

# Audit Strategy Memorandum

Manchester City Council

Year ending 31 March 2023



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This document is to be regarded as confidential to Manchester City Council. It has been prepared for the sole use of the 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. Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at 30 Old Bailey, London EC4M 7AU.

We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861. VAT number: 839 8356 73

Dear Audit Committee Members

## **Audit Strategy Memorandum – Year ending 31 March 2023**

We are pleased to present our Audit Strategy Memorandum for Manchester City Council for the year ending 31 March 2023. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 8 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Manchester City 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 and explains the implications of the introduction of the revised auditing standard for Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019).

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 +44 (0) 7977 261 873.

Yours faithfully



Suresh Patel

2 February 2024

# 01

Section 01:

**Engagement and  
responsibilities summary**

# 1. Engagement and responsibilities summary

## Overview

We are appointed to perform the external audit of Manchester City Council (the Council) for the year to 31 March 2023. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.



### Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting. Our audit does not relieve management or Audit Committee, as those charged with governance, of their responsibilities.

Deputy Chief Executive and City Treasurer is responsible for the assessment of whether it is appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the Deputy Chief Executive and City Treasurer's 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 6 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 [include Internal audit, other key individuals where relevant] 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

Below is your audit engagement team and their contact details.



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**Engagement Partner**

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We have made a change to your Engagement Senior Manager with Amelia Salford replacing Alastair Newall. Amelia joined the firm in 2019 and has 10 years' experience auditing large councils.

We provide continuity in the team with Suresh Patel remaining as your Engagement Partner.

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 reviewer (EQR) 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 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.

The Council are classed as a Public Interest Entity (PIE) due to having listed debt. The balance of listing debt is reducing and is now less than £1m. However, the loan stock is unlikely to ever be completely eliminated. Consequently, the remaining listed debt means that the Council is classed a Public Interest Entity (PIE) and our audit approach reflects the extra requirements for a PIE.

## 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 the risks identified.

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 9.

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

### 3. Audit scope, approach and timeline

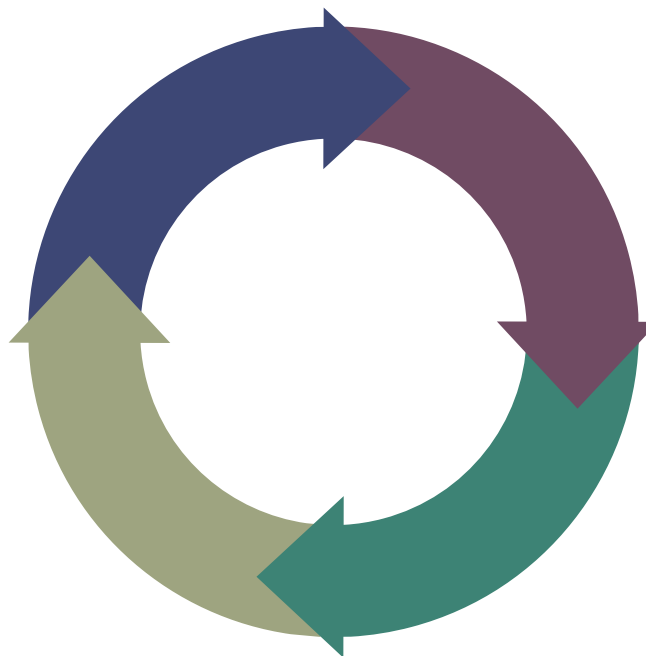
With the agreement of management, we commenced the 2022/23 accounts audit in November 2022 and have agreed a timetable that aims to complete the work by the end of March 2023. The timetable is dependent on the Council responding to audit queries promptly and effectively.

#### Planning and Risk Assessment: November-December 2023

- 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
- Risk assessment analytical procedures
- Determination of materiality

#### Completion: March 2023

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



#### Interim: November-December 2023

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls

#### Fieldwork: January-March 2023

- Receiving and reviewing draft financial statements
- Delivering our audit strategy starting with significant risks and high risk areas including detailed testing of transactions, account balances and disclosures
- Communicating progress and issues
- Clearance meeting

### 3. Audit scope, approach and timeline

#### 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 pension assets and liabilities	Hyman Robertson	PwC – NAO's consulting actuary
Non-Council Dwelling Property, Plant and Equipment valuation	Avison Young	Mazars in house valuation team
Council Dwellings valuation	Capita	N/A – local audit team
Surplus Assets valuation	Council valuation experts & Jacobs	Mazars in house valuation team
Investment Properties valuation	Colliers	Mazars in house valuation team
Heritage Assets valuation	Council curators	N/A – local audit team
Valuation of MAHL and DML land & buildings for Group consolidation purposes	Avison Young	Mazars in house valuation team
Valuation of Financial Instruments	Link Asset Services	We will review Link's methodology for providing the fair value disclosures

#### Service organisations

There are no service organisations used by the Council which impact upon our planned audit approach.

#### Reliance on internal audit

Although we do not plan to place any reliance on the work of internal audit, where possible we will seek to understand their work to ensure the nature, extent and timing of our audit procedures is appropriate. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

### 3. Audit scope, approach and timeline

#### Group audit approach

The Council’s group structure for 2022/23 will consolidate the Council’s share of two other organisations: Manchester Airport Holdings Limited (MAHL) and Destination Manchester Limited (DML). 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 share of these two entities. The Council owns 50% of the voting shares in MAHL and classes its investment as a joint venture, accounting for its share of the equity in MAHL. The Council wholly owns DML and consolidates its share of the company on a line-by-line basis.

Our group audit approach reflects the size and complexity of the transactions from the two companies that are consolidated into the Council’s Group financial statements. Based on our planning discussions and review of previous year’s accounts, we consider that MAHL is a financially significant component and that our significant risk relating to the Pension Liability, as set out in section 5, is a risk that applies to MAHL as well as the Council. Based on our knowledge and discussions we consider that there is a significant risk within DML relating to the revaluation of DML’s land & buildings required for consolidation.

Our planned approach, based on our initial understanding of 2022/23 and the values reported in the draft financial statements, is to obtain assurance on the audit of MAHL from their external auditor, EY UK LLP (“the component auditor”). We issue group audit instructions to the component auditor and liaise closely with them through their external audit. After the conclusion of their audit of MAHL we review their audit files to obtain assurance on the accounting entries of which the Council consolidates its share. For the revaluation of the land and buildings in both MAHL and DML we will engage our in-house valuation team to review the methodology and assumptions adopted by the Council’s valuers (Avison Young). For all other entries within DML we intend to carry out group level analytical procedures. The table below summarises our planned group audit approach.

If there are any changes to our assessment of the significance of the Council’s group components, either through the size and complexity or the significant risks at the components, we will communicate these changes to the Audit Committee.

Entity	Significant by size	Location	Scope	Auditor
Manchester City Council	Yes	Manchester UK	Full audit carried out by group engagement team	Mazars - group engagement team
Manchester Airport Holdings Ltd	Yes	Manchester UK	Full audit carried out by component auditor	EY UK LLP
Destination Manchester Ltd	No	Manchester UK	Specified audit procedures on the revaluation of the component’s land & buildings Group level analytical procedures	RSM However, as per our approach the Mazars group engagement team will complete the specified audit procedures.

### 3. Audit scope, approach and timeline

#### Testing Methodology

Financial statement areas	Key audit matter	Testing of internal controls	Substantive analytical procedures	Detailed substantive testing	Comments
Property, plant and equipment	●	○	○	●	Our approach to auditing property, plant and equipment has been detailed in section 5.
Investment properties	●	○	○	●	Our approach to auditing investment properties has been detailed in section 5.
Heritage assets	○	○	○	●	Our audit procedures will include: <ul style="list-style-type: none"> <li>• Obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the Council's instructions to the valuer.</li> <li>• Obtaining an understanding of the basis of valuation applied by the valuer in the year.</li> <li>• Obtaining assurance on the appropriateness of the valuation basis applied.</li> </ul>
Investments	○	○	○	●	We will obtain third party confirmation of balances.
Debtors	○	○	○	●	We will complete detailed sample testing of debtors to gain assurance over the balance.
Cash and cash equivalents	○	○	○	●	We will obtain third party confirmation of balances.
Borrowing	○	○	○	●	We will obtain third party confirmation of balances.
Creditors	○	○	○	●	We will complete detailed sample testing of creditors to gain assurance over the balance.
Net pensions liability	●	○	○	●	Our approach to auditing the net pension liability has been detailed in section 5.
Reserves	○	○	○	●	We review reserves for internal consistency and consider the movements between usable and unusable reserves in line with accounting practice.

# 04

Section 04:

**Extended auditor's report**

## 4. Extended auditor's report

### Layout of extended auditor's report and implications for the audit

The extended auditor's report for the Council is expected to follow the format and structure below for the year ending 31 March 2021 assuming that no emphasis of matter or qualification is required.

Paragraph heading in order	Summary of key content
<b>Opinion on the financial statements</b>	What we have audited and our opinion thereon.
<b>Basis for opinion</b>	Confirms that the audit is undertaken under the ISAs (UK). Specific confirmation of our independence including with the FRC's Ethical Standard. Specific confirmation re sufficiency and appropriateness of audit evidence obtained to provide a basis for our opinion.
<b>Conclusions relating to going concern</b>	Based on the audit procedures performed and the audit evidence obtained, we are required to evaluate whether sufficient appropriate audit evidence has been obtained regarding, and conclude on: <ul style="list-style-type: none"><li>• Whether, in our judgement, a material uncertainty related to going concern exists; and</li><li>• The appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.</li></ul>
<b>Key audit matters</b>	Includes definition of key audit matters. Clarifies that these matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and that we do not provide a separate opinion on these matters. For each key audit matter identified: <ul style="list-style-type: none"><li>• A description of the most significant assessed risk(s) of material misstatement;</li><li>• A summary of our response to those risks including significant judgements applied; and</li><li>• Where relevant, key observations arising with respect to those risks including clear reference to relevant disclosures in the financial statements.</li></ul>

## 4. Extended auditor's report

Paragraph heading in order	Summary of key content
<b>Our application of materiality and an overview of the scope of our audit</b>	<p>Explanation of how we applied the concept of materiality in planning and performing the group and Council audit.</p> <p>The overall materiality threshold for the group and Council financial statements as a whole, performance materiality and triviality.</p> <p>Overview of the scope of the audit covering the Council and components, including an explanation of how the scope addressed each key audit matter and was influenced by our application of materiality.</p>
<b>Other information</b>	<p>Responsibilities of the Deputy Chief Executive and City Treasurer and of the auditor for Other information included in the annual report.</p>
<b>Responsibilities of the Deputy Chief Executive and City Treasurer for the financial statements</b>	<p>Cross reference to the full Statement of the Deputy Chief Executive and City Treasurer's Responsibilities.</p>
<b>Auditor's responsibilities for the audit of the financial statements</b>	<p>Explanation of the 'reasonable assurance' objective of the audit.</p> <p>Cross-reference to our responsibilities for the audit on the FRC's web-site.</p> <p>Explain to what extent the audit was considered capable of detecting irregularities, including fraud.</p>
<b>Value for money arrangements</b>	<p>Report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources including reference to:</p> <ul style="list-style-type: none"> <li>• Matters we are required to report by exception</li> <li>• Responsibilities of the Council</li> <li>• Auditor's responsibilities</li> </ul>
<b>Matters on which we are required to report by exception</b>	<p>Report in the public interest under section 24 of the Local Audit and Accountability Act 2014.</p> <p>Recommendation under section 24 of the Local Audit and Accountability Act 2014.</p> <p>Exercise of any other special powers of the auditor under the Local Audit and Accountability Act 2014.</p>



## 4. Extended auditor's report

Paragraph heading in order	Summary of key content
<b>Other matters which we are required to address</b>	Confirms that we have not carried out any prohibited non-audit services and that we remain independent on the Council (and its group). Confirms that our audit opinion is consistent with the Audit Completion Report.
<b>Use of the audit report</b>	Who we are reporting to and what the report may be used for.
<b>Audit certificate</b>	Sets out that we have completed the audit of the Council in accordance with the Local Audit and Accountability Act 2014.

# 05

Section 05:  
**Significant risks, key audit matters  
and other key judgement areas**

# 5. Significant risks, key audit matters 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

Significant risks are those risks assessed as being close to the upper end of the spectrum of inherent risk, based on the combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. Fraud risks are always assessed as significant risks as required by auditing standards, including management override of controls and revenue recognition.

## 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.

## Key audit matters

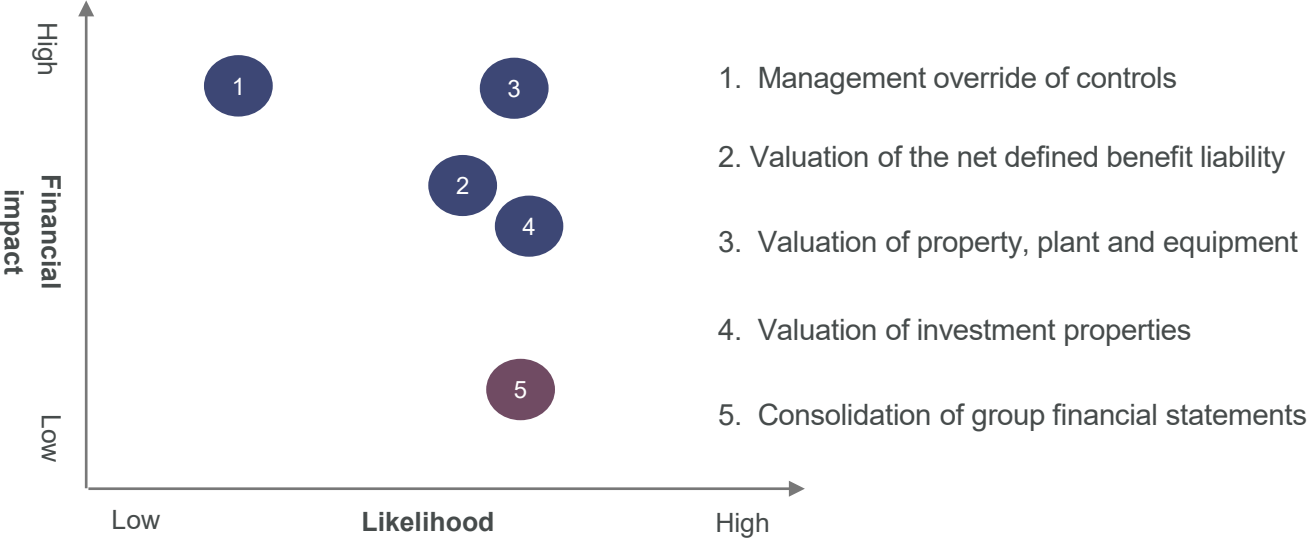
Key audit matters are defined as those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

It is important that you understand and have the opportunity to discuss with us why something is being communicated as a key audit matter and the way this is described. This section highlights which of the significant risks and other key judgement areas are considered by us at the planning stage to be key audit matters. It should be noted, however, that other key audit areas may be identified during the course of the audit.

# 5. Significant risks, key audit matters 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.



- Key:
- Key audit matter
  - Risk or judgement not considered to be a key audit matter

# 5. Significant risks, key audit matters and other key judgement areas

## Specific identified audit risks and planned testing strategy

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

## Significant risks

	Description	Fraud	Error	Judgement	Expected KAM	Planned response
1	<p><b>Management override of controls (Council &amp; Group)</b>                      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, a sample of journal entries that meet our risk criteria and significant transactions outside the normal course of business or otherwise unusual.

## 5. Significant risks, key audit matters and other key judgement areas

### Significant risks

	Description	Fraud	Error	Judgement	Expected KAM	Planned response
2	<p><b>Net defined benefit liability (or asset) valuation (Council &amp; Group)</b>  <b>£372m net asset (2022/23 draft accounts)</b></p> <p>The net pension liability (asset) represents a material element of the Council balance sheet. The Council is a scheduled employer body within the Greater Manchester Pension Fund, which had its last triennial valuation completed as at 31 March 2022.</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. There are financial assumptions and demographic assumptions used in the calculation of the liability, 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>Our audit procedures will include:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of the skills, experience and qualifications of the actuary, and considering the appropriateness of the instructions to the actuary.</li> <li>• Obtaining confirmation from the auditor of the Greater Manchester Pension Fund that the Pension Fund has designed and implemented controls to prevent and detect material misstatement. This includes the controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation of the gross asset and liability is complete and accurate.</li> <li>• Reviewing a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets, and evaluating whether the outcome of their work would affect our consideration of the Council's share of Pension Fund assets.</li> <li>• Reviewing the actuarial allocation of Pension Fund assets to the Council by the actuary, including comparing the Council's share of the assets to other corroborative information.</li> <li>• Reviewing the appropriateness of the Pension Asset and Liability valuation methodology applied by the Pension Fund Actuary, and the key assumptions included within the valuation. (Continued overleaf)</li> </ul>

# 5. Significant risks, key audit matters and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Expected KAM	Planned response
2	<p><b>Net defined benefit liability (or asset) valuation (Council &amp; Group) Continued</b></p> <p>There is a risk that the assumptions and methodology used in valuing the pension obligations are not reasonable or appropriate to the Council’s circumstances. This could have a material impact to the Council net pension liability in 2022/23.</p>	○	●	●	●	<ul style="list-style-type: none"> <li>• This includes comparing them to expected ranges, utilising information provided by PwC, consulting actuary engaged by the National Audit Office.</li> <li>• Agreeing the data in the IAS 19 valuation report provided by the Pension Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council’s financial statements.</li> <li>• Reviewing the Council’s asset ceiling adjustment (given the increase in market yields) to ensure that it follows the Code and relevant accounting standards (IFRIC 14).</li> </ul>

## 5. Significant risks, key audit matters and other key judgement areas

### Significant risks

	Description	Fraud	Error	Judgement	Expected KAM	Planned response
3	<p><b>Valuation of property, plant and equipment (Council &amp; Group)</b>  <b>£2,716m (2022/23 draft Council accounts)</b>  <b>£2,756m (2022/23 draft group accounts)</b></p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the current value at that date. The Council has adopted a rolling revaluation model which sees all such property, plant &amp; equipment revalued in a five-year cycle.</p> <p>The valuation of property, plant &amp; 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. The Council employs a valuation expert to provide valuations, however there remains a high degree of estimation uncertainty associated with the valuations of property, plant and equipment due to the significant judgements and number of variables involved.</p>	○	●	●	●	<p>Our audit procedures will include:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of the skills, experience and qualifications of the valuers, and considering the appropriateness of the Council's instructions to the valuer.</li> <li>• Obtaining an understanding of the basis of valuation applied by the valuers in the year.</li> <li>• Obtaining assurance on the appropriateness of the methodology and assumptions adopted by the Council's valuers.</li> <li>• Obtaining an understanding of the Council's approach to ensure that assets not subject to revaluation in 2022/23 are materially fairly stated.</li> <li>• Obtaining an understanding of the Council's approach to ensure that assets revalued through 2022/23 are materially fairly stated at the year end.</li> <li>• Sample testing the completeness and accuracy of underlying data provided by the Council and used by the valuers as part of their valuations.</li> <li>• Comparing the valuations to our in-house valuation expert's estimate of the valuation.</li> <li>• Using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2023.</li> </ul>



# 5. Significant risks, key audit matters and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Expected KAM	Planned response
3	<p><b>Valuation of property, plant and equipment (Council &amp; Group) Continued</b></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 the current value at the balance sheet date. In addition, as the valuations are undertaken through the year there is a risk that the current value of the assets could be materially different at the year end.</p> <p>Council Dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for Social Housing (EUV-SH). The Social Housing adjustment factor is prescribed in government guidance, but this guidance indicates that where a valuer has evidence that this factor is different in the Council’s area they can use their more accurate local factor. There is a risk that the Council’s application of the valuer’s assumptions is not in line with the statutory requirements and that the valuation is not supported by detailed evidence.</p> <p>The Council’s two consolidated entities, MAHL and DML, account for their land &amp; buildings at cost as permitted by their financial reporting framework. In consolidating their share of the two entities the Council must align the companies’ accounting policies with their own. Consequently for the group consolidation exercise the Council engages an external valuer to value the land &amp; buildings consistent with the Council’s accounting policies.</p>	○	●	●	●	

## 5. Significant risks, key audit matters and other key judgement areas

### Significant risks

	Description	Fraud	Error	Judgement	Expected KAM	Planned response
4	<p><b>Valuation of investment properties £537m (2022/23 draft accounts)</b></p> <p>The CIPFA Code requires that where Investment Property assets are subject to revaluation, their year-end carrying value should reflect the fair value at that date.</p> <p>The valuation of Investment Property 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>The Council employs valuation experts to provide valuations, however there remains a high degree of estimation uncertainty associated with the valuations of property, plant and equipment due to the significant judgements and number of variables involved</p>	○	●	●	●	<p>Our audit procedures will include:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the Council's instructions to the valuer.</li> <li>• Obtaining an understanding of the basis of valuation applied by the valuer in the year.</li> <li>• Obtaining assurance on the appropriateness of the methodology and assumptions adopted by the Council's valuer.</li> <li>• Comparing the valuation to our in-house valuation expert's estimate of the valuation.</li> <li>• Sample testing the completeness and accuracy of underlying data provided by the Council and used by the valuer as part of their valuations.</li> </ul>

## 5. Significant risks, key audit matters and other key judgement areas

### Other key areas of management judgement and enhanced risks

	Description	Fraud	Error	Judgement	Expected KAM	Planned response
5	<p><b>Consolidation of group financial statements</b></p> <p>The Council has made judgements around which of its group entities it consolidates into its Group Financial Statements, and how it consolidates the transactions and balances into the Group. The consolidation process is a complex process and involves material amounts of transactions and balances.</p> <p>Previous audits have identified audit adjustments to be made to the group consolidation process.</p>	○	●	●	●	<p>Our approach to auditing the Group Financial Statements has been detailed in section 3.</p> <p>Our procedures on the consolidation process will include:</p> <ul style="list-style-type: none"> <li>• Reviewing the Council's Group consolidation process.</li> <li>• Reviewing the Council's judgements relating to the entities that are not consolidated into the Group Financial Statements.</li> <li>• Reviewing the method of consolidation of the consolidated group entities into the Group Financial Statements.</li> <li>• Agreeing the consolidated financial information to supporting evidence from the component financial statements.</li> </ul>

# 06

Section 06:

**Value for money**

# 6. Value for money

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.

2022/23 will be the third 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.



## 6. 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.

Although we have not fully completed our planning and risk assessment work, at this stage we have not identified any risks of significant weaknesses in arrangements that we would like to bring to the Audit Committee's attention. We will report any further identified risks to the Audit Committee on completion of our planning and risk identification work.

### **Our work to follow-up on previous recommendations**

As part of our 2021/22 audit, we did not identify any significant weaknesses in the Council's arrangements.

# 07

Section 07:

**Fees for audit and other services**

## 7. Fees for audit and other services

### Fees for work as the Council's appointed auditor

We report below our initial consideration of additional fees based on our experience of auditing the Council over the last 3 years and changes in auditing requirements and the audit risks associated with the Council's and Group statement of accounts. We will discuss and agree additional fees with management during the audit.

Area of work	2022/23 Proposed Fee	2021/22 Actual Fee
Code Audit Work – Scale fee	£159,519	£159,519
Additional fees:		
Recurrent scope changes: Additional testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes	£40,000-60,000	£48,000
Enhanced auditor reporting	£5,000-7,000	£5,625
VFM (Code changes)	£12,000-15,000	£12,500
Group audit	£20,000-25,000	£20,000
Specific accounting and quality issues	£20,000-40,000	£30,000
Revised ISA 315	TBC	-
<b>Total fees</b>	<b>TBC</b>	<b>£275,644</b>

### Fees for non-PSAA work

We have not been separately engaged by the Council to carry out additional work to the PSAA appointed work.



# 08

Section 08:

**Our commitment to independence**

## 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 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.

We have not made arrangements for any of our activities as auditor to be conducted by another firm that is not a Mazars' member firm. In section 3 we have outlined the experts that we intend to use as part of our audit. We will write to these experts seeking confirmation of their independence and will report this within our Audit Completion Report for Audit Committee.

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 Suresh Patel in the first instance.

Prior to the provision of any non-audit services Suresh Patel 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.

# 09

Section 09:

## **Materiality and misstatements**

# 9. Materiality and misstatements

## Summary of initial materiality thresholds

Threshold	Group £'000s	Single Entity £'000s
Overall materiality	44,400	36,500
Performance materiality	28,860	23,725
Specific materiality – Senior officers remuneration	N/a	5
Trivial threshold for errors to be reported to Audit Committee	1,332	1,095

## Materiality

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

Information is considered to be material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

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.

# 9. Materiality and misstatements

## Materiality (continued)

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

We consider that the gross expenditure at the surplus/deficit on provision of services remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 1.75% of gross expenditure at the surplus/deficit on provision of services based on the draft 2022/23 financial statements. This is approaching our maximum of 2% and reflects our view that readers of the accounts have a reasonable understanding of the extent of management judgement applied in preparing the accounts and the concept of materiality.

Based on the of gross expenditure at the surplus/deficit on provision of services based on the draft 2022/23 financial statements we anticipate the overall materiality for the year ending 31 March 2023 to be in the region of £36.5m ( £29.5m in the prior year).

We have identified one disclosure in the financial statements where we have set a separate specific lower materiality level:

- Disclosure of Senior Officer Remuneration: £5,000 reflecting the movement between bandings.

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

## Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on our assessment of a medium inherent risk, meaning that we have applied 65% of overall materiality as our level of performance materiality. This is around the mid-point of our range and reflects the extent of errors we have identified and reported in prior years.

## 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 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 £1.095m based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Suresh Patel.

## Reporting to Audit Committee

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

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



# Appendices

A: Key communication points

B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

# Appendix A: 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;
- Significant difficulties, if any, encountered during the audit;
- Qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- 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 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	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"> <li>• uncorrected misstatements and their effect on our audit opinion;</li> <li>• the effect of uncorrected misstatements related to prior periods;</li> <li>• a request that any uncorrected misstatement is corrected; and</li> <li>• in writing, corrected misstatements that are significant.</li> </ul>	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> <li>• enquiries of Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;</li> <li>• any fraud that we have identified or information we have obtained that indicates that fraud may exist; and</li> <li>• a discussion of any other matters related to fraud.</li> </ul>	Audit Completion Report and discussion at Audit Committee Audit planning and clearance meetings



# Appendix A: 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"> <li>• non-disclosure by management;</li> <li>• inappropriate authorisation and approval of transactions;</li> <li>• disagreement over disclosures;</li> <li>• non-compliance with laws and regulations; and</li> <li>• difficulty in identifying the party that ultimately controls the entity.</li> </ul>	<p>Audit Completion Report</p>
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> <li>• our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;</li> <li>• significant difficulties, if any, encountered during the audit;</li> <li>• significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management;</li> <li>• written representations that we are seeking;</li> <li>• expected modifications to the audit report; and</li> <li>• 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 Audit Committee in the context of fulfilling their responsibilities.</li> </ul>	<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 A: 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 Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that Audit Committee may be aware of.</p>	<p>Audit Completion Report and Audit Committee meetings</p>
<p>With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• whether the events or conditions constitute a material uncertainty;</li> <li>• whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and</li> <li>• the adequacy of related disclosures in the financial statements.</li> </ul>	<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>

# Appendix A: Key communication points

Required communication	Where addressed
Identification the key audit partner involved in the audit	Audit Strategy Memorandum
Description of nature, frequency and extent of communication with the Audit Committee	Audit Strategy Memorandum
Description of methodology used, including which categories of the balance sheet have been directly verified and which categories have been verified based on system and compliance testing, including an explanation of any substantial variations compared to the previous year	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Disclosure of quantitative level of materiality applied to the audit, any specific materiality levels applied to particular classes of transactions, account balances or disclosures, and qualitative factors considered when setting materiality	Audit Strategy Memorandum and/or Audit Completion Report as appropriate

# Appendix B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

## Background

ISA (UK) 315 (Revised 2019) introduces major changes to the auditor's risk identification and assessment approach, which are intended to drive a more focused response from auditors undertaking work to obtain sufficient appropriate audit evidence to address the risks of material misstatement. The new standard is effective for periods commencing on or after 15 December 2021 and therefore applies in full for the Council's 2022/23 audit.

The most significant changes relevant to the Council's audit are outlined below.

## Enhanced risk identification and assessment

The standard has enhanced the requirements for the auditor to understand the audited entity, its environment and the applicable financial reporting framework in order to identify and assess risk based on new inherent risk factors which include:

- Subjectivity
- Complexity
- Uncertainty and change
- Susceptibility to misstatement due to management bias or fraud.

Using these inherent risk factors, we assess inherent risk on a spectrum, at which the higher end of which lies significant risks, to drive an audit that is more focused on identified risks. Auditors are now also required to obtain sufficient, appropriate evidence from these risk identification and assessment procedures which means documentation and evidence requirements are also enhanced.

## Greater emphasis on understanding IT

In response to constantly evolving business environments, the standard places an increased emphasis on the requirements for the auditor to gain an understanding of the entity's IT environment to better understand the possible risks within an entity's information systems. As a result, we are required to gain a greater understanding of the IT environment, including IT general controls (ITGCs).

## Increased focus on controls

Building on the need for auditors to gain a greater understanding of the IT environment, the standard also widens the scope of controls that are deemed relevant to the audit. We are now required to broaden our understanding of controls implemented by management, including ITGCs, as well as assess the design and implementation of those controls.

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Audit Senior Manager: Amelia Salford

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