

Audit and Governance Committee  
 Craven District Council  
 Belle Vue Square  
 1 Broughton Road  
 Skipton  
 BD123 1FJ

Direct line +44 (0)161 238 9248  
 Email Karen.murray@mazars.co.uk

21 October 2019

Dear Members

**Conclusion of pending matters – Audit Completion Report for Craven District Council**

As required by International Standards on Auditing (UK and Ireland), I am writing to communicate an update on those matters that were marked as outstanding within our Audit Completion Report.

The outstanding matters identified and the current status of each are detailed below.

Craven District Council	
Matter	Conclusion reached
Related Parties	In completing our work we identified a number of minor amendments which management have made to note 32 to ensure consistency with Members and Officers declared interests.
Journals	We have completed our work and there are no matters to bring to your attention.
Laws and regulations	We have reviewed the latest VAT partial exemption correspondence and are satisfied that there is no material impact on the financial statements. A contingent liability has been included in note 37 to reflect the uncertainty of the outcome at the year end.  There are no other matters to bring to your attention.
Movement in reserves statement	In completing our work on the movement in reserves statement we identified the following matters that have been adjusted for by management: <ul style="list-style-type: none"> <li>• A reduction of the 2017/18 closing balance of £1,154k to correctly recognise the defined benefit pension scheme prepayment within reserves;</li> </ul>

Mazars LLP – One St Peter’s Square - Manchester – M2 3DE  
 Tel: +44 (0) 161 238 9200 – Fax: +44 (0) 161 238 9201 – [www.mazars.co.uk](http://www.mazars.co.uk)

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine’s Way, London E1W 1DD.

We are registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861.

VAT number: 839 8356 73

Craven District Council	
Matter	Conclusion reached
	<ul style="list-style-type: none"> <li>• An increase in the 2018/19 deficit on the provision of services of £738k to ensure consistency with other audit adjustments made to the financial statements;</li> <li>• A reduction in other comprehensive income and expenditure of £1,329k to ensure consistency with other audit adjustments made to the financial statements;</li> <li>• A net movement in the adjustment between accounting basis and funding basis under regulations of £160k (amendments have been made to several lines in note 7) to ensure consistency with other audit adjustments made to the financial statements; and</li> <li>• A transfer from earmarked reserves to the general fund under the Director of Finance's delegated authority of £577k to properly account for the defined benefit pension scheme prepayment in 2018/19.</li> </ul> <p>There are no other matters to bring to your attention.</p>
Expenditure and funding analysis	<p>We have completed our work on this note and amendments have been made to ensure consistency with other audit adjustments made to the financial statements. In particular, depreciation and amortisation of £1,737k is now correctly analysed in the EFA and supporting note 26b.</p>
Expenditure and income analysed by nature	<p>We have completed our work on this note and amendments have been made to ensure consistency with other audit adjustments made to the financial statements. The most significant of these is an additional £772k employee benefit expenses to reflect the adjustment for the McCloud and GMP past service costs on the pension scheme.</p>
Capital financing	<p>An adjustment has been made to the 2018/19 accounts notes 33, 7 and 22.2 to properly account for the Council's REFCUS expenditure of £619k. The effect of this expenditure on the general fund is reversed through the capital adjustment account and note 7 so that the net impact is nil.</p> <p>The equivalent balance of £305k for 2017/18 has not been amended as it is not material, and the net impact on the general fund will again be nil. This leaves a disclosure inconsistency in the statement of accounts above our triviality threshold.</p> <p>In note 33, our testing identified that government grants and other contributions were overstated by £35k, and sums set aside from revenue is understated by the same amount</p> <p>There are no other matters to bring to your attention.</p>

<b>Craven District Council</b>	
<b>Matter</b>	<b>Conclusion reached</b>
Depreciation	We have completed our work on depreciation and there are no matters to bring to your attention.
Prior period adjustment/ pension prepayment	<p>Our work identified that the prior period adjustment did not result in the correct accounting entries required for the pension prepayment.</p> <p>An audit adjustment has therefore been made to both the 2017/18 comparators and the 2018/19 balances. These adjustments have;</p> <ul style="list-style-type: none"> <li>• reduced the 17/18 and 18/19 debtor balances by £1,154k;</li> <li>• reduced the 17/18 surplus on the provision of services by £1,154k with an equivalent adjustment through note 7 (general fund balance);</li> <li>• reduced the 17/18 pension reserve balance by £1,154k and increased the 18/19 pension reserve balance by £577k; and</li> <li>• reduced the 18/19 earmarked reserve balance by £577k.</li> </ul>
Financial instruments	Following completion of our work, the financial instruments disclosures in notes 16 and 38 have been amended so they include relevant debtors and creditors values and are consistent with other disclosures within the financial statements.
Non material notes to the financial statements	We have completed our work and other than some minor amendments to note 4 to make it consistent with other areas of the statements, there are no matters to bring to your attention.
Narrative report	We have completed our review of the narrative report and confirmed amounts are consistent with the revised financial statements.
Presentation and disclosure	We have completed our presentation and disclosure checklist and there are no additional issues to bring to your attention beyond those already considered elsewhere.

Craven District Council	
Matter	Conclusion reached
Final versions of the Annual Governance Statement (AGS) and amended financial statements	We have completed our final review and there are no matters to bring to your attention.
Post balance sheet events	We have completed our final post balance sheet events review and there are no matters to bring to your attention.
Review and closure procedures	We have completed our final review and closure procedures and management have made a small number of additional presentational changes. None of these changes require specific mention.

Further to the above, amendments have also been made to the accounts in relation to the following;

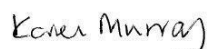
- Cash flow statement and notes 23 to 25 so that they are consistent with changes made to other areas of the statement of accounts;
- Net cost of services to move the investment property income and expenditure to financing and investment income and expenditure, note 10 (net income of £133k)
- Note 12.2 – Depreciation of £80k written out to the revaluation reserve as a result of the revaluations of land and buildings is now shown separately (previously netted against the revaluation increases on the assets gross book value).
- Note 28, termination benefits – the table has been corrected to show 1 ‘other departure’ and no compulsory departures.

A reminder of the amendments previously reported in the audit completion report is included at appendix 1.

The audit completion report presented to the Audit and Governance Committee on 24 September contained a number of internal control recommendations where we were waiting for a management response. An updated summary of these with those responses is included in Appendix 2.

If you wish to discuss the content of this letter or any other points then please do not hesitate to contact me.

Yours faithfully



**Karen Murray**  
Mazars LLP

## Appendix 1

### Adjustments previously reported in the Audit Completion Report

#### 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	1,757 1,757		
	Movement of depreciation expense so it is correctly allocated to services rather than being shown under other operating expenditure. NB corrected from ACR which showed 1,771.			
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	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			

**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: Other operating expenditure*	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). * Corrected from ACR which shows this Cr to net cost of services			

**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.

## Appendix 2

### Internal Control Recommendations

Craven District Council
Internal Control recommendations (current year)
<p><b>Description of deficiency</b> The draft financial statements published at the end of May contained a large number of errors and inconsistencies as we outlined in section 2 of the audit completion report.</p> <p><b>Potential effects</b> 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.</p> <p><b>Recommendation</b> 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.</p> <p><b>Management response</b> Planning for next year has already begun. A new process to review all financial statements and notes will be introduced, involving positive checks to ensure Code compliance, proof checking and any obvious arithmetic errors. The process will also require the note author to comment on the analysis produced. There will also be a formal sign-off of each note by the Financial Services Manager and/or the Chief Finance Officer.</p>
<p><b>Description of deficiency</b> 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.</p> <p><b>Potential effects</b> Passwords are not sufficiently complex to operate effectively as a security measure and prevent unauthorised access.</p> <p><b>Recommendation</b> 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.</p> <p><b>Management response</b></p>

<b>Craven District Council</b>
<b>Internal Control recommendations (current year)</b>
Both system administrators have been directed to ensure compliance with the council’s password policy, in particular to align the frequency of password change prompts and as far as possible within system design, to ensure that the necessary password security standards are met.
<p><b>Description of deficiency</b> (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</p> <p><b>Potential effects</b> 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</p> <p><b>Recommendation</b> The Council should ensure Quality Assurance checks of housing benefits work is brought up to date and appropriately allocated to a suitable officer.</p> <p><b>Management response</b> 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.</p> <p><b>Update at year end</b> – the checks are now being undertaken by the team leader and are up to date.</p>
<b>Craven District Council</b>
<b>Internal Control recommendations (prior year)</b>
<p><b>Description of deficiency</b> 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.</p> <p><b>Potential effects</b> 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.</p> <p><b>Recommendation</b></p>



<b>Craven District Council</b>
<b>Internal Control recommendations (prior year)</b>
<p>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.</p> <p><b>2018/19 update</b></p> <p>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. As part of this new arrangement, the council is introducing a revised asset register that will help to ensure that all required information is available in a more timely manner, with the relevant supporting information included.</p>
<p><b>Description of deficiency</b></p> <p>We recommend that when assets are revalued, the council should also ensure that assets are ‘re-lifed’ at the same time (also a recommendation in 2016/17).</p> <p><b>Potential effects</b></p> <p>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.</p> <p><b>Recommendation</b></p> <p>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.</p> <p><b>2018/19 Update</b></p> <p>Assets have previously been re-lifed when they have fallen into the last 12 months of life in the year of valuation. However, as a change for the 19/20 process, it is now part of the Valuer’s report to make comment on the likely life of the assets. This is so a determination can be made on whether to change the life of the asset, or whether the remaining life is sufficient for depreciation purposes.</p>