

# **Governance, Audit, Risk Management and Standards Committee Supplemental Agenda**

**Date: Tuesday 19 March 2024**

9. **2022/23 Draft Statement of Accounts (Pages 2 - 70)**

Appendix 2 and 3 to the Report of the Interim Director of Finance and Assurance is attached as it was not available at the time in which the agenda was published. Members are asked to consider this late appendix as a matter of urgency in order to have an informed understanding of the report.

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# Indicative Audit Strategy Memorandum

London Borough of Harrow Council

Year ending 31 March 2023



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Governance, Audit, Risk Management and Standards Committee  
London Borough of Harrow  
Forward Drive  
Harrow  
HA3 8FL

19 March 2024

Dear Members

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

We are pleased to present our Indicative Audit Strategy Memorandum for London Borough of Harrow 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 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the audit 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). We have yet to complete all our planning procedures, which is why this is an indicative audit strategy memorandum. We will provide the Committee with an update on risks and audit approach on the completion of audit planning.

The Council approved its accounts for the year ending 31 March 2022 in early December 2023. At that stage the Council and us were expecting the government to announce a backstop date for accounts for years ending 31 March 2023 or earlier, to be 31 March 2024. We had previously discussed with the Council the challenges in being able to complete the audit for 2022/23 by this date. However, in early February 2024, the government released its consultation on the backstop arrangements and proposed a new date of 30 September 2024. In light of the later backstop date, we agreed with the Council to commence the audit of the 31 March 2023 accounts, with the aim of completing our audit procedures by the end of August. This assumes that the Council prepare good quality draft statements, supported by all relevant working papers and system reports and can service the audit during the agreed audit period. Without the two-way collaboration, there is risk that we will disclaim the audit opinion so the Council can publish their accounts by the backstop date.

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 07977 261873.

Yours faithfully

**Suresh Patel, Mazars LLP**

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# 01

Section 01:

**Engagement and  
responsibilities summary**

# 1. Engagement and responsibilities summary

## Overview of engagement

We are appointed to perform the external audit of London Borough of Harrow 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.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

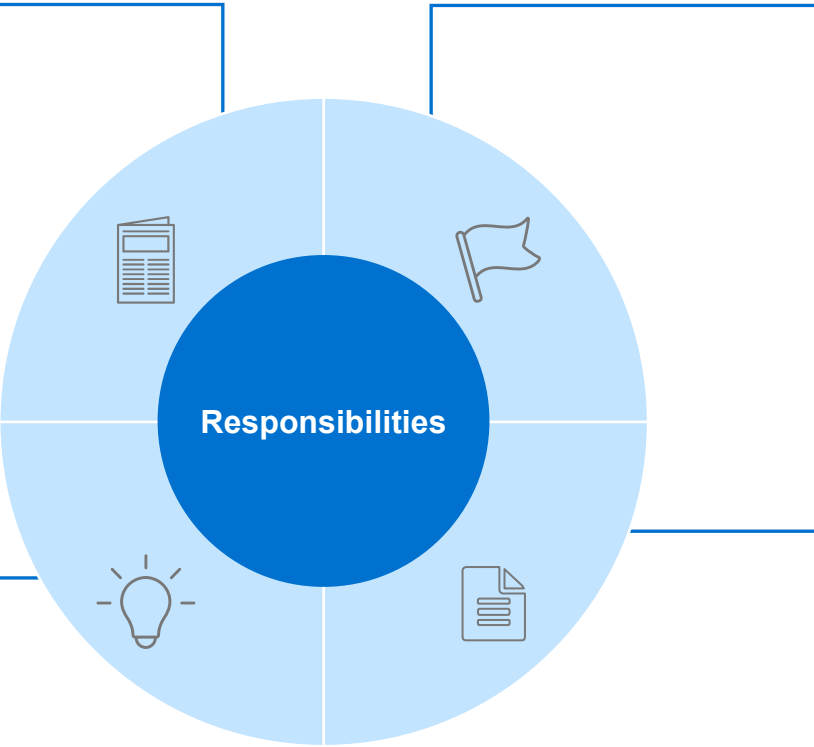
### Audit opinion

We are responsible for forming and expressing an opinion on 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 the Governance, Audit, Risk Management and Standards Committee, as those charged with governance, of their responsibilities.

The Interim Director of Finance and Assurance 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 Interim Director of Finance and Assurance'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 5 of this report.



### Fraud

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

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit to obtain reasonable assurance that the financial statements taken 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

We have retained continuity in your audit engagement team, which will support the delivery of an efficient and effective audit.



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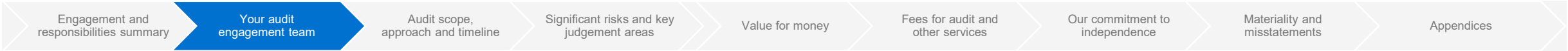
**Priya Pereira**

**Engagement Team Co-leader**

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In addition, we have appointed an engagement quality control reviewer this engagement.





# 03

Section 03:

**Audit scope, approach and timeline**

# 3. Audit scope, approach and timeline

## Audit scope

Our audit scope 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 (ISA) (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.

For 2022/23, we will be meeting the requirements of a revised ISA – 315, which relates to the procedures that auditors undertake in identifying and assessing the risks of material misstatement. The revised ISA increases the granularity of our understanding of the Council’s key business processes and IT controls, essentially increasing the work of the audit team. We include further details in Appendix B.

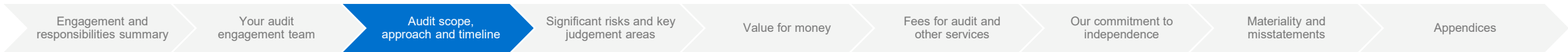
## Audit approach

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 consider 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 to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

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



# 3. Audit scope, approach and timeline

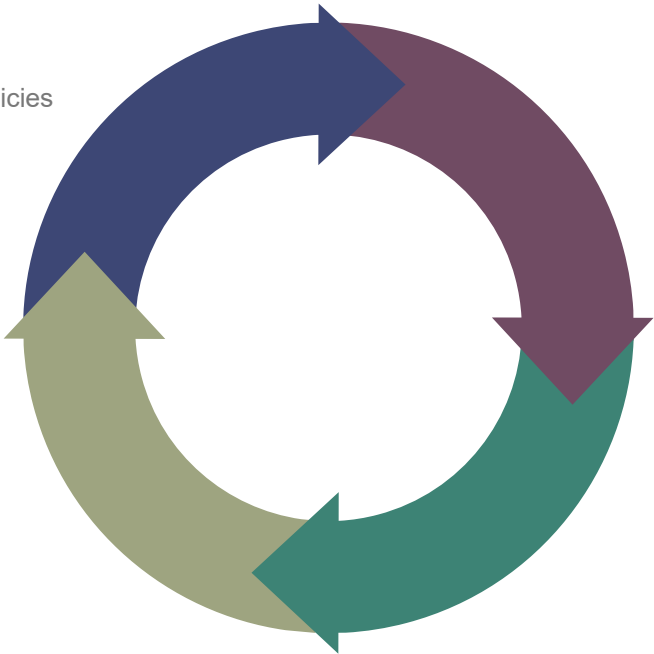
The government has proposed a backstop date for the Council to publish its audited statements for the year ending 31 March 2023 by the 30 September 2024. We have agreed a timetable with the Council to enable this. It requires us to work collaboratively to enable us to complete our audit work by the end of August, draft our audit reporting by early September and for the Council to arrange its approval process by mid-September. It also requires the Council to ensure that it's draft accounts for 31 March 2023 are of a good quality, supported by all relevant working papers and system reports and that it can service the audit during the interim and fieldwork phases as outlined below.

## Planning and Risk Assessment – January to March 2024

- 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 – early September 2024

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

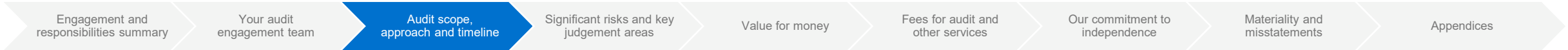


## Interim – January to March 2024

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

## Fieldwork – March to August 2024

- 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

## Reliance on internal audit

Where possible we will seek to utilise, the work performed by internal audit to inform our own independent risk assessment. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our control's evaluation procedures. We do not intend to rely on the work of internal audit.

## Service organisations

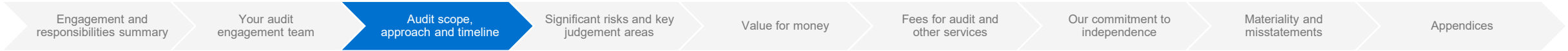
International Auditing Standards (UK) (ISAs) define service organisations as third-party organisations that provide services to the [Council] that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services.

The Council does not currently make use of any service organisations in the production of its financial statements.

## Management's experts 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 liability	Hymans Robertson	We make use of PWC actuarial services who are commissioned by the NAO to review the national analysis of pension trends and assumptions of the various LGPS actuaries and consider the findings for potential impact on the values included within the financial statements.
Property, plant and equipment valuations	Wilks, Head & Eve	For both sets of property valuations we will: <ul style="list-style-type: none"><li>review the Montague Evans analysis of property valuation movements provided centrally by PSAA and consider the outcome of the Council's internal valuer's valuations in comparison with these, challenging conclusions as appropriate; and</li><li>where considered necessary, will complete further review and challenge using our own internal valuation expert.</li></ul>
Investment property valuations	Gerald Eve; Knight Frank; Crosthwaite's; Wilks, Head & Eve, Fleurets	



# 04

Section 04:

**Significant risks and other key  
judgement areas**

# 4. Significant risks and other key judgement areas

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

## Significant risk

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:

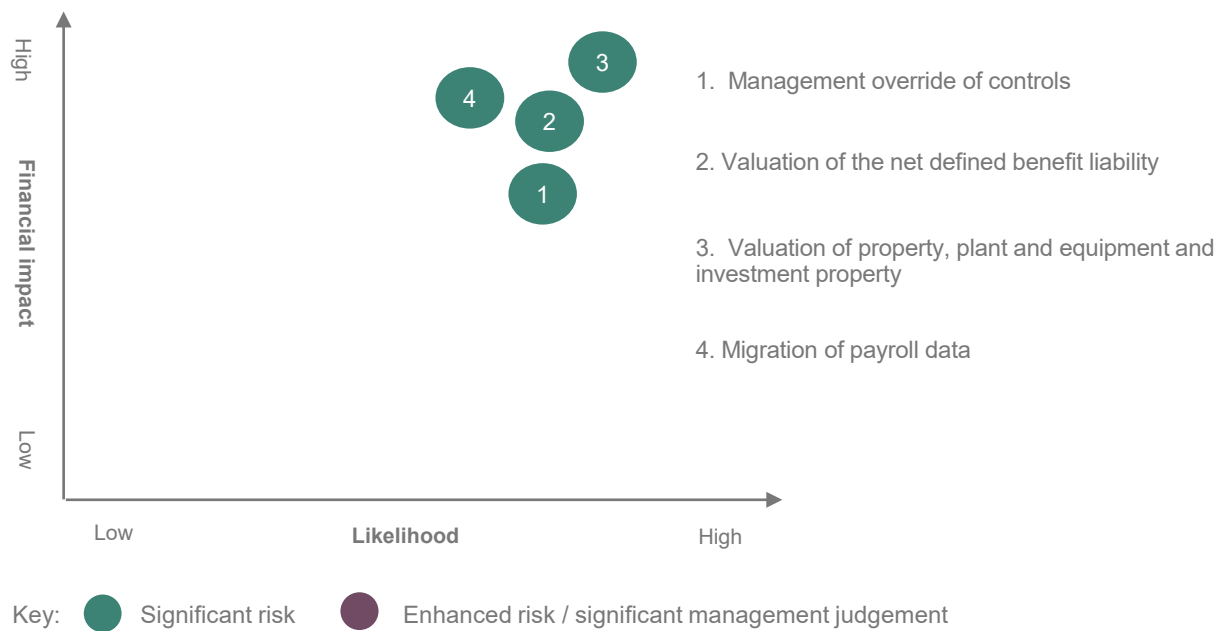
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

## 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.

## Summary risk assessment

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



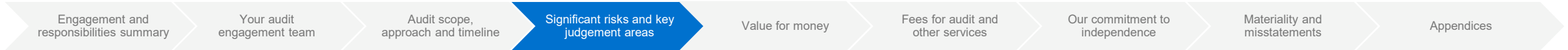
# 4. Significant risks and other key judgement areas

## Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and 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 our audit, we will report this to the Governance, Audit, Risk Management and Standards Committee.

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	<p><b>Management override of controls</b></p> <p>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>	●	○	○	<p>We will address the risk through performing audit procedures, covering a range of areas including (but not limited to):</p> <ul style="list-style-type: none"><li>• accounting estimates included in the financial statements for evidence of management bias;</li><li>• any significant transactions outside the normal course of business; and</li><li>• A sample of journals that meet our risk criteria and other adjustments recorded in the general ledger in preparing the financial statements.</li></ul>



# 4. Significant risks and other key judgement areas

## Significant risks (continued)

	Description	Fraud	Error	Judgement	Planned response
2	<p><b>Valuation of net defined pension liability</b></p> <p>The net pension liability represents a material element of the Council's balance sheet as the Council is an admitted body of the Harrow Pension Fund.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2022/23.</p>	○	●	●	<p>Our planned procedures to address the risk are:</p> <ul style="list-style-type: none"> <li>critically evaluate the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and</li> <li>challenge the reasonableness of the Actuary's assumptions that underpin the relevant entries made in the financial statements, through the use of an expert commissioned by the National Audit Office;</li> <li>critically assess the competency, objectivity and independence of the Actuary;</li> <li>liaise with the auditors of the Pension Fund to gain assurance that the overall procedures and controls in place at the Pension Fund are operating effectively;</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>compare assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office; and</li> <li>agree data in the Actuary's valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council's financial statements.</li> </ul>



# 4. Significant risks and other key judgement areas

## Significant risks (continued)

	Description	Fraud	Error	Judgement	Planned response
3	<p><b>Valuation of property, plant and equipment and investment property</b></p> <p>Where a Council's assets are subject to revaluation, the Code requires that the carrying value should reflect the appropriate fair value as at the year end.</p> <p>Estimation of fair values is subject to complex estimation. This creates a risk that the carrying value of those assets revalued in the year are materially mis-stated.</p> <p>In respect of Council Dwellings, these are reviewed using a beacon valuation methodology, which values Council stock by grouping assets into type and using a nominated beacon asset for each group. The assessed value is uplifted based on an open market assessment then amended for an adjustment factor provided by DHLUC.</p> <p>Due to the high degree of estimation uncertainty associated with valuations, we have determined there is a significant risk in this area.</p>	○	●	●	<p>We will assess the risk of valuations changing materially in year, considering the movement in market indices between valuation dates and the year end, to determine whether these indicate that fair values have moved materially.</p> <p>In addition, for those assets which have been revalued during the year we will:</p> <ul style="list-style-type: none"><li>• assess the valuer's qualifications;</li><li>• assess the valuer's objectivity and independence;</li><li>• review the methodology used;</li><li>• perform testing of the associated underlying data and assumptions; and</li><li>• Ensure the accounting treatment of the valuation and associated movements is compliant with relevant accounting framework.</li></ul> <p>We will also follow up on recommendations made during the 2021/22 audit regarding property, plant and equipment and investment property valuations. We will review the approach adopted by the Council to assess the risk that assets not subject to valuation at year end are not materially misstated and consider the robustness of that approach.</p>

## 4. Significant risks and other key judgement areas

### Significant risks (continued)

	Description	Fraud	Error	Judgement	Planned response
4	<p><b>Migration of payroll data</b></p> <p>The Council's payroll system is integrated within the HR module of the ledger system. Data was migrated across from the SAP HR module to the Dynamics 365 HR module during the period from 05/03/2022 – 25/04/2022.</p> <p>There is a risk that the migration will not capture all data held in the prior system. The omission of such data could ultimately lead to material misstatement within the financial statements. The implementation of a new system also poses a significant risk to the integrity and validity of the Council's reporting if change management processes are not robust, and the new system is not correctly tested and implemented.</p> <p>There is a further risk the migration leads to a loss of data and payroll records during transfer. Such a loss of data may result in a risk that during the audit, we are unable to obtain sufficient and appropriate third part evidence to support transactions entered by the Council.</p>	○	●	○	<p>We plan to address this risk by completing the following additional procedures:</p> <ul style="list-style-type: none"><li>• review of project governance controls to confirm that approach project management controls were in place to ensure an effective cutover.</li><li>• reviewing the Council's reconciliation of old system closing balances to the new system opening balances.</li></ul> <p>We may engage internal IT specialists to perform work around the data migration process if we deem necessary.</p>

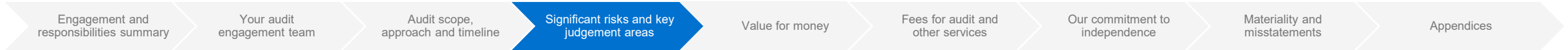
# 4. Significant risks and other key judgement areas

## Specific identified areas of audit focus

In addition to the significant risks of material misstatement, we present below in more detail areas we have identified as subject to greater audit focus. We consider it important that the Governance, Audit, Risk Management and Standards Committee is aware of these focus areas. Our audit process is dynamic and all standard risk areas remain under constant review and we will report back to the Committee if we determine that we need to recognise any of these focus areas as enhanced or significant risks.

## Areas of audit focus

	Description	Fraud	Error	Judgement	Planned response
1	<p><b>Valuation of intangible assets</b></p> <p>Within the 2022/23 financial statements, the Council has included a material value in respect of intangible assets. This relates to the implementation of the new D365 accounting software and associated systems.</p> <p>Costs have been generated over a period of time and there are high levels of complexity of the recognition criteria included in the accounting standards (IAS38 – Intangible Assets) and management judgement involved in identifying items appropriate for capitalisation.</p> <p>Immaterial amendments were required in the prior year. We do not deem intangibles to be an enhanced or significant risk due to the relative proximity of the balance to our materiality threshold making material misstatement unlikely.</p>	○	○	●	<p>We will complete the following procedures on intangible assets:</p> <ul style="list-style-type: none"><li>• Testing of costs to ensure they have been capitalised in accordance with IAS38;</li><li>• Review of management's impairment review of the costs capitalised on recognition of the assets; and</li><li>• Consideration of management's review of the non-current asset register for items which may have been incorrectly capitalised</li></ul>



# 05

Section 05:

**Value for money**

# 5. Value for money

## The framework for Value for Money work

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

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

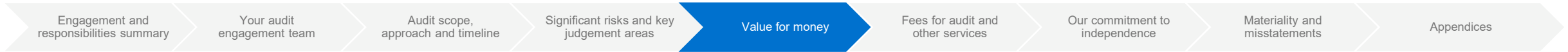
The Code requires us to structure our commentary to report under three specified criteria:

- 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.

Planning and risk assessment	Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include: <ul style="list-style-type: none"><li>• NAO guidance and supporting information</li><li>• Information from internal and external sources including regulators</li><li>• Knowledge from previous audits and other audit work undertaken in the year</li><li>• Interviews and discussions with staff and members</li></ul>
Additional risk based procedures and evaluation	Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.
Reporting	We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report.  Our commentary will also highlight: <ul style="list-style-type: none"><li>• Significant weaknesses identified and our recommendations for improvement</li><li>• Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.</li></ul>

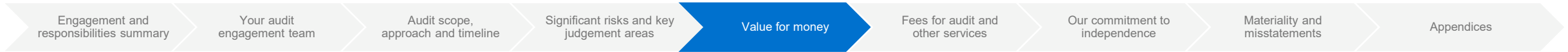


# 5. Value for money

## Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand the Council's arrangements and to identify risks that significant weaknesses in arrangements may exist.

We are currently in the process of completing our planning and risk assessment work. We are yet to identify any risks of significant weaknesses in the Council's arrangements, but will report any identified risks to the Governance, Audit, Risk Management and Standards Committee on completion of our planning and risk identification work..

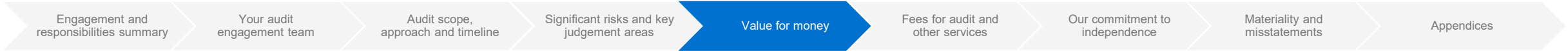


# 5. Value for money

## Our work to follow-up on previous recommendations

As part of our 2021/22 audit, we identified significant weaknesses in the Council's arrangements. The table below sets out the significant weaknesses identified, our previous recommendations and the work we intend to carry out as part of our 2022/23 audit.

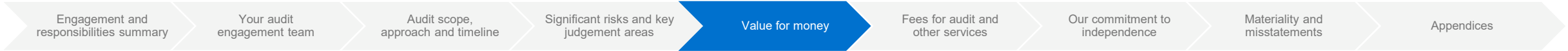
Previously identified significant weakness in arrangements	Relevant reporting criteria	Our 2021/22 recommendations	Planned procedures for 2022/23
<p><b>1. Governance in relation to allegations of fraud and corruption</b></p> <p>In August 2021, the Council were alerted to allegations of fraud and corruption that are currently subject to a criminal investigation by the Police. Allegations of fraud and corruption indicate a possible significant weakness in relation to the Councils system to obtain assurance over the operation of internal controls, including those designed to detect and prevent fraud.</p> <p>The Council's Annual Governance Statement for 2020/21 and 2021/22 reported this as a significant governance matter. The AGS for 2021/22 recognised that the independent review identified 5 recommendations aimed at strengthening controls to mitigate the risk of fraud. Having considered the work of internal audit and the independent review, we considered there to be sufficient evidence of a significant weakness in the Council's governance arrangements for how the Council gained assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.</p>	Governance	We recommended that the Council fully implemented all the recommendations identified by the independent review and by its own internal audit as quickly as possible.	We will follow up with management to assess their progress in implementing the prior year recommendation.



# 5. Value for money

## Our work to follow-up on previous recommendations (continued)

Previously identified significant weakness in arrangements	Relevant reporting criteria	Our 2021/22 recommendations	Planned procedures for 2022/23
<p><b>2. Governance arrangements over the ledger migration: maintaining adequate historic accounting records</b></p> <p>The Council planned to implement a new financial ledger system (D365) to replace its existing SAP system on 1 April 2021, but the implementation did not happen until September 2021. The migration of data from SAP to D365 was largely a migration of closing balances only, meaning historic data had to be stored in a temporary cloud-based location to comply with laws and regulations of maintaining adequate historic accounting records for the purpose of HMRC inspection compliance rules for example.</p> <p>Whilst our audit procedures confirmed the migration of 2021/22 records was materially complete and accurate, we identified that the Council had not performed any form of validation testing of stored historic data to confirm records from the required periods prior to 2021/22 were sufficient to be compliant with laws and regulations. This was compounded by the issue that SAP had been fully decommissioned and was no longer accessible.</p> <p>Since the May 2023 meeting of the Governance, Audit and Risk Management Committee, the Council advised that it was able to provide sufficient records to comply with a HMRC business review, but sufficient evidence of completeness was not available at the point of issuing our Auditors Annual Report for 2021/22..</p> <p>In our view, the weakness identified could lead to non-compliance with statutory requirements in relation to maintaining adequate historic accounting records that could reasonably be expected to lead to a significant impact on the Council's reputation or unlawful actions.</p>	Governance	<p>We recommended that the Council completes a full validation exercise of all the data that has been transferred to the cloud-based storage solution to mitigate the risk of non-compliance with laws and regulations in respect of maintaining adequate accounting records.</p> <p>We also recommended that the Council reviews its governance processes surrounding any future system migrations, with a focus on data validation, to ensure all data validation is completed prior to decommissioning of systems and timely data validation testing.</p>	<p>We will follow up with management to assess their progress in implementing the prior year recommendation.</p> <p>We will also keep in view our previous recommendation when completing our programme of work in response to the financial audit significant risk related to the payroll system migration.</p>

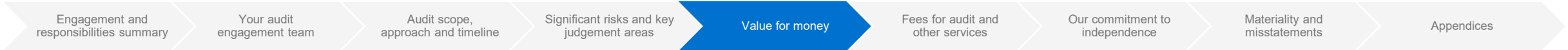




# 5. Value for money

## Our work to follow-up on previous recommendations (continued)

Previously identified significant weakness in arrangements	Relevant reporting criteria	Our 2021/22 recommendations	Planned procedures for 2022/23
<p><b>3. Effectiveness and coverage of internal audit</b></p> <p>We reviewed the Head of Internal Audit’s Annual Opinion on the effectiveness of the Council’s internal control environment for 2021/22, which was “Good with some significant improvements required in a few areas”. This was based on five out of 44 planned internal audit reviews, because resources had been diverted into a fraud investigation that arose in 2020/21.</p> <p>Whilst we understood the resourcing challenges faced by Internal Audit, its limited coverage for 2021/22 meant that potentially elevated areas of risk, such as the change in the general ledger and the associated migration and control charges, were not reviewed. We considered the conclusions reached on the five reports that were completed and discussed with Officers how the Head of Internal Audit may have considered of other means of assurance alongside the reviews that were completed to support their opinion on the Council’s internal control, risk management and governance arrangements. Overall, however, we did not believe the work completed was sufficient to support the Annual Opinion for 2021/22.</p>	Governance	We recommended the Council ensures Internal Audit is adequately resourced and delivers an annual programme of work of sufficient breadth and depth to support a robust Head of Internal Audit opinion that provides adequate assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.	We will follow up with management to assess their progress in implementing the prior year recommendation.



# 06

Section 06:

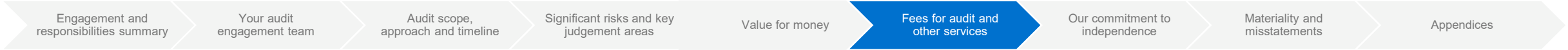
**Fees for audit and other services**

# 6. Fees for audit and other services

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

Area of work	2021/22 fees	2022/23 fees
<b>Recurring fees due to changes in standards and auditor requirements</b>		
Planned fee in respect of our work under the Code of Audit Practice (scale fee)	£116,057	£116,057
Additional testing in respect of property plant and equipment	£10,000	£10,000
Additional testing in respect of defined benefit pension valuations	£3,000	£3,000
Additional testing in respect of new audit standards (ISA220, ISA540, ISA570)	£5,547	£5,547
Additional work in respect of changes to Value for Money Code of Audit Practice	£10,000	£10,000
Additional work in respect of new audit standards (ISA315R)	-	£5,000 - £10,000
<b>Additional fees due to auditor requirements to address risks</b>		
Additional work in respect of infrastructure assets	£9,520	-
Additional work in respect of national pension issue related to triennial reviews	£4,290	£2,000 - £7,000
Additional work in respect of lowering performance materiality	-	£15,000 - £30,000
Additional work in respect of Value for Money risks and significant weakness	£55,205	£10,000 - £20,000
Additional work in respect of property plant and equipment and investment property valuations	£47,470	£5,000 - £15,000
Additional work in respect of inventory valuations	£19,555	-
Additional work in respect of intangibles valuation	£13,015	£2,000 - £5,000
Additional work in respect of data migration	£30,100	£10,000 - £20,000
<b>Total fees</b>	<b>£323,759</b>	<b>TBC</b>

Fees for 2022-23 are estimated based on our progress to date and understanding of issues we either have, or expect, to encounter. We will provide updated estimated fees throughout the audit as part of our audit progress reports. Our fees for 2021/22 are subject to approval from PSAA.

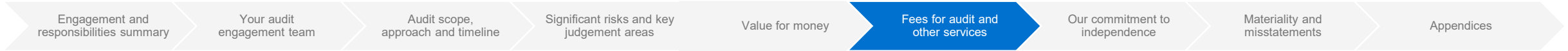


# 6. Fees for audit and other services

## Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work, we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Area of work	2021/22 fees	2022/23 fees
Housing benefit subsidy assurance	£18,300	£21,000
Teachers' pension return assurance	£3,700	£4,300
Pooled housing capital receipts assurance	£4,250	£5,000
Total fees	£26,250	£30,300



# 07

Section 07:

**Our commitment to independence**

# 7. Our commitment to independence

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

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

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

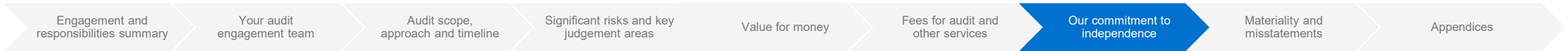
- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit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

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

discuss these with Suresh 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.

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



# 08

Section 08:

**Materiality and misstatements**

# 8. Materiality and misstatements

## Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	12,490
Performance materiality	6,240
Trivial threshold for errors to be reported to the Governance, Audit, Risk Management and Standards Committee	370

## 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 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 based on those financial statements, which provide financial information about a specific reporting entity.

Judgements on materiality are made considering 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;

- 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 based on the information in the financial statements.

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

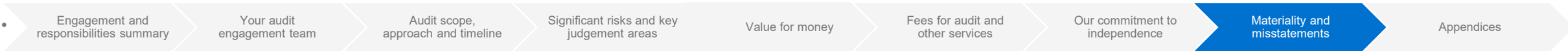
Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and 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 1.8% of gross revenue expenditure at 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 a level above which all identified errors will be reported to the Governance, Audit, Risk Management and Standards Committee.

We consider that the gross revenue of expenditure at 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.





# 8. Materiality and misstatements

## Materiality (continued)

We expect to set a materiality threshold at 1.8% of gross revenue expenditure at surplus / deficit on provision of services. Based on the gross revenue expenditure at surplus / deficit on provision of services in the draft financial statements for the year ended 31 March 2023, we anticipate the overall materiality for the year ending 31 March 2023 to be in the region of £12.4m ( £12.9m in the prior year).

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 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. Based on the material errors that we identified in 2021/22, we deem it necessary to decrease the level of performance materiality from 60% in the prior year to 50% in the audit for the year ended 31 March 2023.

## Misstatements

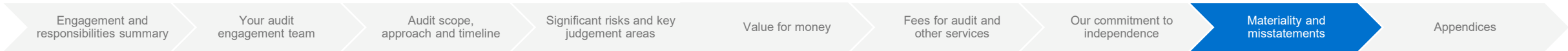
We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Governance, Audit, Risk Management and Standards Committee that is consistent with the level of triviality 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 £370k 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 the Governance, Audit, Risk Management and Standards Committee

The following three types of audit differences above the trivial threshold will be presented to the Governance, Audit, Risk Management and Standards 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.

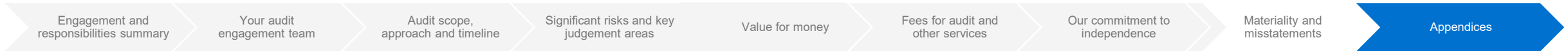
## Key communication points at the planning stage as included in this Audit Strategy Memorandum

- 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.



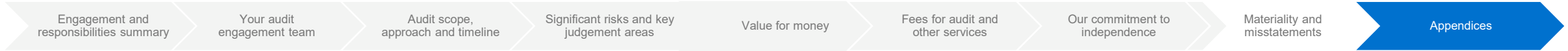
# Appendix A: Key communication points

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 the Governance, Audit, Risk Management and Standards 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 the Governance, Audit, Risk Management and Standards Committee meetings  Audit planning and clearance meetings

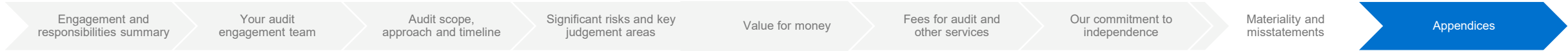
# Appendix A: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <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>	Audit Completion Report
Significant findings from the audit including: <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 the Governance, Audit, Risk Management and Standards Committee in the context of fulfilling their responsibilities.</li></ul>	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report



# Appendix A: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Governance, Audit, Risk Management and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Governance, Audit, Risk Management and Standards Committee may be aware of.	Audit Completion Report and the Governance, Audit, Risk Management and Standards Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <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>	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report



# 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.

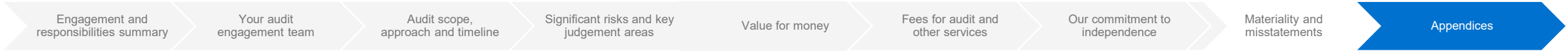
### Greater emphasis on understanding IT

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.



# Suresh Patel

## **Mazars**

30 Old Bailey,  
London,  
EC4M 7AU

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# Indicative Audit Strategy Memorandum

London Borough of Harrow Pension Fund

Year ending 31 March 2023



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- 01 Engagement and responsibilities summary
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- 04 Significant risks and other key judgement areas
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- 06 Our commitment to independence
- 07 Materiality and misstatements
  
- A Appendix A – Key communication points
- Appendix B – Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

This document is to be regarded as confidential to Harrow Pension Fund. It has been prepared for the sole use of the Governance, Audit, Risk Management and Standards 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.



Governance, Audit, Risk Management and Standards Committee  
London Borough of Harrow  
Forward Drive  
Harrow  
HA3 8FL

12 March 2024

Dear Members

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

We are pleased to present our Indicative Audit Strategy Memorandum for London Borough of Harrow Pension Fund 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 6 of this document also summarises our considerations and conclusions on our independence as auditors.

We see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the audit 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). We have yet to complete all our planning procedures, which is why this is an indicative audit strategy memorandum. We will provide the Committee with an update on risks and audit approach on the completion of audit planning.

The Council approved the Pension Fund accounts for the year ending 31 March 2022 in early December 2023. At that stage the Council and us were expecting the government to announce a backstop date for accounts for years ending 31 March 2023 or earlier, to be 31 March 2024. We had previously discussed with the Council the challenges in being able to complete the audit for 2022/23 by this date. However, in early February 2024, the government released its consultation on the backstop arrangements and proposed a new date of 30 September 2024. In light of the later backstop date, we agreed with the Council to commence the audit of the 31 March 2023 accounts, with the aim of completing our audit procedures by the end of August. This assumes that the Council prepare good quality draft statements, supported by all relevant working papers and system reports and can service the audit during the agreed audit period. Without the two-way collaboration, there is risk that we will disclaim the audit opinion so the Council can publish their accounts by the backstop date.

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 07977 261873.

Yours faithfully

**Suresh Patel, Mazars LLP**

Mazars LLP – 30 Old Bailey, London, EC4M 7AU

[www.mazars.co.uk](http://www.mazars.co.uk)

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# 01

Section 01:

**Engagement and  
responsibilities summary**

# 1. Engagement and responsibilities summary

## Overview of engagement

We are appointed to perform the external audit of London Borough of Harrow Pension Fund (the Pension Fund) 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.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

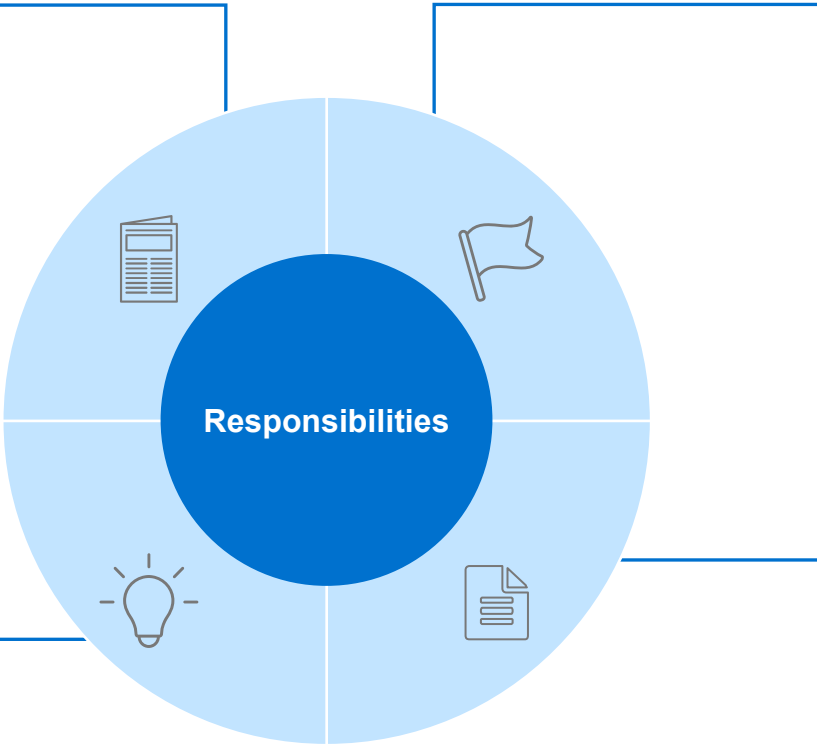
### Audit opinion

We are responsible for forming and expressing an opinion on 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 the Governance, Audit, Risk Management and Standards Committee, as those charged with governance, of their responsibilities.

The Interim Director of Finance and Assurance is responsible for the assessment of whether it is appropriate for the Pension Fund 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 Interim Director of Finance and Assurance's use of the going concern basis of accounting in the preparation of the financial statements.

### Consistency Statement

We are responsible for forming and expressing an opinion on the consistency of the financial statements within the Pension Fund's annual report and the Pension Fund's financial statements included in the Statement of Accounts of London Borough of Harrow.



### Fraud

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

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit to obtain reasonable assurance that the financial statements taken 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

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 London Borough of Harrow and consider any objection made to the accounts. This would include an objection made to the accounts of the Pension Fund included in the administering authority's financial statements. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Engagement and responsibilities summary	Your audit engagement team	Audit scope, approach and timeline	Significant risks and key judgement areas	Fees for audit and other services	Our commitment to independence	Materiality and misstatements	Appendix
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# 02

Section 02:

**Your audit engagement team**

## 2. Your audit engagement team

We have retained continuity in your audit engagement team, which will support the delivery of an efficient and effective audit.



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# 03

Section 03:

**Audit scope, approach and timeline**



# 3. Audit scope, approach and timeline

## Audit scope

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

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

## Audit approach

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to 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 consider 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 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 7.

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



# 3. Audit scope, approach and timeline

The government has proposed a backstop date for the Council to publish the Pension Fund audited statements for the year ending 31 March 2023 by the 30 September 2024. We have agreed a timetable with the Council to enable this. It requires us to work collaboratively to enable us to complete our audit work by the end of August, draft our audit reporting by early September and for the Council to arrange its approval process by mid-September. It also requires the Council to ensure that the Pension Fund draft accounts for 31 March 2023 are of a good quality, supported by all relevant working papers and system reports and that it can service the audit during the interim and fieldwork phases as outlined below.

## Planning and Risk Assessment – January 2024

- Planning visit and developing our understanding of the Pension Fund
- Initial opinion assessment
- 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 – Early September 2024

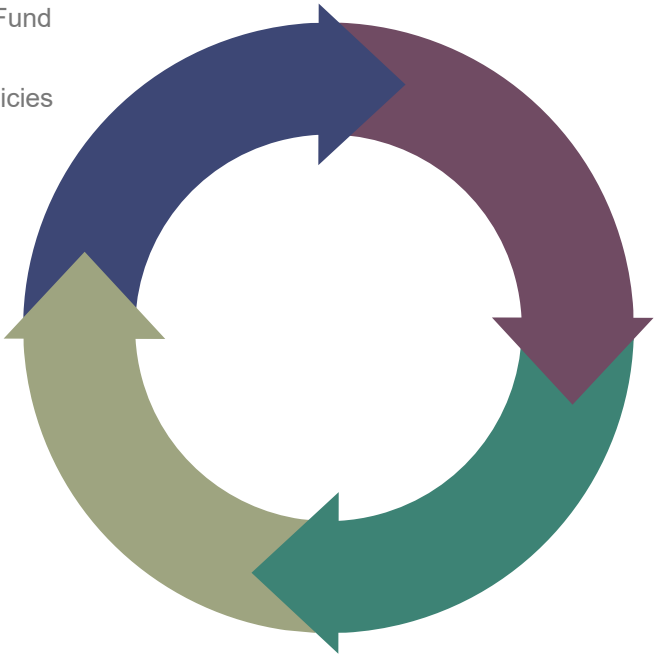
- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to the Governance, Audit, Risk Management and Standards Committee
- Reviewing subsequent events
- Signing the independent auditor's reports

## Interim – January to March 2024

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

## Fieldwork – March to August 2024

- 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

#### 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 control's evaluation procedures.

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

#### Management's experts and our experts

Management makes use of experts in specific areas when preparing the Pension Fund'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
Disclosure notes on funding arrangements and actuarial present value of promised retirement benefits	Hymans Robertson	NAO consulting actuary PwC
Valuation of investments within level 3 of the fair value hierarchy and related disclosures	Investment managers engaged by the fund that prepare valuations	At this stage we have not engaged our own expert for the valuation of level 3 investments. However, we may engage an expert if considered necessary to support the valuation of unusual or complex level 3 investments.

#### Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third-party organisations that provide services to the Pension Fund 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 Pension Fund and our planned audit approach.

Items of account	Service organisation	Audit approach
The calculation and payment of pension benefits, assessment of funding levels based on existing pensioner data.	London Borough of Harrow Council	We will seek appropriate confirmation that the Council's controls and procedures have operated as designed throughout the year and that no weaknesses have been identified that would have a material impact on the information provided to the Pension Fund
Investment valuations and income and all related disclosures	Investment managers	Obtain direct confirmations from the fund managers and substantively test transactions occurring in the year and the valuations applied to investments at the year end.



# 04

Section 04:

**Significant risks and other key  
judgement areas**

# 4. Significant risks and other key judgement areas

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

## Significant risk

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.

## Enhanced risk

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

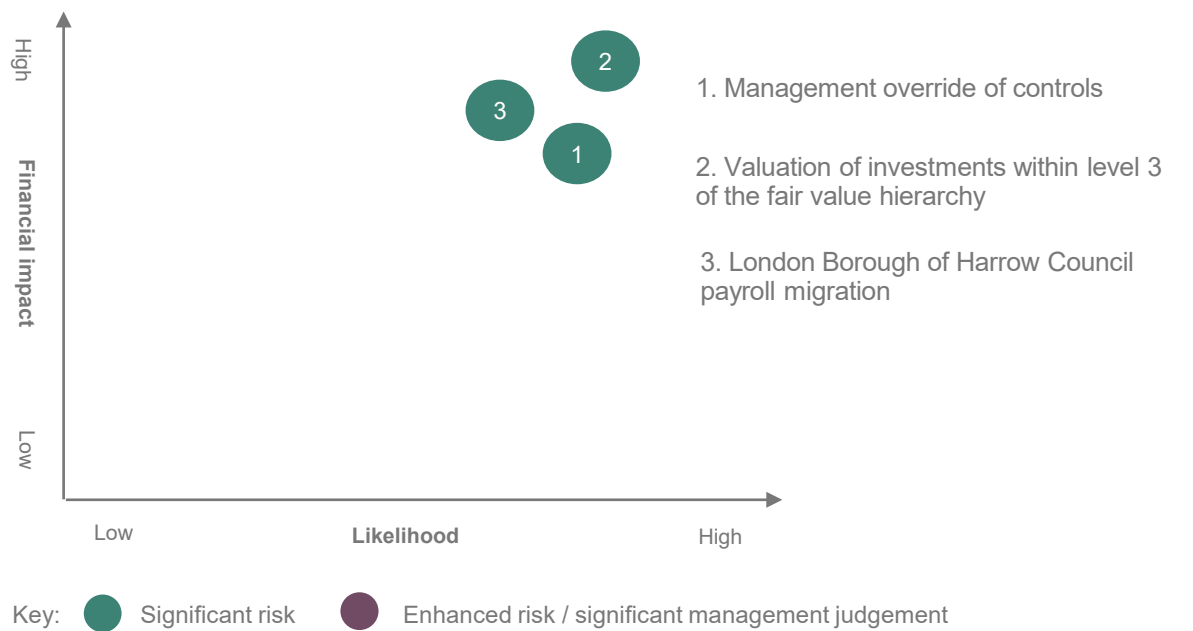
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

## Standard risk

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

## Summary risk assessment

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



# 4. Significant risks and other key judgement areas

## Specific identified audit risks and planned testing strategy

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

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	<p><b>Management override of controls</b></p> <p>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>	●	○	○	<p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p> <p>We will address the risk through performing audit procedures, covering a range of areas including (but not limited to):</p> <ul style="list-style-type: none"><li>• accounting estimates included in the financial statements for evidence of management bias;</li><li>• any significant transactions outside the normal course of business;</li><li>• A sample of journals that meet our risk criteria and the other adjustments recorded in the general ledger in preparing the financial statements.</li></ul>



# 4. Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p><b>Valuation of investments within level 3 of the fair value hierarchy</b></p> <p>As at 31 March 2022, the Pension Fund held investments which were not quoted on an active market with a fair value of £122.03 million, accounting for 11.99% of the Fund's net investment assets.</p> <p>Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end.</p> <p>As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.</p>	○	●	●	<p>We plan to address this risk by completing the following additional procedures:</p> <ul style="list-style-type: none"><li>confirm that the investment valuations disclosed in the accounts are consistent with quoted prices taken from active markets;</li><li>obtain confirmations of valuations directly from investment fund managers and agree their valuations to the figures disclosed in the accounts;</li><li>obtain fund manager ISAE 3402 Control Reports, confirming that the assets have been independently valued and reviewing for any exceptions which may impact the Pension Fund's investment asset valuations to inform further procedures if necessary (we are not relying on these reports); and</li><li>agree the Pension Fund's share of the fund to the fund's net assets held within their financial statements.</li></ul>



# 4. Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	<p><b>Migration of payroll data</b></p> <p>The Council's payroll system is integrated within the HR module of the ledger system. Data was migrated across from the SAP HR module to the Dynamics 365 HR module during the period from 05/03/2022 – 25/04/2022. The Council is the administering body of the pension scheme and accounts for approximately 85-50% of the fund.</p> <p>There is a risk that the migration will not capture all data held in the prior system. The omission of such data could result in the contributions data provided by the Council to the Pension being inaccurate, resulting in material misstatements in the Pension Fund accounts.</p>	○	●	○	We are currently in discussions with officers to understand the implications of the payroll migration to the Pension Fund audit.





# 05

Section 05:

**Fees for audit and other services**

# 6. Fees for audit and other services

## Fees for work as the Pension Fund’s appointed auditor

We indicate below our estimate of the fees required to deliver the audit.

Area of work	2022/23 Proposed Fee	2021/22 Actual Fee
Code Audit Work	£16,170	£16,170
Additional fees for additional work in respect of:		
Level 3 investment assets	£8,000-12,000	£6,358
IAS 19 assurances	£5,000-7,000	£5,108
Membership data testing	n/a	£9,400
Payroll migration risk	TBC	n/a
ISA315(Revised)	£2,000-5,000	n/a
Total fees	TBC	£37,035



# 06

Section 06:

**Our commitment to independence**

# 7. Our commitment to independence

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

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

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

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

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

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



# 07

Section 07:

**Materiality and misstatements**

# 8. Materiality and misstatements

## Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	9,500
Performance materiality	7,600
Specific materiality: Fund Account	4,000
Performance Materiality: Fund Accounts	3,200
Trivial threshold for errors to be reported to the Governance, Audit, Risk Management and Standards Committee	280

## 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 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 based on 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 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 based on 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 net assets of the scheme available to pay benefits. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and a level above which all identified errors will be reported to the Governance, Audit, Risk Management and Standards Committee.

We consider that the net assets of the scheme available to pay benefits remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.



# 8. Materiality and misstatements

## Materiality (continued)

We expect to set a materiality threshold at 1% of net assets of the scheme available to pay benefits. Based on the net assets disclosed in the draft financial statements, we anticipate the overall materiality for the year ending 31 March 2023 to be in the region of £9.5m (£10.1m in the prior year).

Our provisional specific materiality for the fund account is set based on a benchmark of benefits payable. We expect to set a materiality threshold at 10% of benefits payable. Based on total benefits payable disclosed in the draft financial statements we anticipate the fund account specific materiality for the year ending 31 March 2023 to be in the region of £4.0m (£3.6m in the prior year).

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 low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

## Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Governance, Audit, Risk Management and Standards 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 £280k 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 the Governance, Audit, Risk Management and Standards Committee

The following three types of audit differences above the trivial threshold will be presented to the Governance, Audit, Risk Management and Standards 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 the Governance, Audit, Risk Management and Standards 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 the Governance, Audit, Risk Management and Standards Committee meetings  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>	Audit Completion Report
<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 the Governance, Audit, Risk Management and Standards Committee in the context of fulfilling their responsibilities.</li> </ul>	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report



# Appendix A: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Governance, Audit, Risk Management and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Governance, Audit, Risk Management and Standards Committee may be aware of.	Audit Completion Report and the Governance, Audit, Risk Management and Standards Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <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>	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report



# 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 Pension Fund's 2022/23 audit.

The most significant changes relevant to the Pension Fund'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 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.



# Suresh Patel

## **Mazars**

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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