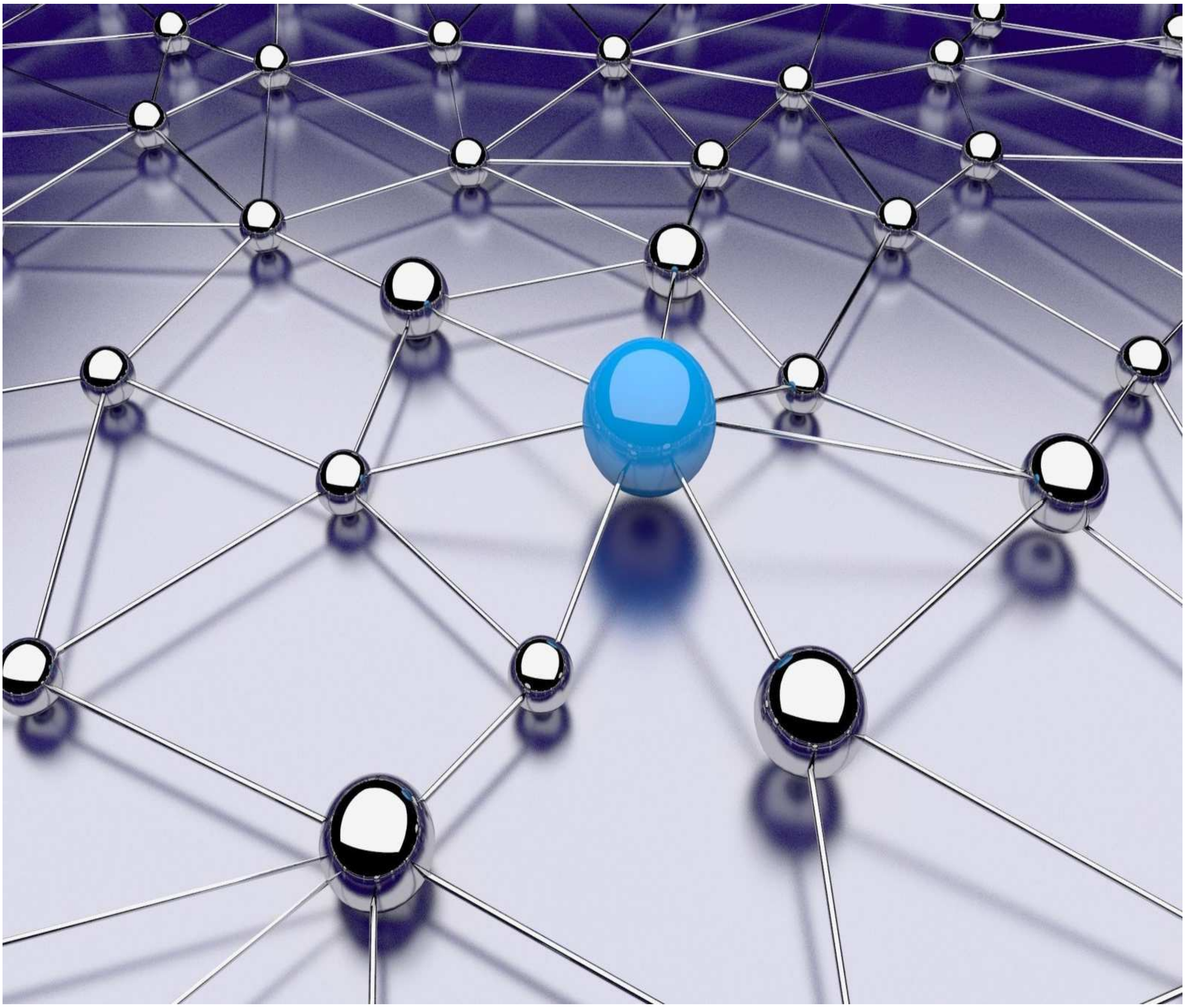
Audit Strategy Memorandum

Craven District Council

April 2016



Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Audit and Governance Committee
Craven District Council
1 Belle Vue Square
Broughton Road
Skipton
North Yorkshire
BD23 1FJ

5 April 2016

Dear Members

Audit Strategy Memorandum for the year ending 31 March 2016

We are delighted to present our Audit Strategy Memorandum for Craven District Council for the year ending 31 March 2016.

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. It is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, and Appendix A summarises our considerations and conclusions on our independence as auditors.

We value two-way communication with you and we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion through which we can also understand your expectations.

This document will be presented at the Audit Committee meeting on 5 April 2016. If you would like to discuss any matters in more detail please do not hesitate to contact me on 0191 383 6300.

Yours faithfully

Cameron Waddell

Partner, for and on behalf of Mazars LLP

Contents

Our reports are prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies’ and ‘Terms of Appointment’ issued by Public Sector Appointments Limited. 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.

01 Purpose and background

Purpose of this document

This document sets out our audit plan in respect of the audit of the financial statements of Craven District Council (the Council) for the year ending 31 March 2016, and forms the basis for discussion at the Audit and Governance Committee meeting on 5 April 2016.

The plan sets out our proposed audit approach and is prepared to assist you in fulfilling your governance responsibilities. The responsibilities of those charged with governance are defined as to oversee the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the financial reporting process.

We see a clear and open communication between us and you as important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring as part of the two-way communication process that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks you face which might affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

Appendix C outlines the form, timing and content of our communication with you during the course of the audit. Appendix D sets out forthcoming accounting and other issues that will be of interest.

Scope of engagement

We are appointed to perform the external audit of your accounts for the year to 31 March 2016. The scope of our engagement is laid out in the National Audit Office's Code of Audit Practice.

Responsibilities

- **Audit opinion**

  We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management nor the Audit Committee, as those charged with governance, of their responsibilities. We are also required to reach a conclusion on the arrangements that the Council has put in place to secure economy, efficiency and effectiveness in its use of resources (our Value for Money conclusion).

- **Whole of Government Accounts**

  We report to the National Audit Office in respect of the consistency of the Council's Whole of Government Accounts submission with 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. In accordance with International Standards on Auditing (UK and Ireland) we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

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

We are also required to give an elector, or any representative of the elector, an opportunity to question us about the accounting records of the Council and consider any objection made to the accounts by an elector.

02 Audit scope, approach and timeline

Audit scope

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

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

Audit approach

We apply a risk-based audit approach primarily driven by the matters we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment we develop our audit strategy and design audit procedures in response to this assessment. The work undertaken will include a combination of the following as appropriate:

- testing of internal controls;
- substantive analytical procedures; and
- detailed substantive testing.

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.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Materiality and misstatements are explained in more detail in Appendix B.

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

Planning

- Planning visit
- Risk assessment
- Considering proposed accounting treatments and accounting policies
- Developing audit strategy
- Agreeing timetable and deadlines
- Preliminary analytical review

Interim work and final fieldwork

- **Interim work**
- Document systems and controls
- Perform walkthroughs
- Interim controls testing
- **Final fieldwork**
- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting

Completion

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

Reliance on internal audit

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

Where we intend to rely on the work of 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.

Reliance on other auditors

There are material entries in your financial statements where we will seek to place reliance on the work of other auditors.

Item(s) of account	Other auditor	Nature of assurance to obtain from the auditor
Pensions Defined benefit liability and associated pension entries and disclosures relating to the Council's participation in the North Yorkshire County Council Pension Fund.	KPMG have recently replaced Deloitte as external auditor of North Yorkshire County Council Pension Fund.	We have agreed a programme of work with the Pension Fund auditor that aims to provide assurance over the accuracy of source data used by the Actuary.

The work of experts

The following experts are relevant to our work for the year ended 31 March 2016.

Item(s) of account	Management's expert	Our expert
Property plant and equipment valuations.	The Council uses an external valuer to provide valuations of council land and buildings.	Audit Commission's consulting valuer (Gerald Eve).
The defined benefit pension scheme liability, pensions reserve and associated pensions entries and disclosures relating to the Council's participation in the North Yorkshire County Council Pension Fund.	The Council uses an actuary (AON Hewitt) to provide valuations in respect of the Local Government Pension Scheme.	Audit Commission's consulting actuary (PWC).
Disclosure of the fair value of financial instruments.	The Council uses Capita Asset Services (formerly Sector) to provide estimates of the fair value of some financial instruments.	We do not routinely use our own expertise in respect of fair value disclosures.

Timeline

The diagram below sets out the timing of the key phases of our audit work. We will communicate with management throughout the audit process and will ensure significant issues identified are communicated to those charged with governance on a timely basis.

January - March

- Meetings with officers to inform planning
- Walkthroughs of key systems and controls
- Planning meeting
- Issue Audit Strategy Memorandum (April 2016)

March - June

- Interim work
- Early work (April to June) for the financial statements
- Early review of the financial statements (June)

June – Sept

- Draft financial statements and working papers provided by mid-June (date to be confirmed)
- Fieldwork: June to early September
- Clearance meeting and issue Audit Completion Report

By 30 Sept

- Meeting to approve and sign financial statements
- Issue auditor's report, Value for Money conclusion and WGA assurance
- Certify completion of the audit

October

- Issue Annual Audit Letter

Findings from our interim work

We have substantially completed our planning and interim work and have identified the following issues to be reported to you:

- Our review of the bank reconciliations identified that bank reconciliations have not been produced in a timely manner. We understand the bank reconciliations are now largely up to date.
- During our walkthrough of the NNDR and Council Tax systems, we were unable to obtain evidence that annual inputting of parameters and changes to the system had been performed appropriately due to a file containing the sign-off had been misplaced.
- Our review of the sample of Council Tax and NNDR bills checked to ensure the bills have been calculated properly prior to annual billing noted that there was no marking on the bills or control sheet maintained that documented the bills had been checked. We have been unable to obtain evidence the bills were checked prior to performing the annual billing.
- As a result of the findings in relation to NNDR and Council Tax we have revised our audit approach to substantively test Council Tax and NNDR income.

03 Significant risks and key judgement areas

We have performed our planning procedures, including risk assessment, as detailed in section 2. In addition, we met with management as part of the audit planning process to discuss the risks that, in management's opinion, the Council faces and have considered the impact on our audit risk. The risks that we identify as significant for the purpose of our audit are the risks of material misstatement that in our judgement require special audit consideration.

We set out below the significant audit risks and the areas of management judgement identified as a result of these meetings and planning procedures which we will pay particular attention to during our audit in order to reduce the risk of material misstatement in the financial statements.

Significant risks

Management override of controls

Description of the risk

In all entities, 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, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we will address this risk

We will address this risk through performing audit work over:

- material accounting estimates affecting amounts included in the financial statements;
- consideration of identified significant transactions outside the normal course of business;
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements; and
- consideration of any other local factors.

Revenue recognition

Description of the risk

Auditing standards include a rebuttable presumption that there is a significant risk in relation to the timing of income recognition and in relation to judgements made by management as to when income has been earned. Mazars' policy is that the scope to apply such a rebuttal is limited. As there is an inherent risk of fraud in revenue recognition we consider it to be a significant risk on all audits. This does not imply that we suspect actual or intended manipulation but that we continue to approach the audit with due professional scepticism.

How we will address this risk

We will evaluate the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition, we will undertake a range of substantive procedures including:

- testing income in March, April and May 2016 to ensure they have been recognised in the right year;
- testing adjustment journals; and
- obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger.

Pension entries (IAS 19)

Description of the risk

The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

How we will address this risk

We will discuss with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we will:

- evaluate the management controls you have in place to assess the reasonableness of the figures provided by the actuary; and
- consider the reasonableness of the actuary's output, referring to an expert's report on all actuaries nationally which is commissioned by the National Audit Office.

Valuation of Property, Plant and Equipment (PPE)

Description of the Judgement

Accounting standards and CIPFA's Code of Practice on Local Authority Accounting require that all property, plant and equipment (PPE) are carried at fair value on the Council's Balance Sheet. PPE must be revalued regularly and impairment reviews completed. There is also the requirement that PPE is depreciated, unless there is a specific exception.

The value of the Council's PPE is material to the accounts and involve management judgements over the valuations and useful lives of assets.

How we will address this risk

We will evaluate the design and implementation of controls in respect of depreciation, revaluations and impairments as part of our walkthrough of the property, plant and equipment system.

In addition, we will undertake a range of substantive procedures including:

- substantive sample testing of depreciation, revaluations and impairments per the disclosure note to the financial statements;
- review and evaluation of the work of the in-house valuer, including the valuer's report;
- consideration of regional valuation trends

04 Value for Money Conclusion

Scope of work

For 2015/16, we are required to conclude whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We perform our work in this area in accordance with guidance set out by the NAO in Auditor Guidance Note 3. This requires us to consider one overall criterion which is made up of three sub-criteria.

Overall criterion

The overall criterion set out by the NAO is as follows:

'In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

Sub-criteria	Guidance
Informed decision-making	• Acting in the public interest, through demonstrating and applying the principles and values of sound governance. • Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management. • Reliable and timely financial reporting that supports the delivery of strategic priorities. • Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. • Managing and utilising assets effectively to support the delivery of strategic priorities. • Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	• Working with third parties effectively to deliver strategic priorities. • Commissioning services effectively to support the delivery of strategic priorities. • Procuring supplies and services effectively to support the delivery of strategic priorities.

As part of our work, we will also:

- review your annual governance statement;
- consider the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities; and
- carry out any risk-based work we determine appropriate.

We have considered the risks that are relevant to our value for money conclusion and have identified the following significant risk that we will address through our work.

VFM risk
Description of the risk The Council is facing continued decreases in central government funding. The Council's Medium Term Financial Plan (MTFP) shows that savings of £0.7 million are required in 2017/18 with further savings of £0.9 million in 2018/19 also being necessary. Whilst the Council has a good record of achieving savings it is acknowledged further savings are likely to be difficult to achieve. The level of savings the Council needs to achieve over the period of its MTFP represents a significant risk to the sustainable resource deployment criteria in our value for money conclusion.
How we will address this risk In light of the revised guidance issued by the NAO for 2015/16, we will undertake a programme of work that allows us to conclude whether the Council has arrangements in place to identify and deliver the required cost savings as set out in its MTFP. This programme of work will include a review of: • the Medium Term Financial Plan and the reasonableness of the assumptions that underpin it; • the arrangements in place to deliver the overall budget in 2015/16; and • arrangements in place to identify, evaluate, risk assess and deliver future savings plans.

05 Your audit team

Below are your audit team and their contact details.

Engagement Lead	• Cameron Waddell • Cameron.Waddell@mazars.co.uk • 0191 383 6314
Engagement Manager	• Nicola Hallas • Nicola.Hallas@mazars.co.uk • 0113 387 8880 or 07881 283 559
Team Leader	• Dan Spiller • Dan.Spiller@mazars.co.uk • 0113 387 8728 or 07881 284 012

06 Fees for audit and other services

At this stage of the audit we are not planning any divergence from the scale fees set by Public Sector Audit Appointments Ltd for the Code audit work and Housing Benefit Subsidy certification work.

Area of work	2015/16 Scale fee	2015/16 Proposed fee	2014/15 Final fee
Code audit work	£45,819	£45,819	£61,092
Housing Benefit Subsidy certification	£7,060	£7,060	£12,670
Total fees	£52,879	£52,879	£73,762

Appendix A – Independence

We are required by the Financial Reporting Council to confirm to you at least annually in writing, that we comply with the Auditing Practices Board's Ethical Standards. 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 who are required to rotate off a client after a set number of years; 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 wish to confirm that in our professional judgement, as at the date of this document, we are independent and comply with UK regulatory and professional requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Cameron Waddell (0191 383 6314).

Prior to the provision of any non-audit services, Cameron Waddell will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified.

Appendix B - Materiality

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

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit.

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.

We discuss with management any significant misstatements or anomalies that we identify during the course of the audit and we report in our Audit Completion Report all unadjusted misstatements we have identified other than those which are clearly trivial, and obtain written representation that explains why these remain unadjusted.

Appendix C – Key communication points

ISA 260 ‘Communication with Those Charged with Governance’ and ISA 265 ‘Communicating Deficiencies in Internal Control to Those Charged with Governance and Management’ 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 to the Audit Committee the following reports:

- Audit Strategy Memorandum.
- Audit Completion Report.
- Annual Audit Letter.

These documents will be discussed with management prior to being presented to the Governance and Audit Committee 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 independence.
- Responsibilities for preventing and detecting errors.
- Materiality.
- 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.
- Our conclusions on the significant audit risks and areas of management judgement.
- Unadjusted misstatements.
- Management representation letter.
- Our proposed draft audit report.
- Independence.

Appendix D – Forthcoming accounting and other issues

The 2015/16 CIPFA Code of Practice on Local Authority Accounting (the Code) has made several changes to financial reporting requirements relevant to the Council, of which you should be aware. We provide workshops explaining these changes to which we invite officers from the Council responsible for preparing the financial statements. The workshops provide full details of the changes in the 2015/16 Code as well as a forward look to potential future accounting changes that may be of relevance to the Council.

As well as the accounting issues outlined below, we would like to draw the [Audit Committee's] attention to changes in the Accounts and Audit (England) Regulations 2015 that require the Council to notify us of the date on which the period for the exercise of public rights commences. If you require detailed information on any of these changes or any other emerging issues, please contact any member of the engagement team.

Forthcoming accounting issues

Highways Network Assets	How this may affect the Council
The measurement basis for the Council's Highways Network Assets will change from depreciated historic cost to depreciated replacement cost in 2016/17, but with no prior period restatement required.	The Council is unlikely to have significant highways network assets. We will discuss with officers to determine if any assets do exists and the potential impact (if any) on the Council's balance sheet. If the Council does have assets which meet the definition of the Highways Network then it is likely the value of the assets on the balance sheet will increase.
Early deadlines	**How this may affect the Council**
The Accounts and Audit Regulations 2015 outline earlier deadlines for local authorities to produce their statements of account from the 2017/18 financial year.	The impacts of this change on local authorities and their auditors are significant and we have begun to discuss how we will meet the challenges the new dates place on us all with Council officers.
Fair Value accounting	**How this may affect the Council**
The Code adopts the principles of IFRS 13 in respect of measuring fair value for the first time in 2015/16.	Some assets and liabilities held by the Council may need to be revalued on the basis of their fair value for the first time in 2015/16.