Indicative Audit Strategy Memorandum

London Borough of Hackney

Year ended 31 March 2021

Contents

mazars

Audit Committee
London Borough of Hackney
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14 December 2021

Dear Audit Committee Members

Indicative Audit Strategy Memorandum – Year ended 31 March 2021

We are pleased to present an Indicative Audit Strategy Memorandum for London Borough of Hackney for the year ended 31 March 2021. The purpose of this document is to provide the Committee with an indication of the summarised audit approach, the highlighted 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 London Borough of Hackney 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 audit. We will issue the final Audit Strategy Memorandum on completion of our audit planning procedures in the New Year.

We have recently changed your Mazars engagement lead for the 2020/21 audit. Suresh Patel replaces Lucy Nutley and will present this indicative plan to the 5 January 2022 Committee meeting. 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 Suresh on 07387 242052

Yours faithfully

S Patel

Suresh Patel, Partner. For and on behalf of 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 London Borough of Hackney (the Council) for the year to 31 March 2021. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.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.

Going concern

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. The Group Director of Finance and Resources is responsible for the assessment of whether is it appropriate for the Council to prepare it's 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 Group Director of Finance and Resources use of the going concern basis of accounting in the preparation of the financial statements and the adequacy of disclosures made.

Value for money

We are also responsible for forming a conclusion on the arrangements that the Council 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.

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.

Reporting to the NAO

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission

Electors' rights

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

02

Section 02:

Your audit engagement team

2. Your audit engagement team

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Tom Greensill

Assistant Manager and lead auditor

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We have made some changes to your engagement team for 2020/21, reflecting the complexities of the audit and taking on board feedback from officers and members. Suresh Patel is your new Engagement Lead. He joined the firm in August 2021 and has 28 years of experience auditing London Borough councils, following 18 years with the Audit Commission, 4 years with Mazars in 2012-2016 and for the last 5 years as an Associate Partner with EY. He is joined by Stuart Frith an experienced Senior Manager who has was your Engagement Manager in 2019/20. Chipo-Grace will provide additional engagement manager support to ensure that we have sufficient manager capacity to project manage the audit effectively. She is an experienced auditor of local councils. Tom completes the senior members of your engagement team and as lead auditor will have day to day contact with the finance team during the key stages of the audit.

In addition, the Council meets the criteria of a Major Local Audit under the Local Audit and Accountability Act 2014. As a result, as part of the firm's quality management arrangements we appoint an engagement quality control reviewer (EQCR) who works closely with Suresh and the team but has no direct engagement with the Council.

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.

Auditing accounting estimates

For the audit of the 2020/21 accounts, our audit approach incorporates the revision to ISA 540 in respect of auditing accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we may see the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area. The changes to the standard affect the nature and extent of information that we may request and increase the level of audit work required. PSAA has recognised this in its fee consultations, and we reflect this in Section 6.

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.

We plan and perform our audit 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

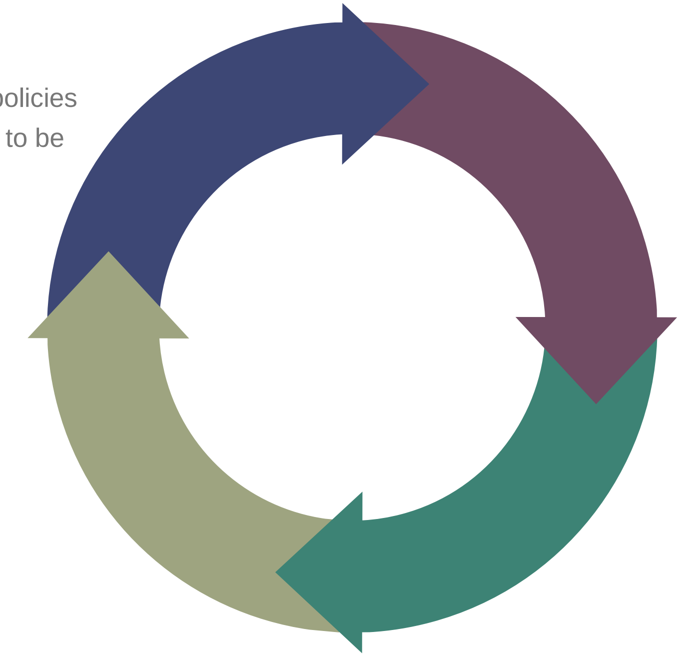
We include a provisional timeline for completion of the audit of the Council's 2020/21 statement of accounts.

Planning: December 2021 to January 2022

- 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 final audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Interim: January 2022

- Documenting systems and controls
- Performing walkthroughs
- Reassessment of audit plan and revision if necessary



Completion: April 2022

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

Fieldwork: January to March 2022

- 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

Reliance on internal audit

We do not intend to rely on the work of internal audit. However, we will review their work and it to inform our assessment of the control environment and we will 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 control's evaluation procedures.

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 experts & approach
Defined benefit liability	Hymans Robertson, Actuaries *(London Borough of Hackney Pension Fund & LPFA)*	We make use of PWC actuarial services who are commissioned by the NAO to review the national analysis of pension trends and assumptions of the various LGPS actuaries.
Property, plant and equipment & Investment Property valuation	Internal Valuers	We will review the analysis of property valuation movements available from third parties and consider the outcome of the Council's valuations in comparison with these, challenging conclusions as appropriate. We will review the Gerald Eve analysis of property valuation movements provided centrally by the NAO and consider the outcome of the Council's internal valuer's valuations in comparison with these, challenging conclusions as appropriate. Where appropriate, we will use our the in-house valuation expertise to confirm the appropriateness valuation movements and methodologies.
Treasury investments	Arlingclose	We make use of review commissioned by the NAO to review the work of management's expert.

Service Organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. We have confirmed that the Council does not make material use of service organisations.

04

Section 04:

Significant risks and other key judgement areas

4. Significant risks and other key judgement areas

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

Significant risk

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

Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement ('RMM') at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

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

Standard risk

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

Impact of the cyber-attack on the financial statements and the audit

We are aware from our engagement with the officers that the cyber-attack has resulted in a loss of some data relating to the 2020/21 financial year, specifically in respect of the systems that support housing benefits, business rates, adult social care and to a lesser extent housing. We will be engaging our IT assurance specialists in January to help us understand and document the systems, processes and controls used by the Council to prepare the 2020/21 financial statements, in particular the controls put in place post October 2020 where data was lost and systems have yet to be recovered. This work will help inform our detailed testing strategy.

The planned responses to the risks outlined on the next few pages are based on our current understanding. Where our understanding develops and suggests new risks or a change in our planned approach we will communicate promptly to the Council.

4. Significant risks and other key judgement areas

Summary risk assessment

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

1. Management override of controls
2. Valuation of property, plant and equipment
3. Valuation of Investment properties
4. Net defined benefit liability valuation
5. Collection Fund estimates
6. Housing Benefit Expenditure estimates
7. Housing Revenue Account estimates
8. Grant Accounting
9. Bank reconciliation

4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	**Management override of controls** This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. 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. We will address the risk through performing audit procedures, covering a range of areas including (but not limited to): • accounting estimates included in the financial statements for evidence of management bias; • any significant transactions outside the normal course of business; and • journals and other adjustments recorded in the general ledger in preparing the financial statements.

4. Significant risks and other key judgement areas

Significant risks (continued)

	Description	Fraud	Error	Judgement	Planned response
2	**Property, plant and equipment (PPE) valuation** The CIPFA Code requires that the carrying value of PPE should reflect the appropriate current value as at the year end. The Council has adopted a rolling revaluation model which sees other land and buildings revalued over a five year cycle, and may result in individual assets not being revalued for several years. This creates a risk that the carrying value of those assets that have not been revalued in year is materially different from the year end fair value. Land and buildings including Council dwellings are the Council's most valuable assets accounting for £3,8 billion of the Council's £4.1 billion Property, Plant and Equipment balance at 31 March 2020. In respect of Council dwellings, these are reviewed using a beacon valuation methodology, which values Council stock by grouping assets into type and using a nominated beacon asset for each group. The assessed value is uplifted based on an open market assessment then amended for an adjustment factor provided by government. Due to the high degree of estimation uncertainty associated with valuations and the fact that there were significant findings in the prior year we have determined there is a significant risk in this area.	○	●	●	We will address this risk by reviewing the approach adopted by the Council to assess the risk that assets not subject to valuation at year end are not materially misstated, and consider the robustness of that approach. We will also assess the risk of the valuation changing materially in year, considering the movement in market indices between revaluation dates and the year end, in order to determine whether these indicate that fair values have moved materially. In addition, for those assets which have been revalued during the year we will: • assess the valuer's qualifications; • assess the valuer's objectivity and independence; • review the methodology used; and • perform testing of the associated underlying data and assumptions. We will also follow up the recommendations made during the 2019/20 audit regarding PPE valuations.

4. Significant risks and other key judgement areas

Significant risks (continued)

	Description	Fraud	Error	Judgement	Planned response
3	**Investment property valuation** The CIPFA Code requires that the carrying value of investment properties should reflect fair value. For the Council's £199m of investment properties this is using market value. Due to the high degree of estimation uncertainty associated with market valuations and the issues we reported in the prior year, we have determined there is a significant risk in this area.	○	●	●	We will review the Council's approach to revaluing its investment property portfolio as at 31 March 2021 and engage our own expert to test a sample of properties to: • Review the methodology used; and • Test the underlying data and assumptions. We will also follow up the recommendations made during the 2019/20 audit regarding investment property valuations.
4	**Net defined benefit liability valuation** The latest triennial valuation of the Pension Fund which the Council has disclosed in its statements were completed at 31 March 2019. As an admitted body within each fund, the valuation also provides the basis of the associated net pension liability for the Council as at 31 March 2021. The valuation of the Council's net liabilities (£665.7m as at 31 March 2020) includes use of discount rates, inflation rates, mortality rates etc., all of which should reflect the profile of the Council's employees and other appropriate data. Due to the high degree of estimation uncertainty associated with the valuations, we have determined there is a significant risk in this area	○	○	●	We will address this risk by reviewing the controls that the Council has in place over the information sent to the Scheme Actuary by the fund administrators, the London Borough of Hackney Pension Fund and in respect of the LPFA. We will also: • assess the skill, competence and experience of the Fund's actuary; • challenge the reasonableness of the assumptions used by the actuary as part of the annual IAS 19 valuation; and • carry out a range of substantive procedures on relevant information and cash flows used by the actuary as part of the annual IAS 19 valuation.

4. Significant risks and other key judgement areas

Significant risks (continued)

	Description	Fraud	Error	Judgement	Planned response
5	**Collection Fund estimates** The cyber attack in October 2020 significantly impacted the Academy system which provides the Council with information to prepare the Collection Fund. Although the method and principles remain consistent with prior years, the loss of data from Academy and the recovery actions that are still in progress mean that the Council has been required to make more material estimates in the Collection Fund. As a result we have determined that the material estimation within the Collection Fund represents a significant audit risk.	○	○	●	We will review the estimation techniques deployed by officers to derive the material estimates within the Collection Fund. We will meet the revised requirements of the auditing standard in respect of accounting estimates and seek to: • Understand and document the estimation methods applied; • Consider and challenge the appropriateness of the data used; • Consider and challenge the reasonableness of assumptions made; and • Apply professional scepticism to the above.
6	**Housing Benefits Expenditure** For the same reasons outlined above, we have determined that the material estimation in relation to housing benefit expenditure represents a significant audit risk.	○	○	●	We will review the estimation techniques deployed by officers to derive the housing benefit expenditure entries within the Collection Fund. We will meet the revised requirements of the auditing standard in respect of accounting estimates and seek to: • Understand and document the estimation methods applied; • Consider and challenge the appropriateness of the data used; • Consider and challenge the reasonableness of assumptions made; and • Apply professional scepticism to the above.

4. Significant risks and other key judgement areas

Significant risks (continued)

	Description	Fraud	Error	Judgement	Planned response
7	**Housing Revenue Account (HRA)** The cyber attack in October 2020 impacted the Universal Housing system which provides the Council with information to prepare the HRA. Whilst we are aware that the Council is replacing the UH system and has been able to recover information there remains an increase in the extent of estimation used in preparing the HRA. As a result we have determined that the material estimation within the HRA represents a significant audit risk.	○	○	●	We will review the estimation techniques deployed by officers to prepare the HRA. We will meet the revised requirements of the auditing standard in respect of accounting estimates and seek to: • Understand and document the estimation methods applied; • Consider and challenge the appropriateness of the data used; • Consider and challenge the reasonableness of assumptions made; and • Apply professional scepticism to the above.

4. Significant risks and other key judgement areas

Other key areas of management judgement and enhanced risks

	Description	Fraud	Error	Judgement	Planned response
8	**Grant accounting** In common with other councils, the Council has received a significant level of Covid-19 related government grants during the financial year. Some of these grants have specific conditions for their use and others the Council has discretion on its use. As a result, the Council needs to make a judgement on how it accounts for each type of grant and in particular a judgement on whether the Council is acting as the principal (which impacts the Councils accounts) or agent (which has less of a financial reporting impact) in respect of each grant.	○	○	●	We will discuss the Council's approach to considering the terms and conditions associated with each of the grants received, and its associated proposals for accounting, ensuring these accounting proposals are in line with the requirement as set out in the CIPFA Code.
9	**Bank reconciliation** Our final report to those charged with governance on the 2019/20 audits, identified internal control recommendations regarding the reconciliations of the Council's bank accounts (not including schools). Given the complexity of the process, the risk of human error in manual transactions and the importance of controls operating effectively over cash, we have identified an enhanced risk in this area.	○	●	○	We will: • Follow up the agreed recommendations from the 2019/20 audit; • Review the processes and controls in place for documenting the bank reconciliation, ensuring there is a clear trail of how the Council bank balance ties back to the Council's ledger; and • Substantively test the balances per the bank statement and the ledger and confirm reconciling items have been appropriately accounted for.

05

Section 05:

Value for Money

5. Value for Money

The framework for Value for Money 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 risk
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.

Planning and risk assessment	Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include: • NAO guidance and supporting information • Information from internal and external sources including regulators • Knowledge from previous audits and other audit work undertaken in the year • Interviews and discussions with staff and members
Additional risk based procedures and evaluation	Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.
Reporting	We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report. Our commentary will also highlight: • Significant weaknesses identified and our recommendations for improvement • Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.

Status of the VFM work

We have yet to commence our planning and risk assessment work. We will report the results of our planning and risk assessment work to the next 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

We are in the process of agreeing a divergence from the scale fees set by PSAA, as a result of changes in the scope of our work arising from a new NAO Code, revisions to auditing standards and increased regulatory requirements. We are also in the process of agreeing the impact of these with the Group Director of Finance and Resources on the final fee for 19/20 and the proposed fee for 2020/21. Please note that audit time responding to correspondence from the public will necessitate an additional audit fee.

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Code Audit Work (Scale fee)	£174,266	£174,266
Additional fees:		
- PPE & IP valuations – use of our expert (Note 1)	TBC	£6,016
- Impact of C-19 (Note 2)	TBC	£4,512
- Group accounts (Note 3)	£5,000-7,000	£5,062
- Increased regulatory requirements (Note 4)	£5,000-6,000	£5,075
- Cyber-attack review (Note 5)	-	£10,085
- Code changes to value for money (Note 6)	£9,000-£30,000	-
- Revised auditing standard on accounting estimates (Note 7)	£4,400-£10,000	-
- Additional work to address significant risks, new enhanced risks and reduction in the level of performance materiality (Note 8)	TBC	-
TOTAL	**TBC**	**£205,616**

Notes:

1. We have engaged our own expert on PPE valuations given the issues we identified.
2. We were required to revisit and update our risk assessments and audit strategy in light of the impact of C-19 on the Council's statement of accounts.
3. We are required to carry out additional procedures on the group accounts and the consolidation process.
4. Since the latest PSAA contract was awarded there have been significant changes to the requirements on auditors by regulators. This has resulted in additional procedures and additional internal review.
5. For 2019/20 we engaged our cyber security specialists to review the Council's arrangements as they related to the cyber-attack.
6. The Code introduces new VFM requirements. We have used the PSAA range plus an estimate of work to address significant weaknesses in arrangements if identified by the risk assessment.
7. As outlined on page 9, revisions to ISA 540 apply to the 2019/20 audit and we have used the PSAA minimum level of additional fees as the lower end of the proposed range.
8. This memorandum includes significant risks, new enhanced risks and a lower level of performance materiality which increases the audit work we need to carry out. The additional work falls within the PSAA criteria of fee variations. We will quantify this when we design our specific procedures.

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 Actual Fee
Other services - Housing Benefits Subsidy Assurance	TBC	£22,000
Other services - Teachers' Pensions	£3,900	£3,750
Other services - Pooled Housing Capital Receipts	TBC	£4,550
Other services - GLA Housing return	£6,000	N/A

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 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 Suresh in the first instance.

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

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

08

Section 08:

Materiality and other misstatements

8. Materiality and misstatements

Summary of initial materiality thresholds:

Threshold	Initial threshold
Overall materiality	£20,265,000
Performance materiality	£10,132,000
Trivial threshold for errors to be reported to Audit Committee	608,000

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;
- Recognize 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 of £1.351bn in the draft 2020/21 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 the Audit and Corporate Governance.

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.

8. Materiality and misstatements

Materiality (continued)

We have set a materiality threshold at 1.5% of Gross Revenue Expenditure. This is constant from the prior year. We will 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. Given the increased use of material accounting estimates and the errors we identified in the prior year our initial assessment of performance materiality is based on high inherent risk, meaning that we have applied 50% of overall materiality as performance materiality. This is lowest percentage we can apply under the firm's methodology

Specific Materiality

Auditing standards enable us to set specific materiality (lower than performance materiality) for items of account or disclosures that we consider to be politically sensitive and/or of more interest to the user of the accounts. In common with most other local councils to have identified the following disclosures in the accounts where we will apply a specific materiality threshold for our audit procedures:

- Officers' remuneration.
- Related parties.

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 and Corporate Governance 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 £643k based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Suresh.

Reporting to the Audit Committee

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).

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Appendix: Key communication points

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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 several 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: • 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: • Enquiries of the Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • A discussion of any other matters related to fraud.	Audit Completion Report and discussion at the Audit Committee. Audit Planning and Clearance meetings

Appendix: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and • Difficulty in identifying the party that ultimately controls the entity.	Audit Completion Report
Significant findings from the audit including: • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Significant difficulties, if any, encountered during the audit; • Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit Committee in the context of fulfilling their responsibilities.	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report

Appendix: Key communication points

Required communication	Where addressed
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 and Corporate Governance 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.	Audit Completion Report and the Audit Committee meetings
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: • 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.	Audit Completion Report
Reporting on the valuation methods applied to the various items in the consolidated financial statements including any impact of changes of such methods	Audit Completion Report
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.	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
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	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report

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