

Annual Audit Letter 2014/15

Craven District Council

October 2015



Mazars LLP
Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Members
Craven District Council
1 Belle Vue Square
Broughton Road
Skipton
North Yorkshire
BD23 1FJ

26 October 2015

Dear Members

Annual Audit Letter 2015

We are delighted to present to you this years Annual Audit Letter.

We carried out the audit in accordance with the Code of Audit Practice for Local Government bodies as issued by the Audit Commission and delivered all expected outputs in line with the timetable established by the Accounts and Audit Regulations 2011 and the National Audit Office.

I would also like to express my thanks for the assistance of the finance team, senior officers and the Audit and Governance Committee during the audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6314 or cameron.waddell@mazars.co.uk

Yours faithfully

Cameron Waddell
Partner
Mazars LLP

Contents

01 Overall messages	3
02 Financial Statements	4
03 Value for Money Conclusion.....	5
04 Future challenges / other commentary	9
05 Fees and closing remarks	10

01 Overall messages

Purpose of this letter

Our Annual Audit Letter provides a summary of our work and findings for the 2014/15 audit period for Craven District Council (the Council), and other interested parties.

In addition to this Letter, we issued and presented our Audit Completion Report, along with a follow up Letter, to the Audit and Governance Committee on 29 September 2015. These provide more detail on the work we have undertaken as the Council's external auditor in 2014/15. The key conclusions for each element of our audit are summarised below.

Our audit of the statement of accounts

We issued an audit report including an unqualified opinion on the Council's financial statements on 30 September 2015.

Our audit proceeded smoothly and we did not encounter any significant issues whilst undertaking our work. Management agreed to amend all errors identified by our audit. The finance team were cooperative during our work and the quality of the financial statements and working papers once again improved this year. Officers recognise the need to further develop accounts production and quality assurance processes to improve the quality of the financial statements in future years. Further details are provided in the sections that follow.

Our Value for Money conclusion

We performed our work in line with the Audit Commission's Code of Audit Practice for Local Government bodies and the Commission's guidance on the Value for Money conclusion for 2014/15 to provide us with sufficient assurance that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Our work in this area focussed on the two criteria specified by the Audit Commission, and we issued an unqualified value for money conclusion on 30 September 2015. Further details are provided in the sections that follow.

Whole of Government Accounts (WGA)

We provide assurance to the National Audit Office (NAO), as the auditor of central government departments. As the Council's activity is below the threshold set by the NAO for a full review of WGA, the procedures we were required to carry out are limited to reporting the levels of income, expenditure assets and liabilities. We sent our return to the National Audit Office on 30 September 2015.

Our other responsibilities

As the Council's appointed external auditor, we have other powers and responsibilities as set out in the Audit Commission Act 1998. These include responding to questions on the accounts raised by local electors as well as a number of reporting powers such as reporting in the public interest. We did not receive any formal objections or questions in relation to the 2014/15 accounts and did not need to exercise our wider reporting powers.

02 Financial Statements

Audit of the financial statements

We audited the Council's financial statements in line with auditing standards and we reported the detailed findings of the audit in our Audit Completion Report and subsequent follow up Letter. We issued an audit report including an unqualified opinion on the Council's financial statements on 30 September 2015.

Preparation of the accounts

We have seen a continual improvement in the quality of the financial statements over the past few years and the standard of supporting working papers also improved this year. Other supporting evidence was produced on a timely basis throughout the audit.

Issues arising from the audit of the accounts

The audit progressed smoothly, and the errors identified mostly related to disclosure notes in the accounts. Management amended the draft accounts for the small number of changes identified during our audit before they were finalised on 29 September. Recognising the need to reduce the number of errors in the draft financial statements, officers plan to strengthen accounts production and quality assurance processes to improve the quality of the financial statements in future years.

Annual Governance Statement ('AGS')

The AGS is drafted by the Council to provide assurance to the reader over how it is managed and how dealt with risks in the year. We reviewed the AGS to see whether it complied with relevant guidance and whether it was misleading or was inconsistent with what we know about the Council. We found no areas of concern to report in this context.

Weaknesses in internal control

Our work identified that the Council's accounts closedown processes and management review of the draft financial statements failed to identify material overstatement of expenditure due to incorrect treatment of recharges. Management have agreed to amend their processes to mitigate the risk of this issue arising again in future years.

03 Value for Money Conclusion

For 2014/15, we were required to give a statutory conclusion on the Council's arrangements to secure Value for Money (VfM) in its use of resources, based on the following two specified reporting criteria:

Criteria	Focus of each criterion
The Council has proper arrangements in place for securing financial resilience.	The Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The Council has proper arrangements for challenging how it secures economy, efficiency, and effectiveness.	The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

As part of our work, we also:

- review the annual governance statement;
- review the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities (where applicable); and
- carry out any risk-based work we determined to be appropriate.

Like other public sector bodies, the Council faces a number of challenges and in light of these we reviewed the Council's arrangements for managing financial risks and securing a stable financial position. We identified a significant risk in the Audit Strategy Memorandum regarding financial pressures faced from reduced funding. We addressed this risk by reviewing budget monitoring and reporting and reviewing plans to deliver future savings, and through our work were able to mitigate the risk we identified.

The table overleaf shows commentary alongside each aspect of the two criteria and we have indicated alongside each a rating. This is followed by a reality check section. All are green indicating that the expected arrangements were found to be in place in each area and an unqualified VfM conclusion has been issued.

Financial resilience

Criterion	Aspect	Commentary	Arrangements in place
Arrangements for securing financial resilience	Financial Governance	<p>Like other public sector bodies, the Council faces a number of challenges in this area, including the need to:</p> <ul style="list-style-type: none"> • improve service quality and respond to rising demand within reduced budgets; • deliver required efficiency savings; and • manage the impact of increases on demand linked to demographic changes. <p>A structured monitoring cycle is in place which includes VfM Clinics, reports to Corporate Leadership Team (CLT), Policy Committee and Audit Committee as required on both performance and detailed budget information. The Medium Term Financial Strategy (MTFS) is aligned to the priorities set out in the Council Plan, and the Performance Management Framework sets out the corporate approach to financial and service planning - incorporating the development of the MTFS, Council Plan and Service Plans. The Council has underspent against budget for a number of years, and they have set a balanced budget for 2015/16.</p>	Yes
	Financial Planning	<p>As noted above, the Council has underspent against budget for a number of years, and has set a balanced budget for 2015/16. The Council understands it is reliant on the funding from central government. The Council's Fees and Charges Policy is reviewed annually and taken to Policy Committee for approval in November.</p> <p>Financial and corporate planning processes are closely aligned; this has been particularly evident in the current difficult economic environment. Risk management arrangements are in place. The Council's Risk Management Group meets to scrutinise significant risks identified on the risk register prior to reporting to CLT for sign off. Reports are taken to Audit Committee to scrutinise and approve changes to the risk register.</p> <p>The Council clearly takes a longer term view in its financial planning. It has a robust MTFS that is helping it to manage the difficult economic climate and the cuts in government funding. As the future financial settlements are uncertain, financial modelling is a key element of the MTFS, and the Council uses sensitivity analysis where appropriate.</p>	Yes
	Financial Control	<p>The Council has managed its financial position well. Budget setting is robust and close monitoring ensured delivery of spending within budget, based on draft 14/15 accounts. Monthly and Quarterly Monitoring processes are in place as set out in the Performance Management Framework. There have been no significant unexpected under or overspends.</p>	Yes

Securing economy, efficiency and effectiveness

Criterion	Aspect	Commentary	Arrangements in place
Arrangements for challenging economy, efficiency and effectiveness	Prioritising resources	<p>CLT has a good grasp of the issues the Council faces and is taking the action needed to secure its financial position. The Council has delivered planned savings in the previous years and in 2014/15. The Council has delivered a surplus since 2012/13, including 2014/15.</p> <p>Savings Plans are developed as part of the budget setting process in consultation with staff and Members. The Council undertakes an annual Budget Consultation Process. This is promoted on the website, at Council sites, press releases, emails to stakeholders and emails to Residents Panel, etc.</p> <p>The Council takes a structured approach to cost reductions and prioritising resources, looking at options and delivering change on a business case approach.</p> <p>The Council is proactively looking at savings across the organisation. A wide range of savings have been delivered to date. These are a mixture of:</p> <ul style="list-style-type: none"> • strategic e.g. shared services; • savings from service reviews across a wide range of services including finance, democratic services, customer services, revenues and benefits; • vacancy management across all services; and • general procurement. 	Yes
	Improving efficiency and productivity	<p>The Council focusses on overall costs and cost per head of population rather than specific process unit costs, and there has been no real change to approach. However, a review of service and central administration recharges commenced during 2014/15 to ensure costs are correctly allocated to services in future budgets.</p> <p>Benchmarking activity is largely incorporated into service reviews – as necessary. This includes benchmarking with others and with service budgets/performance/ structures.</p> <p>Arrangements are continually challenged as part of service reviews and savings plan development. Community Right to Challenge process now agreed and being promoted.</p> <p>The Council sets itself challenging savings targets and has delivered these so far. Savings are monitored on a quarterly basis. Budgets have been met, with surpluses in 2013/14 and again in 2014/15 based on draft financial statements.</p>	Yes

Overall assessment

Having gathered evidence of the Council's arrangements for each criterion we conducted a 'reality check', building upon our existing knowledge of the Council and considering the robustness of our assessment by referring to:

- reports by statutory inspectorates or other regulators;
- achievement of performance and other targets; and
- performance against budgets and other financial targets.

Evidence	Auditor assessment
Reports by statutory inspectorates or other regulators	We reviewed the VfM profiles (based on data previously maintained by the Audit Commission, but now available on the Public Sector Audit Appointments website). Based on this review, there were no indicators which would suggest weaknesses in the Council's arrangements, or any information contrary to our knowledge of the Council.
Achievement of performance and other targets	We did not identify any matters that impacted on our VfM conclusion.
Performance against budgets and other financial targets	The Council has a history of achieving budget targets and did so in 2014/15 as described in the sections above.

Annual Governance Statement

We reviewed the Council's Annual Governance Statement to identify if there were any issues disclosed by the Council that would lead us to consider that the Council did not have proper arrangements for securing economy, efficiency and effectiveness. Our review did not identify any such issues.

Overall Conclusion

Our overall conclusion, having carried out a 'reality check', is that the Council had adequate arrangements in place for each criterion and an unqualified VFM conclusion was issued.

04 Future challenges / other commentary

The Council continues to develop and modify its future plans to respond to reductions in funding.

Managing spending reductions will continue to become more and more difficult if it is not to affect service provision to the public, especially in light of the fact that the major share of the Council's expenditure relates to staff costs.

The Council has made good progress in securing efficiencies to date and the Council has been able to increase its usable reserves between 2013/14 and 2014/15.

It is likely that the next few years will be even more difficult than the past few, and we will continue to monitor the situation during this coming year's audit, however, the Council is well placed to meet the challenge.

Whilst managing the challenge of funding reductions, the Council is also facing changes through the impact of local devolution. Although the future landscape remains unclear, a number of proposals have been submitted to central government, all of which would change the way the Council operates. All of the options seek greater powers from central government, in relation to transport, business rates retention, and funding settlements.

05 Fees and closing remarks

Our Audit Strategy Memorandum issued and presented to the Audit and Governance Committee, set out our proposed fees for the 2014/15 audit, which are based on a scale fee set by the Audit Commission. The fees applicable to our work in 2014/15 are summarised below.

Element of work	2013/14 Final Fee	2014/15 Scale fee (as previously reported)	2014/15 Final Fee
Code audit work	£60,662	£61,092	£61,092
Certification work	£12,716*	£12,670	£12,670**
Non-audit work: review of internal audit	£2,250	~	~
Total	£75,628	£73,762	£73,762

We confirm that we did not undertake any non-audit work during the year.

*As reported in our December 2014, 2013/14 Certification Report.

**The fee outlined above in relation to certification work is an estimate as we are yet to complete our work on certifying the Council's Housing Benefit claim. We will confirm the final fee charged for certification work when we issue our 2014/15 Certification Report.

During the audit year we have continued to support the Council in other ways, including:

- attendance at Audit and Governance Committee meetings where we inform the Committee about progress on the audit, report our key findings and update it about developments in the public sector and the wider environment; and
- hosting events for staff, such as our Accounts workshops, or more focused Accounts update sessions, as appropriate.

Further detailed findings, conclusions and recommendations in the areas covered by the audit are included in the reports issued to the Council during the year, which are summarised below.

Report	Date issued
2014/15 Audit Fee Letter	April 2014
Audit Strategy Memorandum	March 2015
Progress reports to Audit and Governance Committee	To each meeting
Audit Completion report, including follow up Letter	September 2015
Auditors Report	September 2015
Annual Audit Letter	October 2015

The Council and management have taken a positive and constructive approach to our audit and I wish to thank them and the Audit and Governance Committee for their support and co-operation during our audit.

We are committed to supporting the Council move forward with clarity of purpose and strong governance and accountability arrangements. Mazars currently audits and advises a number of other councils across the country and will continue to share our insights from other audits, and relevant knowledge from the wider public and private sector.

Cameron Waddell
Partner
October 2015

Should you require any further information on this Letter or on any other aspects of our work, please contact:

Cameron Waddell CPFA

Director

T: 0191 383 6314

E: cameron.waddell@mazars.co.uk

M: 07813 752053

Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and Letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any Member or officer in their individual capacity or to any third party.