



Audit Completion Report

Craven District Council
Year ending 31 March 2019

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24 September 2019

Dear Members

Audit Completion Report – Year ended 31 March 2019

We are pleased to present our Audit Completion Report for the year ended 31 March 2019. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 16 January 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate:

We would like to express our thanks for the assistance of your finance team and other officers during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0161 238 9248.

Yours faithfully



Karen Murray
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1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Craven District Council ('the Council') for the year ended 31 March 2019, and forms the basis for discussion at the Audit and Governance Committee meeting on 24 September 2019.

The detailed scope of our work as your appointed auditor for 2018/19 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control
- Property, plant and equipment valuation
- Defined benefit pension liability valuation
- Investment properties (management judgement)
- Provision for bad debts (management judgement)

We rebutted the standard audit risk in relation to revenue recognition, as outlined in our Audit Strategy Memorandum.

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Value for Money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO, by the end of September 2019.

Wider powers

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 to consider any objection made to the accounts. We did not receive any objections or questions from local electors.

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1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2019. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Related Parties		Completion of our considerations around the completeness of your related party disclosures in note 32
Journal testing		Completion of out testing of material and significant journal transactions
Laws and regulations		Confirmation of the status of your VAT partial exemption and any impact on accruals
Movement in Reserves Statement		Completion of our review of the movement in reserves statement and note 7 in light of changes made to the revised financial statements and consistency with other areas of the accounts
Expenditure and Funding Analysis		Completion of our testing of the EFA and it's consistency with other areas of the financial statements
Expenditure and Income analysed by nature		Testing and agreement of the disclosure
Capital Financing		Agreement of the capital expenditure and financing disclosure in note 33 and review of the minimum revenue provision (MRP)
Depreciation		Substantive testing of the depreciation calculations for a sample of assets
Prior period adjustment/ pension prepayment		Final review of the prior period adjustment in relation to the pension prepayment.
Financial instruments		Review of amended financial instrument disclosures
Non material notes		Review and agreement of disclosures in the non-material notes
Narrative Report		Review of the narrative report for consistency with the financial statements
Presentation and disclosure		Completion of our presentation and disclosure checklist to ensure the statements are compliant with The Code requirements

Status

-  Likely to result in material adjustment or significant change to disclosures within the financial statements
-  Potential to result in material adjustment or significant change to disclosures within the financial statements
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements

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1. EXECUTIVE SUMMARY

Status of our audit work continued

Audit area	Status	Description of outstanding matters
Final versions of the Annual Governance Statement and amended financial statements	●	Review of the final version of the AGS and amended financial statements
Post balance sheet events	●	Review of post balance sheet events up to the point at which we sign our audit report
Review and closure procedures	●	Completion of audit closure procedures and final manager and partner review

Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

We will provide the Audit and Governance Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in January. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set materiality at the planning stage of the audit at £0.502m using a benchmark of approximately 2% of Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £0.538m, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit and Governance Committee, at £16,000 based on 3% of overall materiality.

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit and Governance Committee in a follow-up letter.



2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 10 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk	Description of the risk
Management override of controls	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 addressed this risk We addressed this risk through performing audit work over: <ul style="list-style-type: none">• Accounting estimates impacting on amounts included in the financial statements;• Consideration of identified significant transactions outside the normal course of business; and• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion Subject to resolution of outstanding matters on page 5, there are no matters arising from our work on management override of controls.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Property, plant and equipment valuation

Description of the risk

The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued in a five year cycle.

The valuation of Property, Plant & Equipment involves the use of a management expert (the valuer), and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process.

As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to three years are not valued at their materially correct fair value. In addition, as the valuations are undertaken through the year there is a risk that the fair value as the assets is materially different at the year end.

How we addressed this risk

We considered the Council's arrangements for ensuring that PPE values are materiality fairly stated and engaged our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the Council's in-house valuer.

We reviewed the scope and terms of the engagement with the Council's in-house valuer and how management used the valuers report to value land and buildings in the financial statements. We also assessed the competence, skills and experience of the Council's valuer;

We considered the treatment of the revaluations in the Council's financial statements with regard to the requirements of the CIPFA Code of Practice.

In relation to the assets which have been revalued during 2018/19, we reviewed the valuation methodology used, including testing the underlying data and assumptions. We compared the valuation output with market intelligence provided by Gerald Eve, our expert and consulting valuers engaged by the National Audit Office, to obtain assurance that the valuations are in line with market expectations.

We reviewed the approach that the Council adopted to address the risk that assets not subject to valuation in 2018/19 are materially misstated and considered the robustness of that approach in light of the valuation information reported by the Council's in-house valuers. In addition, we considered movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.

We tested a sample of capital expenditure to confirm that the additions were appropriately valued in the financial statements.

Audit conclusion

Subject to completion of the outstanding work highlighted on page 4, our work has provided the assurance we sought. We identified an error in relation to an asset that had been revalued but not correctly included in the accounts (the MUGA asset) and an error in relation to the valuation of surplus assets as a result of our work..

The agreed amendments in relation to these issues are detailed in section 4 of this report

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Defined benefit pension liability valuation

Description of the risk

The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of North Yorkshire Local Government Pension Fund, which had its last triennial valuation completed as at 31 March 2016.

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.

There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, 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.

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 2018/19. .

How we addressed this risk

We critically evaluated the competency, objectivity and independence of the scheme Actuary, AON Hewitt.

We liaised with the auditors of the North Yorkshire Local Government Pension Fund to gain assurance that the controls in place at the Pension Fund were operating effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate.

We reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within that valuation. This included comparing them to expected ranges, utilising information provided by the consulting actuary engaged by the National Audit Office, PwC.

We agreed 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 did not identify any errors.

We have reviewed the accounting treatment of the Council's prepayment of employer contributions and the effect of this on the net defined liability and pension reserve. This work identified that the prepayment had been incorrectly treated in 2017/18 and a prior period adjustment has therefore been agreed, as outlined in note 41 of the statement of accounts.

Audit conclusion

Subject to completion of the outstanding work highlighted on page 5 and the amendment detailed in section 4 in relation to GMP equalisation and the McCloud judgement, our work has provided the assurance we sought in each of these areas and has not highlighted any indication of material estimation error in respect of the defined benefit liability valuation.

2. SIGNIFICANT FINDINGS (CONTINUED)

Management judgement

Investment properties

Description of the management judgement

The Council has judged a number of its properties as being held solely for rental income or capital appreciation and therefore classified these as investment properties.

The classification of properties is a key area of judgement, but does not amount to a significant risk for the audit.

How our audit addressed this area of management judgement

Investment properties were included within the revaluations undertaken by the valuer in 2018/19 and our considerations outlined above in relation to property, plant and equipment were also applied to this classification of assets.

We reviewed the basis for the judgements used in classifying assets as investment properties, and assessed the reasonableness of these estimates for a sample of assets.

Audit conclusion

Our work has provided the assurance we sought and has not identified any matters to report in relation to investment properties.

Management judgement

Provision for bad debts

Description of the management judgement

Each year the Council reviews its outstanding debtor balances and estimates a provision for bad debts based on judgements around the collectability of the debt.

The estimation of the provision, including the underlying judgements, is a key area of judgment, but does not amount to a significant risk to the audit.

How our audit addressed this area of management judgement

We reviewed the Council's methodology for estimating the value of the bad debt provision, and assessed the reasonableness of the judgements involved in this process.

Audit conclusion

Our work has provided the assurance we sought and has not identified any matters to report in relation to the provision for bad debts.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 31 May and were found to contain a significant number of errors and inconsistencies. This was discussed with management and led to us delaying the completion of the audit until September so that officers could address these issues and to allow time for the audit to be completed. Further commentary on the impact on the audit is outlined below.

Significant matters discussed with management

Over and above our challenge of management's judgements and assertions made in producing the financial statements, the following significant matters were discussed with management:

- the Council's estimation of the pension liabilities arising in respect of guaranteed minimum pension (GMP) changes and also following on from the McCloud judgement (a national issue reflecting a revised interpretation based on the most up to date information and impacting the wider local government sector); and
- the revaluation of the Council's main surplus asset, leading to a reduction in value of that asset by £1.531m, and a new contingent liability disclosure which recognises the uncertainty regarding the valuation due to ongoing scrutiny of the proposed scheme, and potential changes to the related development appraisal.

Difficulties during the audit

During the course of the audit we encountered difficulties due to the issues identified in the accounts, although we have had the full co-operation of management and officers. Nevertheless, and as outlined above, the original draft accounts presented did not comply with the CIPFA Code of Practice in a number of areas. We therefore agreed to suspend our audit work in mid-July to allow time for officers to address the issues. Following the re-start of the audit at the end of August, we have received a number of revised drafts of the financial statements up to the date of this Audit and Governance Committee.

There have been several changes to the Finance team during the year, including the retirement of the Director of Finance at the end of June. Some of these posts have subsequently not been filled, or there has been a delay in replacing the post holder, and this has inevitably increased the workload of remaining officers, and in particular the Accountancy Services Manager. Our view is that this was one of the main reasons for the large number of errors and inconsistencies in the original draft financial statements.

Although officers have made every effort to be responsive to audit requests, the capacity of the finance team has inevitably led to some delays during the audit, in particular during final accounts.

As a consequence of these difficulties, the audit being delayed past the statutory deadline, work completed on the original draft statements having to be revisited, and the audit taking longer than originally planned, we anticipate that we will need to increase our audit fee and will discuss this with management once we issue our signed audit report.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2018/19 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account.

3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	None
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	None
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	Two



3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Other recommendations on internal control – Level 3

Description of deficiency

The draft financial statements published at the end of May contained a large number of errors and inconsistencies as we have outlined in section 2 of this report. .

Potential effects

The quality of the draft published financial statements has a direct impact on the time required to undertake and therefore costs associated with the audit, as well as the additional time that is spent by officers to correct such issues and the reputation of the Council.

Recommendation

A more robust review process should be built into the Council's year end timetable to ensure the draft financial statements are of a good quality, do not contain any obvious errors and comply with the requirements of the CIPFA Code of Practice. Ideally the review should be undertaken by someone outside of those involved with the preparation of the draft financial statements.

Management response

TBC

Description of deficiency

The password parameters set within ICON are not aligned to Craven District Council's password policy and in our view are not sufficiently complex to meet best practice requirements.

Password parameters set for iTrent can be and have been overridden at a local level.

Potential effects

Passwords are not sufficiently complex to operate effectively as a security measure and prevent unauthorised access.

Recommendation

For ICON, review the existing system parameters and align them to the Council's password policy

For iTrent, the system owner should be reminded of the Council's password policy and should ensure that, when issuing new passwords, the requirement to meet this standard is not overridden and the relevant officer is prompted to change the password immediately and in line with the Council's password policy..

Management response

TBC

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Other recommendations on internal control – Level 3

Description of deficiency (previously reported in our January progress report)

Our review of the controls in the Council's housing benefit system confirmed the ongoing programme of internal supervisor checks of the work performed by benefit assessors was not up to date as at December 2018. This was due to staffing changes within the department

Potential effects

The lack of up-to-date quality assurance checks increases the risk of undetected errors may be posted to the housing benefits system, leading to under or overpayment of benefits to claimants and a potential increase in Local Authority error overpayments

Recommendation

The Council should ensure Quality Assurance checks of housing benefits work is brought up to date and appropriately allocated to a suitable officer.

Management response

As at January 2019 - The Council are in the process of appointing a team leader to the vacant post whose responsibility this will be. Currently the interim team leader is undertaking these checks, and the plan is to have them all up to date by 31 January.

Update at year end - **TBC**

Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year.

Description of deficiency

There were significant delays to the progress of the audit due to evidence not being provided by the valuer to the finance team in a timely fashion. Some of the issues in this area related to unavoidable staffing issues, but there were opportunities for finance to act quicker to respond to the issues and seek alternative arrangements or ensure the instructions issued to the valuer were adhered to.

Potential effects

It is a requirement of the CIPFA Code of Practice (The Code) in section 4.1.2.39 that the Council need to obtain the valuations performed by an appropriately qualified individual and the valuations need to be supported by appropriate evidence, sufficient for us to assess and review the underlying assumptions and valuation basis used.

The valuation of PPE was highlighted as a significant risk, therefore it is imperative that calculations are well supported and produced by an appropriately qualified and experienced valuer.

Recommendation

The Council should ensure there are robust arrangements in place to ensure the valuations of fixed assets are performed by an appropriately qualified individual who provides the required information to the appropriate standard in a timely fashion

2018/19 update

The Council has put arrangements in place to ensure the work in 2018/19 was carried out by an appropriately qualified individual and was provided to Finance in a more timely manner.

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Follow up of previous internal control points continued.

Description of deficiency

We recommend that when assets are revalued, the council should also ensure that assets are 're-lived' at the same time (also a recommendation in 2016/17).

Potential effects

The base for the value of a Council asset involves a number of assumptions and, if this does not incorporate assessing the remaining useful economic life of the asset, valuations can become less meaningful and result in an overstatement of both revaluation and subsequent depreciation.

Recommendation

The Council finance team should ensure the instructions to the valuer are clear and adhered to, acting in a timely fashion when it appears there may be issues in receiving the correct information.

2018/19 update

TBC.

Description of deficiency

In our work reviewing the bank reconciliation, we identified a cheque outstanding from 2016/17.

Potential effects

In our previous Audit Completion report in 2016/17 we reported that the Council should remove old cheques from the bank reconciliation. This is included again this year and as has been ranked as a higher priority.

Recommendation

In the short term, cheques over 6 months old should be written off from the unrepresented cheques listing. Over a longer term, the Council should ensure review processes to ensure that, with sufficient regularity, old cheques are removed from the bank reconciliation, unless there is a legitimate reasons for their continued inclusion.

2018/19 update

We did not identify any old cheques over 6 months old that were still outstanding as part of our work on the 2018/19 year end bank reconciliation.

4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £16k.

The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements 2018/19

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Dr: Creditors Cr: Expenditure		17	17	
Testing identified an accrual for £2k which should not have been made as the expenditure had already been included in the ledger. Extrapolation of this error across the remaining population results in a value that is just above our triviality threshold.				
2 Dr: Income Cr: Cash and bank	27			27
Testing identified a reconciling amount in the bank statement that relates to February car park income and should therefore no longer be a timing difference in the March reconciliation.				
3 Dr: Cash and bank Cr: VAT payable			23	23
This is VAT on car park and pool income receipted after the year end but relating to March. It had been deducted from the cash in transit to income journal but had the VAT payable element had not been correctly posted therefore understating both that balance and cash in transit.				
Total unadjusted misstatements	27	17	40	50

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Adjusted misstatements 2018/19

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Cost of Services - Expenditure Cr: Other operating expenditure	1,771		1,771
	Movement of depreciation expense so it is correctly allocated to services rather than being shown under other operating expenditure			
2	Dr: Cost of Services - Expenditure Cr: Defined Benefit Pension Scheme	772		772
	Additional past service costs as a result of the McCloud/ GMP judgement. This cost to services is reversed out through the Movement in Reserves Statement via note 7 under statutory regulations			
3	Dr: Property, Plant and Equipment – Land & Buildings Cr: Surplus on revaluation of PPE assets		202	
	Increase in valuation of MUGA asset incorrectly omitted from draft statements			
4	Dr: Impairment on non-current assets charged to the Revaluation Reserve Cr: Property, Plant and Equipment – Surplus assets	1,531		1,531
	Reduction in value of surplus assets due to the revaluation of these following audit enquiries in relation to the requirement for these to be held at fair value			
5	Dr: Property, Plant and Equipment – Community assets Cr: Heritage assets – Community assets		1,333	1,333
	Movement of community assets so they are correctly classified as property, plant and equipment rather than heritage assets on the balance sheet			
6	Dr: Investment Property Cr: Property, Plant and Equipment – Land & Buildings		179	179
	Movement of balances for Langcliffe and Meal Bank quarries so they are correctly classified as investment property rather than PPE			
7	Dr: Short term debtors Cr: Long term debtors		98	98
	Adjustment made to correctly classify the remaining loan balance from Craven College between that due within the next 12 months (£98k) and that due over 12 months (£201k)			
8	Dr: Short term investments Cr: Cash and bank		1,000	1,000
	Adjustment made to correctly classify the balance at year end held in a money market fund as a short term investment rather than cash and bank			

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Adjusted misstatements 2018/19 continued

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
9	Dr: Cash and bank Cr: Short term debtors		113	113
	A number of items of income had been received in the bank prior to year end but had not been included in cash in transit and so were still included within the short term debtor balance			
10	Dr: Property, plant and equipment Cr: Net cost of services	19	19	
	Some assets were identified in the fixed asset value with a negative value. The correction to remove these was to credit depreciation and debit PPE			
11	Dr: Property, plant and equipment Cr: Net cost of services	15	15	
	Some equipment was disposed of and nil disposal proceeds were accounted for. Our testing showed that £15k had been deducted from the cost of the replacement equipment in relation to this disposal (gain on disposal).			

Disclosure amendments

As a result of our work, a number of amendments have been made to the other statements, notes and disclosures within the financial statements, and the most significant of these are as follows:

- Movement in reserves statement – this has been amended to reflect the changes to the CIES above and the associated adjustments between accounting basis and funding basis under regulations (as reflected in an amended note 7)
- Cash Flow statement – this has been amended to reflect the changes to the CIES and balance sheet outlined above
- Adjustments have also been made to several notes to reflect the changes made to the CIES and balance sheet. In particular, notes 9, 14, 17, 18, 22, 23, 24, 25, 26, and 27.
- Note 11, Taxation and non-specific grant income – an adjustment has been made to move £34k from Council Tax to retained business rates due to a misclassification of this income between the two balances when it was posted to the ledger
- Note 12.2, Movement on fixed assets – this has been amended to reflect the changes to the balance sheet outlined above and to correctly reflect the write back of depreciation on the assets that had been revalued in year.
- Note 12.4, Fixed asset revaluations – the note has been amended so that it properly reflects the timing of the asset revaluations and reconciles to the amounts disclosed in note 12.2
- Notes 16 and 38 – these have been amended to properly meet the new classifications of financial instruments and the disclosure requirements of IFRS 9 and the CIPFA Code of Practice 2018/19.
- Note 29, Officers' remuneration – the second table has been amended to disclose the banding of other employees only (previously incorrectly also included the senior employees included in the first table).
- Note 30, External audit costs – the total has been corrected so that it agrees to the values above.
- Note 32, Related party transactions – we identified some omissions for new Councillors and changes to existing relationships, as well as some disclosures for Councillors who are no longer at the Council.
- Note 34, Operating leases (authority as lessor) – adjusted to properly disclose the minimum lease payments due for the operating leases and to correctly disclose this in line with the Code requirements.
- Note 36, Retirement benefits – the note has been amended for the adjustments resulting from the McCloud and GMP judgement.
- Note 37, Contingent liabilities – the disclosures in relation to McCloud and GMP have been removed following the judgement. A new contingent liability has been included to reflect the uncertainty in relation to the scheme associated with a surplus asset.

In addition to the above, a number of more minor amendments have been made to the financial statements to correct rounding errors, ensure internal consistency and to correct typographical and formatting errors.

5. VALUE FOR MONEY CONCLUSION

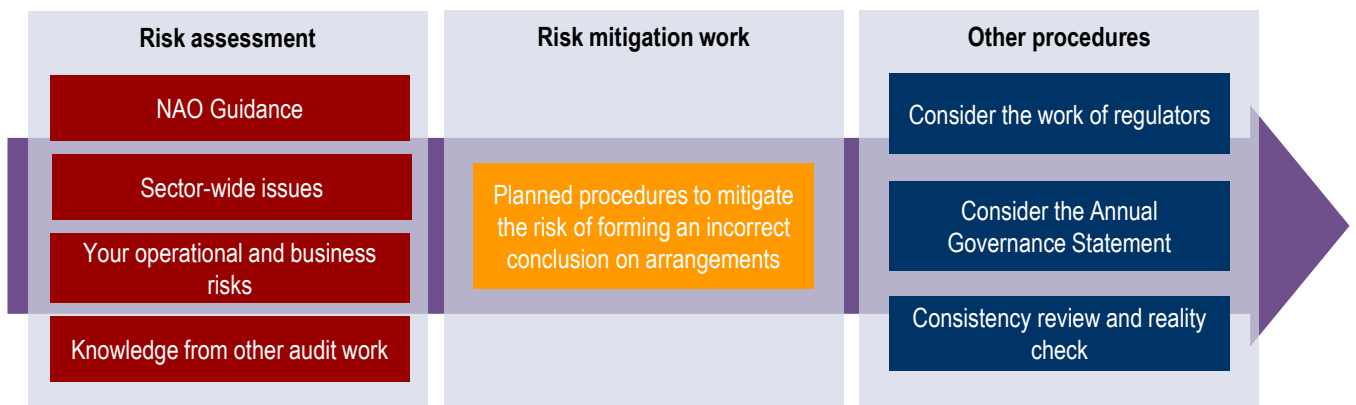
Our approach to Value for Money

We are required to form a conclusion 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 conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

A summary of the work we have undertaken is provided below.



Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant Value for Money risks relating to financial pressures faced by the Council.

The work we carried out in relation to the significant risk is outlined overleaf.



5. VALUE FOR MONEY CONCLUSION (CONTINUED)

Significant Value for Money risks

Risk	Work undertaken	Conclusion
<p>Financial Pressures</p> <p>Our audit work in previous years has concluded that the Council has arrangements in place for medium term financial planning. The Council, however, continues to face financial pressure in the coming years and has recently updated its Longer Term Financial Strategy (LTFS) to cover the period to 2025/26. This forecasts a deficit of £1.2m - £1.3m depending on the level of Council Tax increases implemented.</p> <p>We need to ensure our knowledge of the Council's LTFS arrangements and its monitoring of the planned delivery of savings, remains up to date in order to ensure we give the correct VFM conclusion.</p>	<p>The LTFS is underpinned by the Council's regular monitoring of its financial position and its annual budget setting processes.</p> <p>The Council set robust and balanced budgets for 2018/19 and 2019/20, which, although utilising reserves, does not cause a material or significant reduction in those reserves through the two years, and those reserves have been held for the purpose of supporting the budgetary pressures. Detailed progress reports are provided to Policy Committee on a quarterly basis allowing for effective monitoring of progress against budget and savings achieved in year.</p> <p>The Council's final reported outturn was an underspend of £0.1m, including achievement of £0.038m of savings. The provisional budget for 2020/21 includes a savings requirement of £0.249m, with a further £0.268m required in 2021/22. The Council is working to identify projects to balance future year's budgets.</p> <p>The use of reserves to support revenue budgets in the longer term is not sustainable, and the Council will need to ensure that its longer term financial sustainability does not deplete its reserves to unsustainably low levels.</p>	<p>We conclude that for 2018/19 the Council has made proper arrangements to deliver financial sustainability in the medium term.</p>

Our overall Value for Money conclusion

Our draft auditor's report included in Appendix B states that we intend to issue an unqualified Value for Money conclusion for the 2018/19 financial year.



APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Mrs K Murray
Mazars LLP
One St Peter's Square
Manchester
M2 3DE

September 2019

Dear Karen

Craven District Council - audit for year ended 31 March 2019

This representation letter is provided in connection with your audit of the financial statements of Craven District Council for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within Craven District Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as s151 Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on Craven District Council's financial position, financial performance and cash flows.

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DRAFT MANAGEMENT REPRESENTATION LETTER

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by Craven District Council in making accounting estimates, including those measured at current or fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against Craven District Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

Fraud and error

I acknowledge my responsibility as s151 Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting Craven District Council involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting Craven District Council's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of Craven District Council's related parties and all related party relationships and transactions of which I am aware.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that Craven District Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Yours sincerely

Director of Finance (s151 Officer)

Date.....



Independent auditor's report to the members of Craven District Council

Report on the financial statements

Opinion on the financial statements of Craven District Council

We have audited the financial statements of Craven District Council ('the Council') for the year ended 31 March 2019, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of Craven District Council as at 31st March 2019 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

APPENDIX B

DRAFT AUDITOR'S REPORT

Responsibilities of the Director of Finance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view. The Director of Finance is also responsible for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Director of Finance is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

APPENDIX B

DRAFT AUDITOR'S REPORT

Conclusion on Craven District Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Craven District Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2018, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Use of the audit report

This report is made solely to the members of Craven District Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Certificate

We certify that we have completed the audit of Craven District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Karen Murray
For and on behalf of Mazars LLP
One St Peter's Square
Manchester
M2 3DE

XX September 2019

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INDEPENDENCE AND FEES

Auditor independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

Audit & non-audit fees

We reported our expected audit fees in our Audit Strategy Memorandum. Below we report the audit and non-audit fees at this, our Audit Completion phase.

Audit fees	2018/19 (actual)	2018/19 (planning)
Code audit work	£TBC*	£35,281
Housing benefit subsidy certification	£9,210**	£9,210
VAT Helpline	£2,000	£2,000

* The final fee for the Code audit work is to be confirmed as we will be amending this in light of the delay in completion of the audit and the consequential additional work we had to undertake on the revised financial statements.

** Our work on the Housing Benefit Subsidy Claim is not yet completed and consequently the final fee quoted above is still on an estimated basis.

CONTACT

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