NORTH LONDON WASTE AUTHORITY
REPORT TITLE: EXTERNAL AUDIT STRATEGY MEMORANDUM FOR THE 2019/20 FINAL ACCOUNTS
REPORT OF: FINANCIAL ADVISER
FOR SUBMISSION TO: MEMBERS FOR CONSULTATION AND DECISION BY CLERK OR MANAGING DIRECTOR
DATE: 2 APRIL 2020
SUMMARY OF REPORT: This report introduces the Audit Strategy Memorandum for 2019/20 which has been prepared by Mazars in its capacity as the Authority's external auditor. The Memorandum sets out the responsibilities of the external auditor and outlines its approach to the forthcoming audit.
RECOMMENDATIONS: Members are asked to comment on the Report
SIGNED: Jon Rowney, Financial Adviser **DATE:** 23 March 2020

1. INTRODUCTION AND BACKGROUND

1.1. The purpose of the Audit Strategy Memorandum is to set out how Mazars LLP, the Authority's new external auditor, will deliver the audit of the Authority's financial statements and its approach to Value for Money work for the financial year ending 31 March 2020.

2. CONTENTS OF THE PLAN

2.1. The External Audit Strategy Memorandum for the 2019/20 financial statements (appendix A) sets out the stages of the audit process. Key to the Authority is the opinion on the accounts (including the Authority's Annual Governance Statement). This will be presented to Members for approval at a meeting of the Audit Committee (date to be confirmed). Additionally, Mazars will publish two reports to the Authority: 'Communication With Those Charged with Governance' (also referred to as the ISA 260 Report) and the Annual Audit Letter. The ISA 260 Report will include the findings of Mazars' final accounts work and will be presented to the July 2020 meeting. The Annual Audit Letter summarises the outcomes and the key issues arising from KPMG's audit work for the year and will be presented to the next ordinary meeting of the Authority after the July meeting.

2.2. The report identifies three significant risks for consideration during the audit: management override of controls, revenue recognition and the valuation of property, plant and equipment. The auditor's approach to testing these risks is outlined in section 4 of the Memorandum.

2.3. In addition, the report identifies two areas of enhanced risk and areas of management judgement that require audit focus. There are enhanced risks relating to the North London Heat and Power Project and an area of management judgement regarding the consolidation of the group financial statements. The auditors have outlined their approach in the report.

2.4. The auditors are also required to form a conclusion as to whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. At the planning stage, the auditor is required to identify whether or not it considers that a value for money (VFM) risk exists. This work is underway but is not complete. If the auditor considers that a VFM risk exists, Mazars will bring an updated version of the Memorandum to a future meeting.

2.5. The planned audit fee of £14,068 is in line with the scale fee set by Public Sector Audit Appointments Ltd. The fee assumes that that no additional work will be required.

2.6. The Memorandum states that the audit opinion is planned to be made by no later than 31 July 2020 to comply with statutory requirements for submission of the accounts. The Memorandum was issued before the Local Government Secretary, announced on 16 March that the Audit deadline for local government financial audits will be extended until 30 September 2020. Therefore, arrangements will be made to report this to Members with the accounts for approval before the end of September. In accordance with normal practice, the external auditor will be invited to attend the Audit Committee meeting and present their audit findings.

3. COMMENTS OF THE LEGAL ADVISER

3.1. The Legal Adviser has been consulted and comments that the procedure for public inspection of the draft accounts is set out in the Accounts and Audit Regulations 2015. The draft accounts must be available for inspection for the first 10 working days of June following the end of the financial year (Regulation 15(1)).

List of documents used:

Mazars LLP – Audit Strategy Memorandum

Contact officer:

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APPENDIX A: AUDIT STRATEGY MEMORANDUM

Audit Strategy Memorandum

North London Waste Authority

Year ending 31 March 2020

CONTENTS

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

North London Waste Authority
Unit 1B, Berol House
25 Ashley Road
London
N17 9LJ

13 February 2020

Dear Members

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for North London Waste Authority for the year ending 31 March 2020.

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 North London Waste Authority which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

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

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

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07387 242052.

Yours faithfully

Lucy Nutley

Lucy Nutley

Mazars LLP

MAZARS

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of North London Waste Authority (the Authority) for the year to 31 March 2020. This is our second year of appointment. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/

Our responsibilities

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

Audit opinion

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

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

Reporting to the NAO

We report to the NAO that the Authority's transactions and balances are below the threshold that would require us to test the Authority's Whole of Government Accounts (WGA) submission.

Value for Money

We are required to conclude whether the Authority has proper arrangements in place to secure economy, efficiency and effectiveness in it its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Electors' rights

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

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

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

The Authority is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made. For the purposes of our audit, we have identified the Audit Committee as those charged with governance. However, as the Audit Committee meets once annually in July to approve the financial statements, we present this Audit Strategy Memorandum to the Authority meeting.

2. YOUR AUDIT ENGAGEMENT TEAM

- **Lucy Nutley, Audit Engagement Lead**
- E: lucy.nutley@mazars.co.uk
- M: 07387 242052

- **Gary McLeod, Senior Manager**
- E: gary.mcleod@mazars.co.uk
- M: 07823 521346

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope and approach

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

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

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

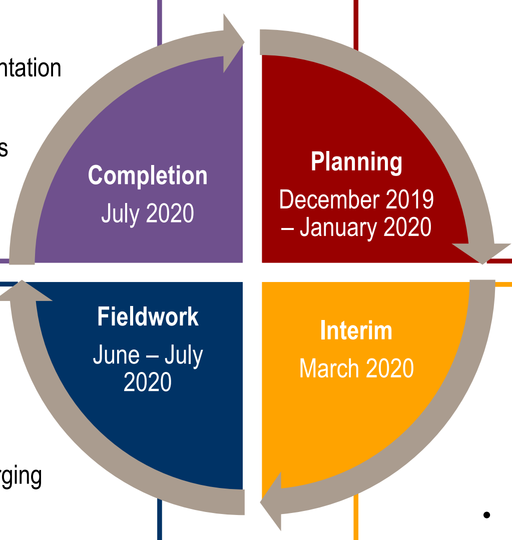
If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures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

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

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

- Final review and disclosure checklist of financial statements
- Final file review
- Agreeing content of letter of representation
- Reporting to Audit Committee
- Reviewing post balance sheet events
- Signing our opinion

- Updating our understanding of the Authority
- Initial opinion and value for money risk assessments
- Development of our audit strategy
- Agreement of timetables



- Review of draft financial statements
- Reassessment of audit strategy, revising as necessary
- Delivering our planned audit testing
- Continuous communication on emerging issues
- Clearance meeting

- Preliminary analytical procedures
- Documenting systems and controls
- Walkthrough procedures
- Controls testing, including general and application IT controls
- Early substantive testing of transactions

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

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

Management's and our experts

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

Items of account	Management's expert	Our expert
Defined benefit pension assets and liabilities	Barnett Waddingham	We make use of PWC actuarial services who are commissioned by the NAO to review the national analysis of pension trends and assumptions of the various actuaries and consider the findings for potential impact on the values included within the financial statements.
Property, plant and equipment	Savills	We will review the Gerald Eve analysis of property valuation movements provided centrally by PSAA and consider the outcome of the Authority's valuer's valuations in comparison with these, challenging conclusions as appropriate.

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Service organisations

International Auditing Standards define service organisations as third party organisations that provide services to the Authority 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 Authority and our planned audit approach.

Items of account	Service organisation	Audit approach
Financial systems used for production of the financial statements for the Authority.	The Authority uses the financial systems of London Borough of Camden to record its financial transactions for the production of the financial statements.	We plan to obtain assurance by understanding the process and controls that the Authority 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 Authority rather than the London Borough of Camden.
Financial instrument valuations	The Authority plans to invest significant sums via London Borough of Camden in accordance with a Treasury Management Agreement agreed by both parties.	Our testing will include obtaining confirmation of the nature and value of the sums invested by London Borough of Camden on behalf of the Authority directly from London Borough of Camden's auditors (Mazars LLP). Our work will also include testing that the disclosures relating to the nature and fair value of the investments are appropriately disclosed in the Authority's financial statements.

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Group audit approach

North London Waste Authority wholly own the subsidiary LondonEnergy Limited (LEL) that is responsible for the reception, treatment and disposal of waste for the Authority. The Authority has deemed that LEL is a significant component and, as such, has in prior years prepared group accounts, consolidating the results of the Authority and LEL. Group accounts will be prepared again for 2019/20.

To audit the Group financial statements we need to obtain assurance over the transactions in the Group relating to the Authority's subsidiary LEL.

Our approach will reflect the size and complexity of the transactions from the subsidiary company that are consolidated into the Group financial statements. Our plan, based on our initial understanding and the values reported in the prior year financial statements, is that to support our audit work on the group accounts, we seek to place reliance on the work of BDO LLP who are the auditors to LEL. We will liaise with them in order to confirm that their programme of work is adequate for our purposes and they satisfy professional requirements.

Based on our assessment of materiality, as set out in Section 8 of this Memorandum, our approach is based on 100% of the group being subject to a full scope statutory audit (based on the audit of North London Waste Authority by Mazars LLP (73% of the group) and the audit of LondonEnergy Limited (27% of the group) being performed by BDO LLP). In line with auditing standards, we have sent group audit instructions to the component auditor setting out our audit requirements with deadlines for their response to the issues and areas for consideration.

We will report the following matters in our Audit Completion Report:

- Significant deficiencies in the system of internal control or instances of fraud which the subsidiary auditors identify;
- Limitations on the group audit, for example, where the our access to information may have been restricted; and
- Instances where our evaluation of the work the subsidiary auditors gives rise to concern about the quality of that auditor's work.

4. SIGNIFICANT RISKS AND KEY JUDGEMENTS AND ENHANCED RISKS

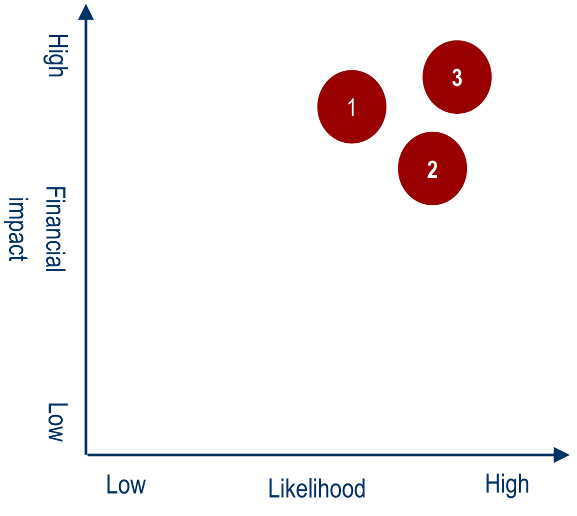
Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

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

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

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

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



Significant Risk	
1	Management override of control
2	Revenue recognition
3	Property, plant and equipment valuation

4. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS (CONTINUED)

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

Significant risks

	Description of risk	Planned response
1	**Management override of controls** 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. Our audit methodology incorporates this risk as a standard significant risk at all audits. Based our initial knowledge and planning discussions we do not consider this risk at the Authority to be unusually high or requiring enhanced audit procedures.	We plan to address the management override of controls risk by performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual. We will address this risk through performing audit procedures covering a range of areas including (but not limited to): • Material accounting estimates; • Journal entries focussing on those we determine to have certain risk characteristics; and • Any significant transactions outside the normal course of business or otherwise unusual.
2	**Revenue recognition** Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable. Based on our initial knowledge and planning discussions we have concluded that we can rebut the revenue recognition risk for income derived from the annual levy for each London Borough. The area where we are not rebutting the income risk relates to all other classifications of income as fees, charges and sales derived from the Authority's operations, as this carries a higher level of inherent risk.	We plan to address this risk by obtaining a detailed understanding of the Authority's processes which assure it that revenue is materially recognised in the correct accounting year. We will perform: • detailed testing of transactions within the 2019/20 financial statements to confirm they are accounted for in the correct year; • testing from payments and receipts around the year-end to provide assurance that there are no material unrecorded items of income and expenditure in the 2019/20 financial statements. .

4. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS (CONTINUED)

<table>
<tr><th></th><th>Description of risk</th><th>Planned response</th></tr>
<tr><td>3</td><td>Property, plant and equipment valuation

The Authority’s accounts contain material balances relating to land and buildings totalling £31.6m as at 31 March 2019. The equivalent value in the Group accounts, which includes the EcoPark, is £126m.

The EcoPark is valued under FRS102 in LEL’s accounts and under IFRS in the Authority’s Group accounts. Therefore, a consolidation adjustment is required as part of the group account preparations.

Due to the high degree of estimation uncertainty associated with revaluations of land and buildings held by the Authority and LEL, we have determined there is a significant risk in this area.</td><td>In relation to the assets which have been revalued during 2019/20 we will:

• assess the Authority’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;

• compare the valuation output with market intelligence provided by Gerald Eve, consulting valuers engaged by the National Audit Office, to obtain assurance that the valuations are in line with market expectations;

• review the approach that the Authority has adopted to address the risk that assets not subject to valuation in 2019/20 are materially misstated and consider the robustness of that approach in light of the valuation information reported by the Authority’s valuers;

• 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;

• review the consolidation adjustment for the Ecopark valuation as disclosed in the Group financial statements.</td></tr>
</table>

4. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS (CONTINUED)

Other key areas of management judgement, key audit matters and enhanced risks

	Description of risk	Planned response
4	**Enhanced risk – North London Heat and Power Project** Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. The Authority is starting the development of the North London Heat and Power Project which will replace the existing Energy from Waste and other facilities with an Energy Recovery Facility and a Resource Recovery Facility on the Ecopark site. Initial groundworks and site preparation started in 2019.	As this is a significant project, we will continue to review the accounting treatment taken by the Authority in the costs associated with the replacement of the existing facilities and construction of the new facility. We will also review the accounting treatment and test the classification of funds borrowed and subsequently invested (by the London Borough of Camden) which will fund the project.
5	**Area of management judgement - Group Financial Statements consolidation process** The Authority has made judgements around the consolidation of the transactions and balances of its wholly-owned subsidiary, LondonEnergy Limited, into the Group financial statements	Our approach to auditing the Group Financial Statements has been detailed in section 3. We will complement this work by our work on the Authority's Group consolidation process. In particular we will review the Authority's judgements relating to the consolidation into the Group financial statements, and we will review and test the method of consolidation into the Group financial statements.

5. VALUE FOR MONEY

Our approach to Value for Money

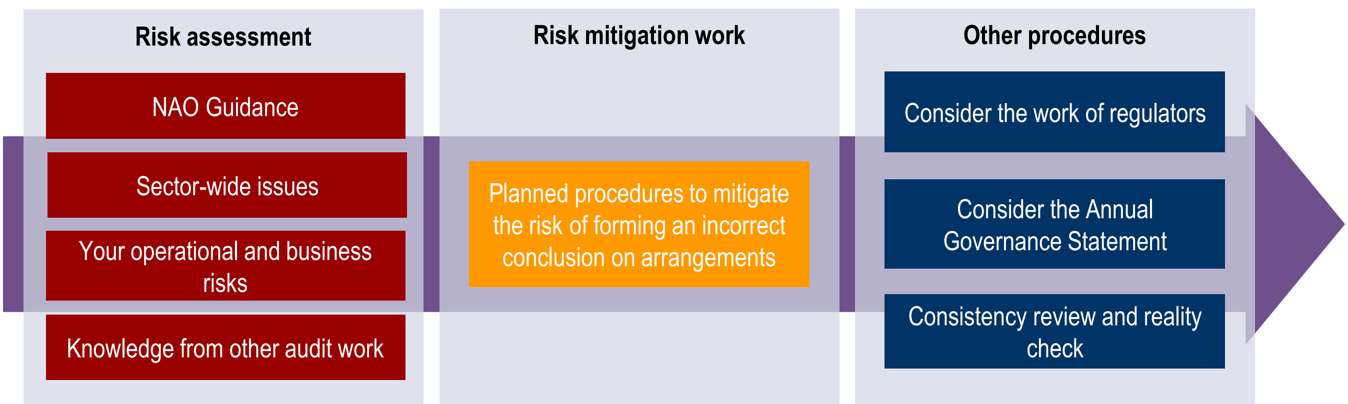
We are required to form a conclusion as to whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The National Audit Office (NAO) issues guidance to auditors that underpins the work we are required to carry out, and sets out the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

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

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

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

A summary of the work we undertake is provided below:



Significant Value for Money risks

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

Our VFM risk assessment is underway but is not yet complete. At this stage, we have not identified significant risks to our VFM conclusion. Should this position change, we will bring an updated version of this Audit Strategy Memorandum to a subsequent meeting of the Authority which will present the results of our risk assessment at that stage, including any significant VFM risks.

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Authority's appointed auditor

The Authority is about to go through significant changes as it prepares to draw down significant borrowings and incur significant levels of capital spending in relation to the North London Heat and Power Project. Accordingly we will seeking a variation from the scale fees set by PSAA.

Service	2018/19 fee (actual)	2019/20 fee (proposed)
Code audit work – original scale fee (set by PSAA)	£14,068	£14,068
Code audit work – proposed fee variation	-	£ tbc

The Authority makes use of the financial systems provided by the London Borough of Camden. We are the external auditors for the London Borough of Camden appointed under the PSAA contract. Further information about our responsibilities in relation to independence is provided in section 7.

Fees for non-PSAA work

We have not been approached by the Authority to carry out additional work. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Services provided to other entities within the Authority's group

We are not providing audit or other services to entities in the Authority's group.

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 Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

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 4 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.

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;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

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

Prior to the provision of any non-audit services Lucy Nutley 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.

8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Authority Initial threshold (£'000s)	Group Initial threshold (£'000s)
Overall Group and Authority materiality	870	1,230
Overall Group and Authority Performance materiality	610	860
Trivial threshold for errors to be reported to the Audit Committee	26	37

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 revenue expenditure at surplus/deficit on provision of services level. 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 the Audit Committee.

8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

We consider that gross revenue expenditure at surplus/deficit on provision of services level remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark. We expect to set a materiality threshold at 1.5% of gross revenue expenditure at surplus/deficit on provision of services level. This is a change to the benchmark used in 2018/19 which was 1.0% of gross revenue expenditure, reflecting our first year of appointment. After assessing initial materiality above, we will continue to monitor materiality throughout the audit to ensure it is set at an appropriate level.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the 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 £26,000 for the Authority and £37,000 for the Group based on 3% of overall materiality.

Performance Materiality

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

Reporting to the Audit Committee

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

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

APPENDIX A – KEY COMMUNICATION POINTS

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

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

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Changes relevant to 2019/20

There are no other significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2019/20.

Changes in future years

Accounting standard	Year of application	Implications
IFRS 16 – Leases	2020/21	It was originally anticipated that the new leasing standard would be adopted by the Code for the 2019/20 financial year. It will now be implemented for the first time in the 2020/21 financial year. IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17. Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed. The introduction of this standard is likely to lead to significant work being required in order to identify all leases to which the Authority is party to. The Authority will need to assess the impact of these arrangements for its existing activities as well as those resulting from the North London Heat and Power Project and identify all its leases (including any implicit in contracts). Although the introduction of this standard is delayed by a year, the need to assess the impact once the details are available, and to restate comparative figures for 2019/20, mean an early start to identification and assessment of the impact of this standard is recommended.

New Code of Audit Practice and Value for Money Arrangements

The National Audit Office (NAO) finalised a new Code of Audit Practice at the end of January 2020. The new Code will apply from audits of local bodies' 2020/21 financial statements onwards.

Currently, the auditor reports against a single overall criterion as to whether: "In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people." Under the new Code, auditors need to report their findings having regard to the following specific reporting criteria:

- financial sustainability;
- governance; and
- Improving economy, efficiency and effectiveness.

We will update the Authority once further guidance has been issued.