



Indicative Audit Strategy Memorandum  
**Broxtowe Borough Council – Year ending 31 March 2024**

September 2024

# Contents

- 01 Engagement and responsibilities summary
- 02 Audit scope, approach and timeline
- 03 Emerging areas of focus for the audit
- 04 Value for money arrangements
- 05 Audit fees

This document is to be regarded as confidential to Broxtowe Borough Council. It has been prepared for the sole use of Governance, Audit 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.



Engagement and responsibilities summary

01

# Engagement and responsibilities summary

## Overview of engagement

We are appointed to perform the external audit of Broxtowe Borough Council (the Council) for the year to 31 March 2024. 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: [www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/](http://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/). Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined overleaf.

At the time of preparing our Audit Strategy Memorandum, there are a series of active consultations in place that could impact upon both the Council's financial statements and the work we are required to undertake, these include;

- Changes to the Code of Audit Practice (<https://www.nao.org.uk/code-of-audit-practice-consultation/>)
- Ministry of Housing, Communities and Local Government approach to audit delays (<https://www.gov.uk/government/news/significant-measures-to-tackle-worsening-backlog-in-local-audit>)

We will refine our audit approach as the outcome of these consultations become clearer and provide further information to the Committee in due course.

# Engagement and responsibilities summary

## 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 Governance, Audit and Standards Committee, as Those Charged With Governance, of their responsibilities.

The Deputy Chief Executive and Section 151 officer 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 Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements.

## 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 compliance with relevant laws and regulations, and the reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management [include Internal audit, other key individuals where relevant] as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.



## Internal control

Management is responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

We are responsible for obtaining an understanding of internal control relevant to our audit and the preparation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Broxtowe Borough Council's internal control.

## 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 accounts of the Council and consider objections 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.

## Value for money

We are also responsible for forming a view 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.

Audit scope, approach, and timeline

02

# 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 the nature, extent, and timing of our audit procedures are primarily driven by the areas of the financial statements we consider to be more susceptible to material misstatement. Following our risk assessment where we assess the inherent risk factors (subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud) to aid in our risk assessment, we develop our audit strategy and design audit procedures to respond to the risks we have identified.

If we conclude that appropriately-designed controls are in place, we may plan to test and rely on those controls. If we decide controls are not appropriately designed, or we decide that it would be more efficient to do so, we may take a wholly substantive approach to our audit testing where, in our professional judgement, substantive procedures alone will provide sufficient appropriate audit evidence. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of detail (of classes of transaction, account balances, and disclosures), and substantive analytical procedures. Irrespective of our assessed risks of material misstatement, which takes account of our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transaction, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view.

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

# Audit scope, approach, and timeline

## Risk-based approach





# Audit scope, approach, and timeline

## Audit timeline



Emerging areas of focus for the audit

03

# Significant risks and other key judgement areas

## Specific identified audit risks and planned testing strategy

Based on the work performed to date, these are the emerging areas of audit focus.

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 Committee.

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	<p><b>Management override of controls</b> This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	●	●	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

# Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p><b>Valuation of the Net Defined Benefit Pension Asset/Liability</b></p> <p>The defined benefit liability relating to the Local Government pension scheme represents a significant balance on the Council's balance sheet. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.</p>	●	○	●	<p>We plan to address the risk by:</p> <ul style="list-style-type: none"> <li>• Obtaining and understanding of the skills, experience, objectivity and independence of the Pension Fund's actuary;</li> <li>• Obtaining confirmation from the auditors of Nottinghamshire Pension Fund that the Pension Fund have designed and implemented controls to prevent and detect material misstatement. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate;</li> <li>• Evaluating and challenging the work performed by the Nottinghamshire Pension Fund auditor on the Pension Fund investment assets, and considering whether the outcomes would materially impact our consideration of the Council's share of Pension Fund assets;</li> <li>• Reviewing the actuarial allocation of Pension Fund assets to the Council including comparing the Council's share of the assets to other corroborative information;</li> <li>• Reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges and utilising information by the consulting actuary engaged by the National Audit Office.</li> <li>• Agreeing the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements; and</li> <li>• Reviewing and challenging the Council's assessment, under the requirements of IFRIC14, of its Pension surplus and confirming that the accounting treatment is appropriate and reasonable</li> </ul>

# Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	<p><b>Valuation of Land &amp; Buildings, Council Dwellings and Investment Property.</b></p> <p>Land and buildings assets are a significant balance on the Council's balance sheet. The valuation of these properties is complex and is subject to a number of management assumptions and judgements. Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area.</p>	●	●	●	<p>We plan to address this risk by:</p> <ul style="list-style-type: none"> <li>critically assessing the scope of work, qualifications, objectivity and independence of the Council's valuer to carry out the required programme of revaluations;</li> <li>considering whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA code of practice and the Council's accounting policies;</li> <li>Testing a sample of valuations carried out in the year to confirm they have been carried out on the correct basis and that the underlying judgements are based on relevant inputs and are reasonable;</li> <li>assessing whether valuation movements are in line with market expectations by considering valuation trends; and</li> <li>critically assessing the approach that the Council adopts to ensure that assets that are not subject to revaluation in 2023/24 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Councils valuers.</li> </ul>

Value for money arrangements

04

# Value for money arrangements

## 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.

2023/24 will be the fourth 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; and
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.

Our risk assessment is ongoing and will be updated as and when the work on 2022/23 and earlier years is completed.

Planning and risk assessment	Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources 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; and</li><li>• interviews and discussions with officers 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; and</li><li>• emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.</li></ul>

Audit fees

05



# Audit fees and other services

## Fees for audit and other services

The fee (exclusive of VAT) for the audit of Broxtowe Borough Council for the year ended 31 March 2024, and for any non-audit assurance services or other non-audit services provided by Forvis Mazars LLP in the period, are outlined below.

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

Area of work	2023/24 Proposed Fee
Code Audit Work – Scale fee	£144,729
Additional fees in respect of additional work from the introduction of new auditing standards (ISA 540 estimates)	Estimated £6,000 - £8,000
Additional fees in respect of additional work from the introduction of new auditing standards (ISA 315)	Estimated £12,000 - £16,000

Public Sector Audit Appointments (PSAA) set the fee scale each year based on the income it needs from audit fees to meet the costs of the audit contracts for opted in bodies and its own costs. PSAA has published the scale fee for 2023/24 on its website ([www.psa.co.uk/appointing-auditors-and-fees/](http://www.psa.co.uk/appointing-auditors-and-fees/)), where it also explains the basis of its calculations in coming to this value. PSAA propose using the fee variations process for certain areas where it felt there was insufficient information at the time to include in the 2023/24 scale fee.

It expects to build the following into the future fee scale:

- ISA315 Identifying and Assessing the Risks of Material Misstatement, applicable from 2022/23
- IFRS16 Leases, applicable from 2024/25.

Periodically, PSAA returns any surplus to opted-in bodies by means of a distribution, once it is clear the surplus is no longer needed.

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