

Audit Strategy Memorandum

Cheshire East Council

Year ending 31 March 2022



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This document is to be regarded as confidential to Cheshire East Council. It has been prepared for the sole use of the Audit and Governance 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.

Audit and Governance Committee
Cheshire East Council
Westfield, Middlewich Road.
Sandbach. CW11 1HZ

20 July 2022

Dear Sirs/ Madams

Audit Strategy Memorandum – Year ending 31 March 2022

We are pleased to present our Audit Strategy Memorandum for Cheshire East Council for the year ending 31 March 2022. 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 Cheshire East 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 07795 506766.

Yours faithfully

Mark Dalton
Mazars LLP

Mazars LLP
5th Floor
3 Wellington Place
Leeds
LS1 4AP

01

Section 01:

**Engagement and
responsibilities summary**

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Cheshire East Council (the Council) for the year to 31 March 2022. 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.

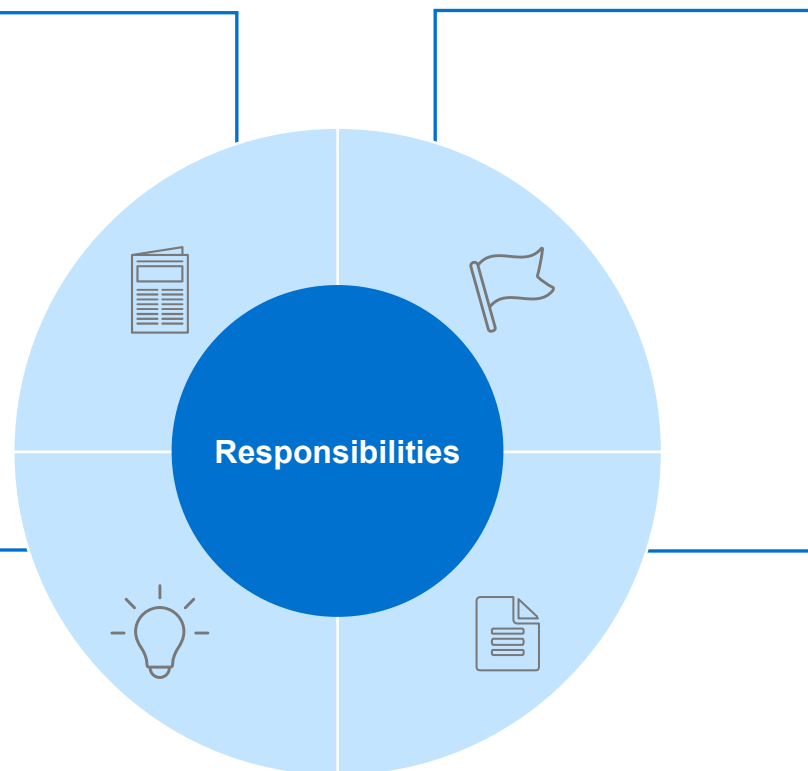
Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Audit and Governance Committee, as those charged with governance, of their responsibilities.

The Director of Finance & Customer Services 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 to conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the Director of Finance & Customer Services use of the going concern basis of accounting in the preparation of the financial statements.

Value for money

We are also responsible for forming a commentary 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

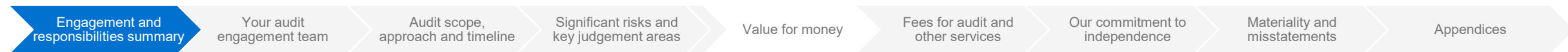
The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management 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.

Wider reporting and electors' rights

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

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

Your external audit service continues to be led by Mark Dalton. A summary of key team members are detailed below:

Who	Role	E-mail
Mark Dalton	Engagement Lead	mark.dalton@mazars.co.uk
Muhammad Uzair Khan	Engagement Senior Manager	muhammad-uzair.khan@mazars.co.uk
Katie Kingston	Engagement In-charge	katie.kingston@mazars.co.uk

As the Council meets the criteria of a Major Local Audit under the Local Audit Act 2014, per the Firm’s quality management arrangements, an engagement quality control reviewer (EQCR) has been appointed. They will work with the engagement lead and the team, but have no direct engagement with the Council.



Engagement and responsibilities summary	Your audit engagement team	Audit scope, approach and timeline	Significant risks and key judgement areas	Value for money	Fees for audit and other services	Our commitment to independence	Materiality and misstatements	Appendices
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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 activities 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.

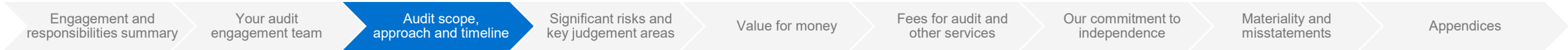
Audit approach

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. 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

The Department for Levelling Up, Housing and Communities (DLUHC) have confirmed that audited accounts for local authorities for 2021/22 are required by 30 November 2022 with draft accounts required by 31 July 2022. We will work with the Authority to agree a detailed plan to help ensure that it can meet the submission dates

Planning March

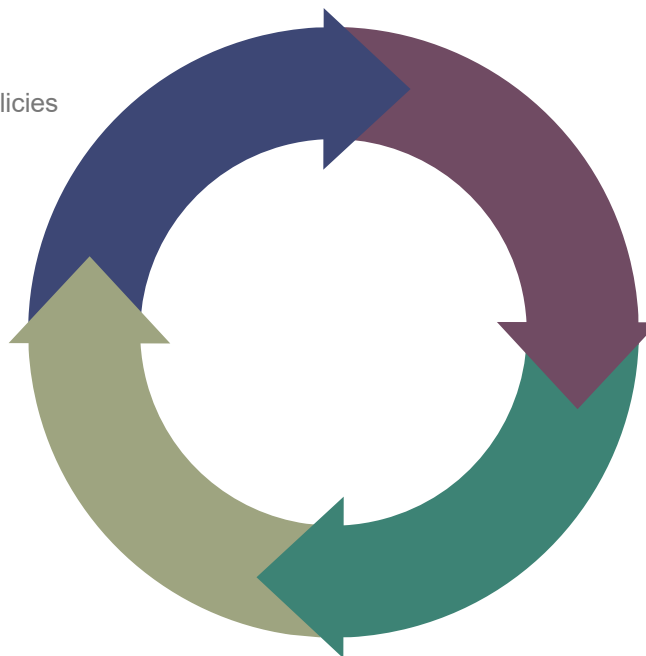
- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Completion November

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

Value for Money

We plan to complete and report our Value for Money arrangements work within three months of our audit opinion, per National Audit Office (NAO) guidance. See section 5 of this report for more details of our work in this area.

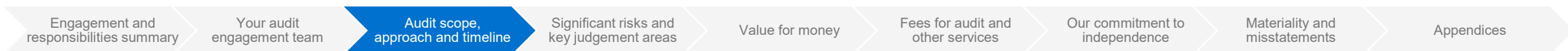


Interim March – April

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

Fieldwork September - October

- 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

Working with 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.

Management’s and our experts

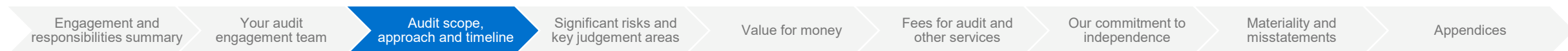
Management makes use of experts in specific areas when preparing the [Council]’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management’s expert	Our expert
Defined benefit liability	Hyman & Robertson Actuaries	PwC, consulting actuary, on behalf of National Audit Office
Property, plant and equipment valuation	Montagu Evans and Farms Estate Shared Service	We will use available third-party information to challenge the key valuation assumptions.
Financial instrument disclosures	Arlingclose Treasury Advisors	We will review the expert’s methodology in calculating the fair value disclosures to confirm the reasonableness of assumptions used

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. The table below summarises the service organisations used by the [Council] and our planned audit approach.

Items of account	Service organisation	Audit approach
Payroll, non-pay expenditure and other transactional items of account	Cheshire transactional services shared services	We plan to obtain assurance by understanding the process and controls that the Council has in place to assure itself that transactions are processed materially correctly. Our testing will include sample testing of transactions based on evidence available from the Council rather than the Shared Service.



3. Audit scope, approach and timeline

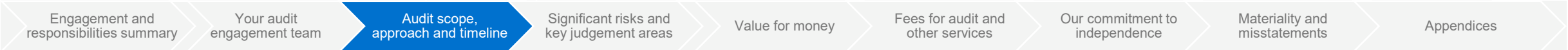
Group audit approach

Cheshire East Council prepares Group accounts and consolidates the following subsidiary companies within its Group accounts:

- Cheshire East Resident First Limited (CERF); 100% owned by Council
- ANSA Environmental Services Limited; 80% owned by CERF and 20% by Council.
- Transport Service Solutions Limited; 80% owned by CERF and 20% by Council
- Orbitas Bereavement Services Limited; 80% owned by CERF and 20% by Council

Our approach will reflect the size and complexity of the transactions and balances within 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 consider ANSA Environmental Services Limited to be a significant component within the group structure.

Entity	Location	Auditor	Scope
Cheshire East Council	UK	Mazars LLP	Full
Cheshire East Resident First Limited (CERF)	UK	Grant Thornton LLP	CERF is wholly owned by Cheshire East Council and acts as a holding company for the Council owned companies. Analytical procedures supported by a review of the Council’s consolidation processes (plus the specific audit procedures detailed below for ANSA Environmental Services Limited).
ANSA Environmental Services Limited	UK	Grant Thornton LLP	Performing specific audit procedures over those balances which are material to the group accounts and undertaking analytical procedures supported by a review of the Council’s consolidation.
Transport Service Solutions Limited	UK	Grant Thornton LLP	Analytical procedures supported by a review of the Council’s consolidation processes.
Orbitas Bereavement Services Limited	UK	Grant Thornton LLP	Analytical procedures supported by a review of the Council’s consolidation processes.



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 risks relevant 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 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:

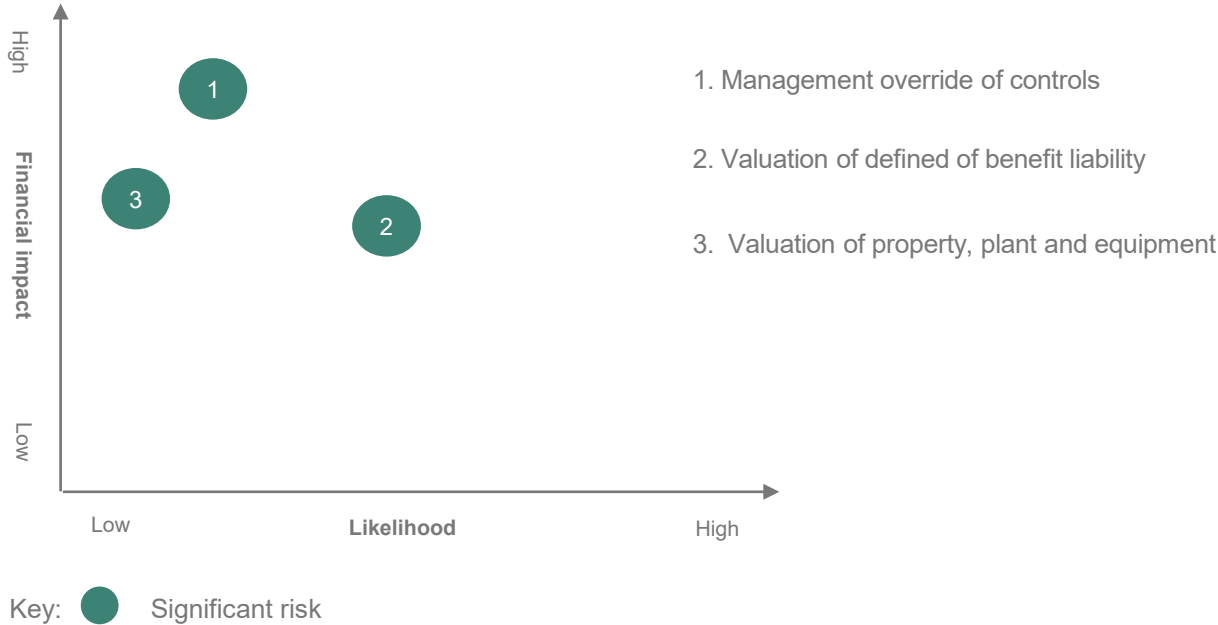
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

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.

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.



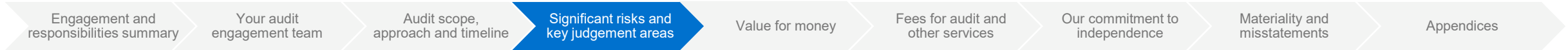
4. Significant risks and other key judgement areas

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 and Governance Committee.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	<p>Management override of controls 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>Valuation of defined benefit liability</p> <p>The pension liability represents a material element of Cheshire East Council's balance sheet. The Council is an admitted body of the Cheshire Pension Fund (CPF), which had its last triennial valuation completed as at 31 March 2019.</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, 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 2021/22.</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 Cheshire Pension Fund's Actuary, Hyman Robertson; liaise with the auditors of the Cheshire 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; 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; and agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

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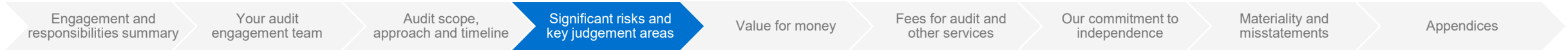
Materiality and misstatements

Appendices

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	<p>Valuation of property, plant and equipment (Land & buildings and investment properties)</p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the 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 which reflect the significant impact of the valuation judgements and assumptions and the degree of estimation uncertainty.</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 fair value. In addition, as the valuations are undertaken through the year there is a risk that the fair value of the assets is materially different at the year end.</p>	○	●	●	<p>In relation to the assets which have been revalued during 2021/22, including investment properties, 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.</p> <p>Considering whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA code of practice and the Council's accounting policies.</p> <p>We will review the approach that the Council has adopted to address the risk that assets not subject to valuation in 2021/22 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>



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.

2021/22 will be the second audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Council has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report.

Specified reporting criteria

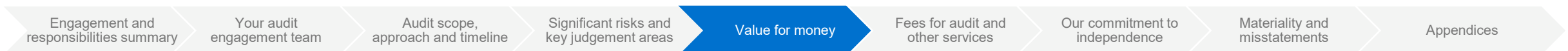
The Code requires us to structure our commentary to report under three specified criteria:

- 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.

<p>Planning and risk assessment</p>	<p>Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include:</p> <ul style="list-style-type: none"> • 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
<p>Additional risk based procedures and evaluation</p>	<p>Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.</p>
<p>Reporting</p>	<p>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.</p> <p>Our commentary will also highlight:</p> <ul style="list-style-type: none"> • 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.

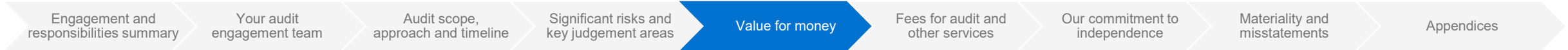


5. Value for money

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.

At this stage we have not fully completed our planning and risk assessment work. We have not identified any risks of significant weaknesses in arrangements to date. We will report any identified risks to the Audit and Governance Committee on completion of our planning and risk identification work.



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

Details of the proposed 2020/21 and 2021/22 fees are set out below. Our work in respect of 2020/21's Value for Money arrangements and the Whole of Government Accounts return remains in progress. We will update the Committee on the final agreed 2020/21 fee in our Auditor's Annual Report

Area of work	2021/22 Proposed Fees	2020/21 Proposed Fee
Scale audit fee	£119,034	£119,034
<i>Fee variations*:</i>		
Additional Testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes as a result of changes in regulatory expectations	£7,952 ¹	£7,952
Additional testing as a result of the implementation of new auditing standards: ISA 220 (Revised): Quality control of an audit of financial statements; ISA 540 (Revised): Auditing accounting estimates and related disclosures; ISA570 (Revised) Going Concern; and ISA 600 (Revised): Specific considerations – audit of group financial statements	£2,000 ²	£2,000
Additional Value for Money work arising from the change in the Code of Audit Practice	£15,000 ³	£15,000
Other additional costs (2020/21 relates to additional audit work on the Council's new financial management system implemented in 2020/21 and enquiries from and correspondence with a local elector)	TBC	£15,000
Total	£143,986⁴	£158,986

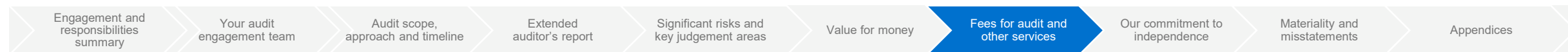
¹ As previously reported to you, the scale fee requires adjusting to take into account the additional work required as a result of increased regulatory expectations in these areas.

² As previously reported to you, new auditing standards were introduced in 2020/21 which lead to additional audit work not reflected in the scale fee.

³ As previously reported to you, the scale fee requires adjustment to take into account the additional work to support our reporting on the Council's value for money arrangements following the change to the NAO Code of Practice in 2020/21. This fee is based on there being no risks of significant weakness in the Authority's arrangements. The final fee, taking into account the extent, and complexity of, any significant weaknesses in arrangements, will be discussed with management.

⁴ This is a proposed fee for 2021/22 at the point of the issue of our ASM. This figure is subject to change and any additional costs will be discussed with management.

* Fee variations are subject to approval and confirmation by the Public Sector Audit Appointments Ltd (PSAA).



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:

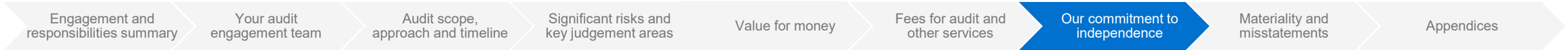
- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the 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 Mark Dalton in the first instance.

Prior to the provision of any non-audit service Mark Dalton 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 misstatements

8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Group materiality £'000s	Council single entity materiality £'000s
Overall materiality	15,500	15,000
Performance materiality	11,625	11,250
<i>Specific materiality:</i>		
Specifically in relation Senior Officers remuneration (exit packages) and Members allowance	5	5
Related party	_*	_*
Trivial threshold for errors to be reported to the Audit and Governance Committee.	465	450

*The materiality threshold in relation to related party will be determined based on the nature of relationship with the third party.

Materiality

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

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

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

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

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

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

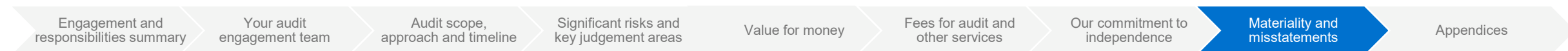
Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and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

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

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

Our provisional materiality is set based on a benchmark of gross expenditure at the surplus/deficit on provision of services level. 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 Governance Committee.

We consider that the gross 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 expect to set a materiality threshold at 2% of gross expenditure at the surplus/deficit on provision of services. Based on final draft Statement of Accounts 2020/21, we anticipate the overall materiality for the year ending 31 March 2022 to be in the region of £15m (£14m the prior year) for the single entity and £15.5m (£14.1m in the prior year) for the group accounts.

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.

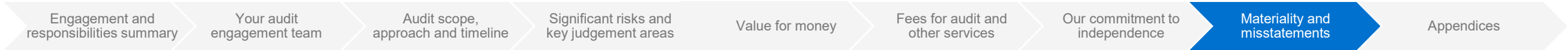
Misstatements

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 Governance 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 £450k for the single entity accounts and £465k for the group accounts based on 3% of overall materiality. If you have any queries about this, please do not hesitate to raise these with Mark Dalton.

Reporting to the Audit and Governance Committee

The following three types of audit differences above the trivial threshold will be presented to the Audit and Governance 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:

- Audit Strategy Memorandum;
- 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.

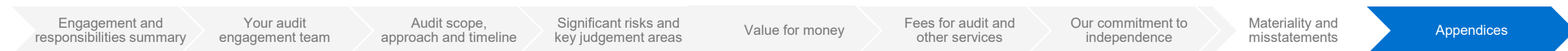
Key communication points at the planning stage as included in this Audit Strategy Memorandum

- 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

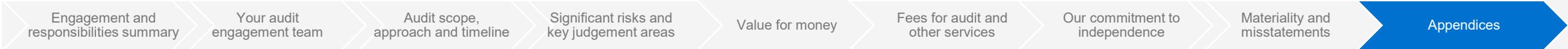
- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft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



Appendix: Key communication points

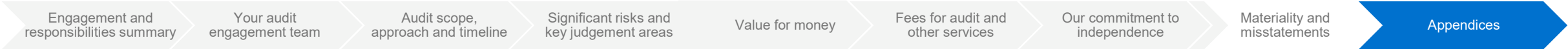
ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

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 and Governance 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 and Governance Committee, Audit planning and clearance meetings



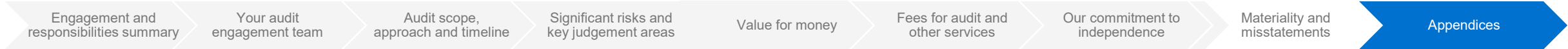
Appendix: Key communication points

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 and Governance 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 and Governance 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 and Governance Committee may be aware of.</p>	<p>Audit Completion Report and the Audit and Governance 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 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.