

Audit Strategy Memorandum

Trafford Metropolitan Borough Council

Year ending 31 March 2019





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This document is to be regarded as confidential to Trafford Metropolitan Borough Council. It has been prepared for the sole use of the Accounts and Audit Committee as the appropriate sub-committee 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.

Accounts and Audit Committee
Trafford Metropolitan Borough Council
Trafford Town Hall
Talbot Road
Stretford
M32 0TH

29 January 2019

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2019

We are pleased to present our Audit Strategy Memorandum for Trafford Metropolitan Borough Council for the year ending 31 March 2019.

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

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

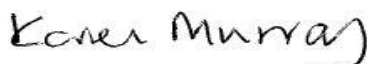
- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external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

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

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

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0161 238 9248.

Yours faithfully



Karen Murray, Director and Engagement Lead

Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Trafford Metropolitan Borough Council (the Council) for the year to 31 March 2019. 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/audit-quality/statement-of-responsibilities/>

Our responsibilities

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

Audit opinion

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

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

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.

Value for Money

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 6 of this report.

Electors' rights

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

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

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

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



2. YOUR AUDIT ENGAGEMENT TEAM



- **Karen Murray, Director and Audit Engagement Lead**
- E: karen.murray@mazars.co.uk
- T: 0161 238 9248 M: 07721 234043



- **Tommy Rooney, Manager**
- E: tommy.Rooney@mazars.co.uk
- T: 0151 237 2204 M: 07909 986586



- **Anna-Maria Delcheva, Audit Senior**
- E: anna.delcheva@mazars.co.uk
- T: 0161 238 9238 M: 07909 981394

In addition as outlined in our engagement pack an engagement quality control reviewer (EQCR) has been appointed for this engagement.

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

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

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

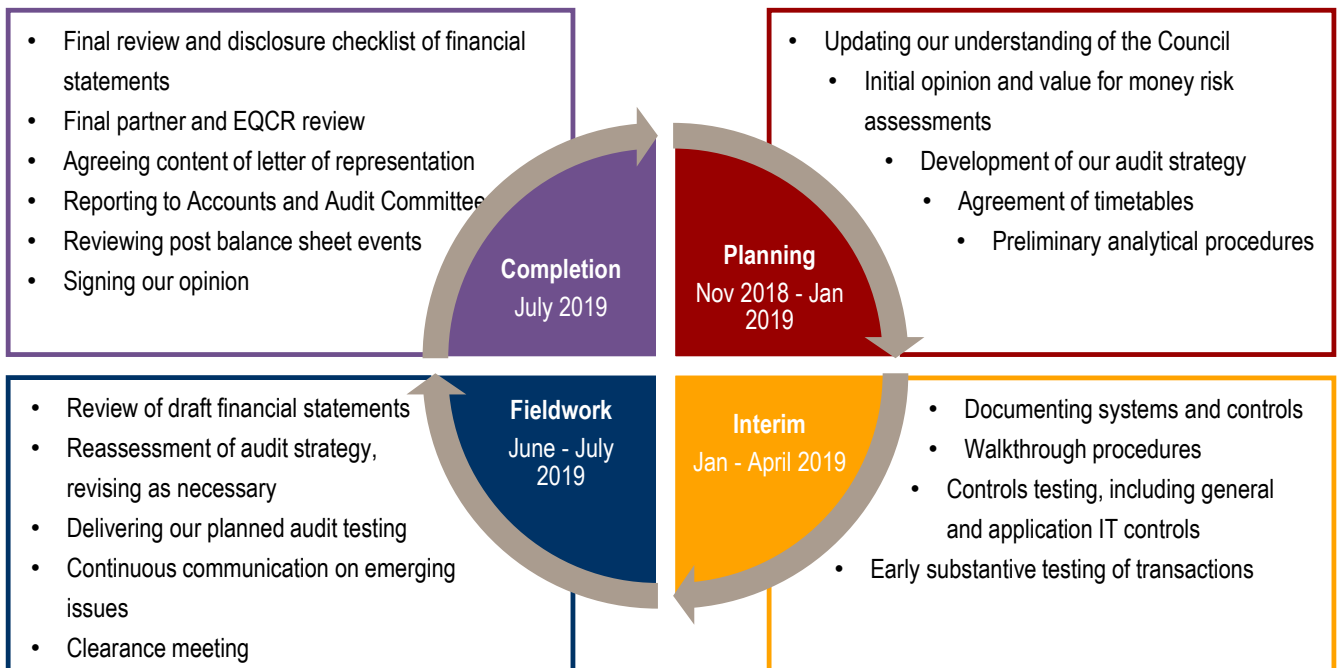
Audit approach

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

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

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 4.

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



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

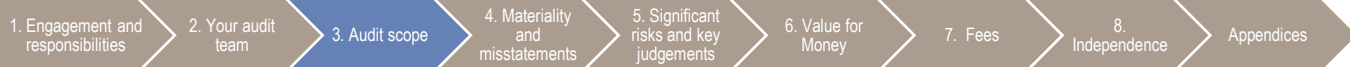
Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

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

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability	Hymans Robertson	PWC are commissioned as consulting actuary by the National Audit Office on our behalf
Property, plant and equipment valuation	Amey Consulting	We will use available third party information to challenge the key valuation assumptions
Valuation of shareholding in Manchester Airport Holding Limited	BDO LLP	In-house Mazars valuation expert
Fair value of financial assets and liabilities	Link Assets Services	We will review the valuer's methodology to gain assurance that the fair value disclosures of the Council's financial assets and liabilities are materially correct.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Group audit approach

The Council's group structure for 2018/19 will include one wholly owned subsidiary company, Trafford Leisure Community Interest Company. In auditing the accounts of the Council's Group financial statements we need to obtain assurance over the transactions in the Group relating to the Council's subsidiary company.

Our approach will reflect the size and complexity of the transactions from the subsidiary company that are consolidated into the Council's Group financial statements. Based on our planning discussions and review of previous year's accounts, we do not consider Trafford Leisure Community Interest Company to be a significant component. Our plan, based on our initial understanding and the values reported in the prior year financial statements is that we will obtain assurance from analytical procedures and we do not plan to obtain specific assurance from the component auditors of the company.

We have not identified any significant risks for Group accounts purposes in relation to Trafford Leisure Community Interest Company. The significant risks and areas of audit focus for the Council as a single-entity are set out in section 5. Based on our initial planning discussions we do not consider these significant risks to be risks for the component subsidiary company.

On 20 March 2018 the Council set up a joint venture with Bruntwood (K Site Ltd) called Trafford Bruntwood LLP to deliver a new university campus on the former Kelloggs headquarters site at Talbot Road Stretford. The entity did not form part of the Council's group accounts in 2017/18. Management are assessing the appropriate accounting treatment and disclosures relating to the joint venture for 2018/19. We will review management's proposed accounting treatment and assumptions once this assessment has been completed.



4. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Group materiality	Council single-entity materiality
Overall materiality	£9,035,000	£8,896,000
Performance materiality	£6,324,000	£6,227,000
Trivial threshold for errors to be reported to the Accounts and Audit Committee	£271,000	£267,000

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;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

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

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

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

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

Our provisional materiality is set based on a benchmark of the 2017/18 gross expenditure at Surplus/Deficit on Provision of Services level. We have calculated a headline figure for materiality but have also identified separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Accounts and Audit Committee.

We consider that gross expenditure at the Surplus/Deficit on Provision of Services level is the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark. We have not identified any qualitative factors which were considered relevant in setting the level of materiality.



4. MATERIALITY AND MISSTATEMENTS (CONTINUED)

We have set our materiality threshold at 1.75% of the benchmark based on the 2017/18 audited financial statements.

Based on the 2017/18 financial statements we anticipate the overall materiality for the 2018/19 to be £9.035 million for the audit of the Group financial statements and £8.896m for the audit of the Council's single entity financial statements.

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. In setting performance materiality we have taken into account that this is our first year of audit and accordingly we do not hold extensive cumulative audit knowledge about the Council's financial statements. We have therefore set our performance materiality at 70% of our overall materiality (£6.324 million for the Group and £6.227m for the Council single entity financial statements). As with overall materiality, we will remain aware of the need to change this performance materiality level through the audit to ensure it remains to be set at an appropriate level.

Specific items of lower materiality

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

Item of account	Specific materiality
Officer Remuneration bandings	£5,000 *

* Reflecting movement from one salary band to another

Reporting Misstatements Threshold

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Accounts and 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 £271,000 for the Group and £267,000 for the Council single-entity financial statements based on 3% of overall materiality.

Reporting to the Accounts and Audit Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Accounts and Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).



5. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

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

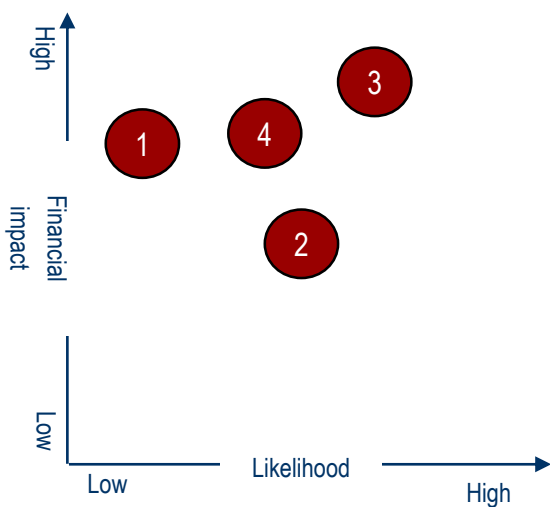
Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to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

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

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

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

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



Risk	
1	Management override of control
2	Revenue recognition
3	Property, plant and equipment valuation
4	Defined benefit liability valuation

5. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

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

	Description of risk	Planned response
1	<p>Management override of controls</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>	<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.</p>
2	<p>Revenue recognition</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. Based on our initial knowledge and planning discussions we have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Council's revenue income and expenditure. We will carry out further detailed planning work to confirm that we can also rebut the risk in relation to the income categorised as fees and charges.</p>	<p>We plan obtain a detailed understanding of the fees and charges income sources, so we can confirm that it is appropriate to rebut the risk of revenue recognition for all areas of income. Our audit approach will however incorporate testing from payments and receipts around the year-end to provide assurance that there are no material unrecorded items of income and expenditure in the 2018/19 accounts.</p>
3	<p>Property, plant and equipment valuation</p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the current value/fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued in a five year cycle.</p> <p>The valuation of Property, Plant & Equipment involves the use of a management expert (the valuer), and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process.</p> <p>As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct value. In addition, as the valuations are undertaken through the year there is a risk that the value of the assets is materially different at the year end.</p>	<p>In relation to the assets which have been revalued during 2018/19 we will assess the Council's valuer's qualifications, objectivity and independence to carry out such valuations, and review the valuation methodology used, including testing the underlying data and assumptions. We will also critically assess the appropriateness of the underlying data and the key assumptions used in the valuer's calculations, using available third party evidence.</p> <p>We will review the approach that the Council has adopted to address the risk that assets not subject to valuation in 2018/19 are materially misstated and consider the robustness of that approach in light of the valuation information reported by the Council's valuers.</p> <p>In addition, we will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.</p>



5. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks (continued)

	Description of risk	Planned response
4	<p>Valuation of Defined Benefit Pension Liability</p> <p>The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of Greater Manchester Pension Fund, which had its last triennial valuation completed as at 31 March 2016.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2018/19.</p> <p>On 26 October, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits, ('GMP'). The Government will need to consider this outcome in conjunction with the Government's recent consultation on GMP indexation in public sector schemes before concluding on any changes required to LGPS schemes. If there are any changes / impacts for LGPS funds it would impact on the actuarially assessed liabilities.</p>	<p>In relation to the valuation of the Council's defined benefit pension liability we will:</p> <ul style="list-style-type: none"> Critically assess the competency, objectivity and independence of the Greater Manchester Pension Fund's Actuary, Hymans Robertson; Liaise with the auditors of the Greater Manchester Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate; Test payroll transactions at the Council to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by the Council; Review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; Agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements. <p>We will also discuss with management the implications of GMP equalisation in the light of any further clarification on the impact for LGPS schemes, and how this is being addressed with the scheme actuary.</p>

5. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Enhanced risk

	Description of risk	Planned response
1	<p>Valuation of Airport Share</p> <p>The Council's shareholding in the Manchester Airport Holdings Group Limited (MAHG Ltd.) has been valued by a firm of financial experts, engaged by management, based on assumptions about financial performance, stability, and key business projections. The figure disclosed in your accounts in relation to MAHG Ltd. is at fair value.</p> <p>There is a risk that the assumptions and methodology used by your experts are not appropriate and we will need to obtain assurance that accounting entries are not materially misstated.</p>	<p>We plan to address this risk by</p> <ul style="list-style-type: none"> Assessing the scope of work/terms of engagement, qualifications, objectivity and independence of the expert engaged to carry out the valuation assessment of the airport shares. Utilising the services of our internal valuation expert to review the work completed by management's expert and evaluate the appropriateness of the assumptions applied to arrive at the figure in the financial statements.

6. VALUE FOR MONEY

Our approach to Value for Money

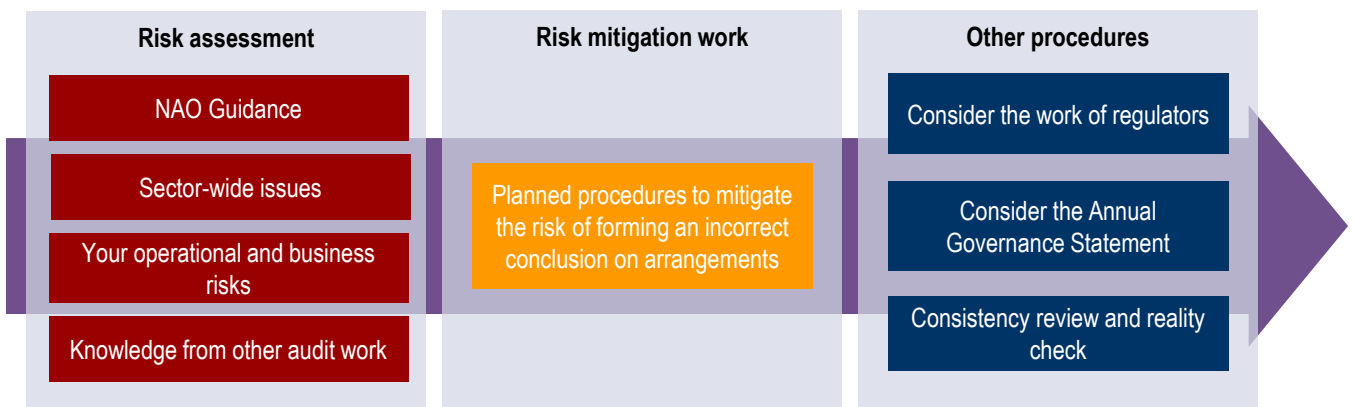
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria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

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

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

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

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



Significant Value for Money risks

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

For the 2018/19 financial year, we have identified the following significant risks to our VFM work:

Description of significant risk	Planned response
<p>Financial budget pressures</p> <p>The Council's future budgets remain challenging with a forecast funding gap of £41m in the Medium Term Financial Strategy to 2022. Proposals have been put forward for 2019/20 which will reduce the gap by £16.03m through additional funding, income generation and new savings, leaving residual budget gaps £2.36m in 2019/20, £10.38m in 2020/21 and £12.61m in 2021/22. Currently the Council forecasts a small revenue saving of £28k at the end of 2018/19 and so close monitoring and management of budget pressures will be required to maintain a balanced position.</p>	<p>We will monitor the Council's budgetary performance and financial planning and consider the processes established by the Council to identify, manage and monitor revenue pressures and savings proposals to deliver a balanced position for 2018/19 and address the forecast budget gap to 2022.</p>



6. VALUE FOR MONEY (CONTINUED)

Significant Value for Money risks (continued)

Description of significant risk	Planned response
<p>Investment Strategy</p> <p>The Council has developed its investment strategy to support its financial resilience and address funding gaps. The fund currently totals £300m with plans for it to increase to £400m in 2019/20 and £174.2m investment commitments to date.</p>	<p>We will review the governance arrangements in place for the identification, evaluation and approval of investments from the fund and subsequent monitoring and reporting of investment performance against expected returns.</p>
<p>Health and Social Care Integration: working with partners</p> <p>The Council is working with Trafford CCG and other partners towards the integration of health and social care to help secure a sustainable health and social care economy by 2021 by putting in place an integrated organisation for the Council and the CCG and a new model of care for community health, primary care and social care services. The Council and the CCG are also developing a single integrated strategic commissioning function, and a joint Chief Financial Officer has been appointed and is operating across the two organisations as part of these more integrated working arrangements.</p>	<p>We will review the arrangements in place for the Council to work with its partners to deliver transformation and efficiencies in the provision of health and social care services.</p>

7. 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 as communicated in our fee letter of 24 April 2018.

Service	2017/18 fee	2018/19 fee
Code audit work	£118,192	£91,008

Fees for non-PSAA work

We have not been engaged by the Council to carry out any additional work over and above the audit of the Council's statutory audit. In particular the Council has engaged a different audit firm to provide the assurance work on the Housing Benefit Subsidy claim and Teachers' Pensions return for 2018/19.

Should we be engaged to undertake any additional work we will 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 8.

8. OUR COMMITMENT TO INDEPENDENCE

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

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

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

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

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

Prior to the provision of any non-audit services Karen Murray 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.

APPENDIX A – KEY COMMUNICATION POINTS

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

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Changes relevant to 2018/19

IFRS 9 Financial Instruments - the standard replaces IAS 39 and introduces significant changes to the recognition and measurement of the Council's financial instruments, particularly its financial assets.

Although the accounting changes may be complex and may require the reclassification of some instruments, it is likely that the Council will continue to measure the majority of its financial assets at amortised cost.

For Councils that hold instruments that will be required to be measured at fair value under the new standard, there may be instances where changes in these fair values are recognised immediately and impact on the general fund. Statutory provisions have been put in place for a five year period to mitigate this impact.

IFRS 15 Revenue from Contracts with Customers - the 2018/19 Code also applies the requirements of IFRS 15, but it is unlikely that this will have significant implications for most local authorities.

There are no other significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2018/19.

Changes in future years

Accounting standard	Year of application	Implications
IFRS 16 – Leases	2020/21 (public sector)	<p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17.</p> <p>Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed.</p> <p>The introduction of this standard is likely to lead to significant work being required in order to identify all leases to which the Council (and its schools) are party to.</p> <p>In December 2018 CIPFA announced its decision to delay implementation of IFRS 16 until 2020/21, to mirror the timetable now being used across the bulk of the public sector. However, where a public sector body has a subsidiary that reports under FRS 101, then the subsidiary will need to adopt IFRS 16 in 2019/20 in its single entity statements. There may be additional consolidation adjustments required as a result of this difference in accounting policy between group entities.</p>