditure at the net cost of services level 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 1.8% of the benchmark based on the 2020/21 draft financial statements.

Based on the 2020/21 draft financial statements, we anticipate the overall materiality for the year ending 31 March 2021 to be in the region of £15.005 million for the Council (£14.143 million in the prior year) and £15.391 million for the Group (£14.596 million in the prior year).

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

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 70% of overall materiality as performance materiality.

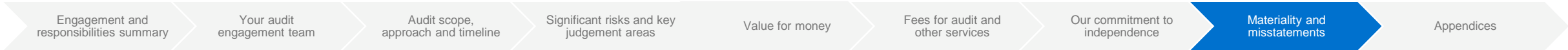
Misstatements

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 £450,000 for the Council and £462,000 for the Group based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Cameron Waddell.

Reporting to the 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:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Auditor's Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

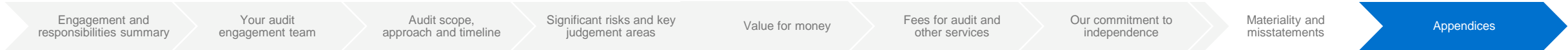
Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;

- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

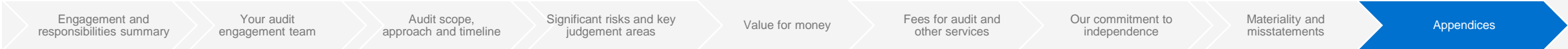
- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.



Appendix: Key communication points

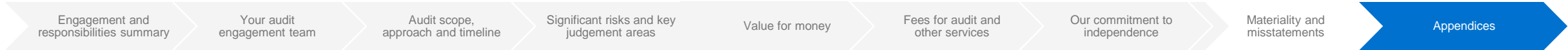
ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

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 and senior officers 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 the Audit Committee Audit Planning and Clearance meetings



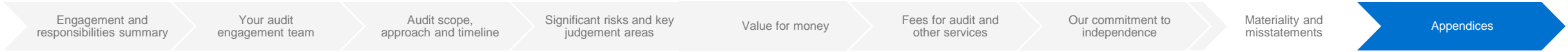
Appendix: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:</p> <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. 	<p>Audit Completion Report</p>
<p>Significant findings from the audit including:</p> <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. 	<p>Audit Completion Report</p>
<p>Significant deficiencies in internal controls identified during the audit.</p>	<p>Audit Completion Report</p>
<p>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.</p>	<p>Audit Completion Report</p>



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 or consolidated financial statements including any impact of changes of such methods.</p>	<p>Audit Completion Report</p>
<p>Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.</p>	<p>Audit Strategy Memorandum and/or Audit Completion Report as appropriate</p>
<p>Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms.</p>	<p>Audit Strategy Memorandum and/or Audit Completion Report as appropriate</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.