Audit Strategy Memorandum

Leicester, Leicestershire and Rutland Combined Fire Authority
Year ending 31 March 2019

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27 February 2019

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2019

We are pleased to present our Audit Strategy Memorandum for Leicester, Leicestershire and Rutland Combined Fire Authority for the year ending 31 March 2019.

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. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and 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 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 facing Leicester, Leicestershire and Rutland Combined Fire Authority which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0191 383 6300.

Yours faithfully

Gavin Barker
Gavin Barker (Feb 27, 2019)

Gavin Barker
Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Leicester, Leicestershire and Rutland Combined Fire Authority (the CFA) for the year to 31 March 2019. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/.

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the CFA for the year.

Reporting to the NAO

We are required to issue an assurance statement to the National Audit Office confirming the income, expenditure, asset and liabilities of the CFA.

Value for Money

We are required to conclude whether the CFA has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Electors' rights

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 CFA and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or those charged with governance, of their responsibilities. 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), 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.

The CFA is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Corporate Governance Committee as those charged with governance.

2. YOUR AUDIT ENGAGEMENT TEAM

Gavin Barker
Director and Engagement Lead

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Manager

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3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

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

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your 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

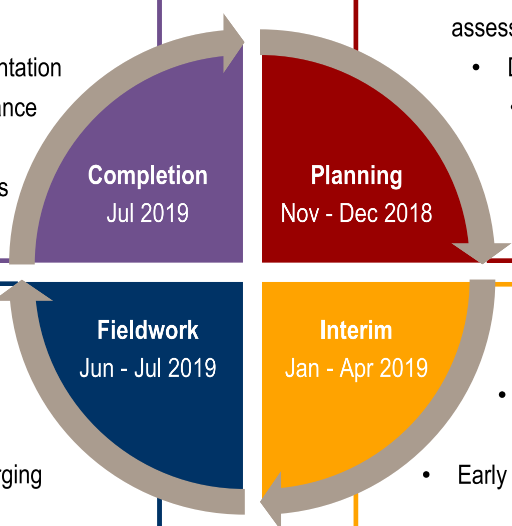
Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

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. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

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

- Final review and disclosure checklist of financial statements
- Final engagement lead review
- Agreeing content of letter of representation
- Reporting to the Corporate Governance Committee and CFA
- Reviewing post balance sheet events
- Signing our opinion



- Updating our understanding of the CFA
- Initial opinion and value for money risk assessments
- Development of our audit strategy
- Agreement of timetables
- Preliminary analytical procedures

- Review of draft financial statements
- Reassessment of audit strategy, revising as necessary
- Delivering our planned audit testing
- Continuous communication on emerging issues
- Clearance meeting

- Documenting systems and controls
- Walkthrough procedures
- Controls testing, including general and application IT controls
- Early substantive testing of transactions

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

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.

Management's and our experts

Management makes use of experts in specific areas when preparing the CFA's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

	Management's expert	Our expert
Defined benefit liability	Hymans Robertson (LGPS) *Actuary for Leicestershire Pension Fund* Government Actuary's Department (FFPS)	PWC *Consulting actuary appointed by the NAO*
Property, plant and equipment valuation	Fisher Hargreaves Proctor (FHP) *External Valuer*	Gerald Eve *Valuations expert appointed by the NAO*
Financial instrument disclosures	Arlingclose *Treasury management advisors*	Not applicable

Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the CFA that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the CFA and our planned audit approach.

Items of account	Service organisation	Audit approach
Pension cost (cost of services) Net interest on defined benefit liability Re-measurements of the net defined benefit liability (OCI) Net pension liability	Leicestershire Pension Fund *The IAS 19 pension entries that form part of the CFA's financial statements are material and are derived from actuarial valuations. The process of obtaining these is co-ordinated by and uses information held and processed by the service organisation.*	We will review the controls operating at the CFA over these transactions to gain an understanding of the services provided by the service organisation. Where we conclude that we do not have a sufficient understanding of the services provided by the service organisation we will seek to obtain assurance by using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation.

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Service organisations (continued)

Items of account	Service organisation	Audit approach
Payroll Costs Senior officer remuneration	*Leicestershire County Council* *The payroll entries that form part of the CFA's financial statements are material and are derived from the processing of monthly payrolls. The payroll processing is undertaken and administered by Leicestershire County Council on behalf of the CFA.*	We will review the controls operating at the Council over these transactions to gain an understanding of the services provided by the service organisation. We expect to be able to conclude that the CFA has sufficient controls in place over the services provided by LCC and that we will be able to audit payroll based on the records held at the entity.
Treasury Management	*Leicester City Council*	We will review the controls operating at the Council over the investment transactions to gain an understanding of the services provided by the service organisation. We expect to conclude that the CFA has sufficient controls in place over the services provided by the City Council. We will write to all organisations which the CFA has invested in to obtain direct confirmation of all year end investment balances as at the 31 March 2019.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of the financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

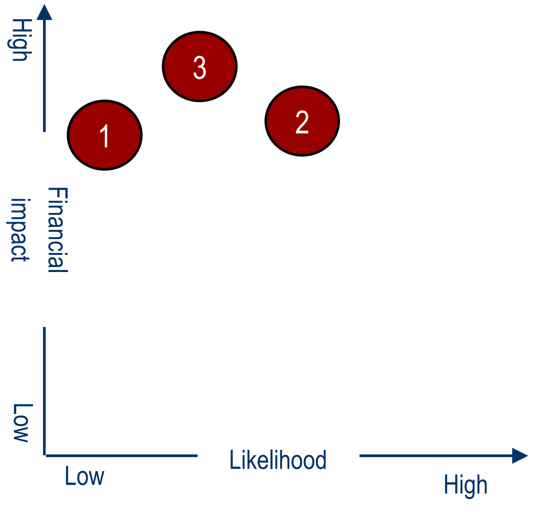
Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the tables below, highlight those risks which we deem to be significant or enhanced. We have summarised our audit response to these risks over the next pages.

At the time of writing this memorandum we are yet to complete our detailed risk assessment work over the CFA's key financial systems and general IT controls. We will update the Corporate Governance Committee where we subsequently identify any additional risks.



Risk	
1	Management override of control
2	Property, plant and equipment valuation
3	Defined benefit liability valuation

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Corporate and Governance Committee.

Significant risks

	Description of risk	Planned response
1	**Management override of controls** Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.
2	**Valuation of property, plant and equipment, investment properties and assets held for sale** The CFA's accounts contain material balances and disclosures relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we have determined there is a significant risk in this area.	We will consider the CFA's arrangements for ensuring that PPE values are reasonable and will engage our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the CFA's valuer. We will also assess the competence, skills and experience of the valuer. Where necessary we will also perform further audit procedures on individual assets to ensure that the basis and level of revaluation is appropriate.
3	**Defined benefit liability valuation** 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.	We will discuss with key contacts any significant changes to the pension estimates. 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. We will review the appropriateness of the key assumptions included within the valuations, compare them to expected ranges and review the methodology applied in the valuation. We will also consider the adequacy of disclosures in the financial statements.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Consideration of other mandatory risks

Auditing standards require us to consider two standard risks for all organisations:

- Management override of controls; and
- Fraudulent revenue recognition.

We have already considered and identified management override of controls as a significant risk above, but set out our considerations in respect of fraudulent revenue recognition below:

	Description of risk	Planned response
1	**Fraudulent revenue recognition** Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable.	We do not consider this to be a significant risk for Leicester, Leicestershire and Rutland Combined Fire Authority as: • there is an overall low risk for CFA's; • there are no particular incentives or opportunities to commit material fraudulent revenue recognition; and • the level of income that does not derive from either grant or taxation sources is low relative to the CFA's overall income streams, and generally represents a number of low value, high volume transactions. We therefore rebut this risk and do not incorporate specific risk procedures over and above our standard fraud procedures to address the management override of controls risk.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Enhanced risks and key areas of management judgement

Enhanced risks and key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Area of management judgement	Planned response
1	**Debt impairment** Uncertainty exists that, in the current economic climate, the CFA's provision for the impairment of doubtful debts would be sufficient.	We plan to address this judgement by: • Reviewing the level of reported debt as at 31 March 2019 and considering the implications for any material change; • Ensuring that management's methodology for calculating the provision has been consistently applied and is in line with the requirements of the Code; • Testing the collectability of both significant and a sample of other non-significant debtor balances; and • Re-performing the basis of the calculation for the impairment of debtors.
2	**Minimum revenue provision (MRP)** Local authorities are normally required each year to set aside some of their revenues as a provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements, by reference to the prior year's closing Capital Financing Requirement. The amount to be set aside each year is not prescribed although an overarching principle of prudency is expected to be adopted. This is supported by statutory guidance as to how this could be achieved and the CFA is required to have regard to this in setting its MRP policy. Management judgement is therefore exercised is determining the level of its prudent provision.	We plan to address this judgement by: • Reviewing the CFA's MRP policy to ensure that it has been developed with regard to the statutory guidance; • Assessing whether the provision has been calculated and recorded in accordance with the CFA's policy; • Assessing whether the amount provided for the period is appropriate, taking into account the CFA's Capital Financing Requirement; and • Confirming that any charge has been accounted for in accordance with the Code.

5. VALUE FOR MONEY

Our approach to Value for Money

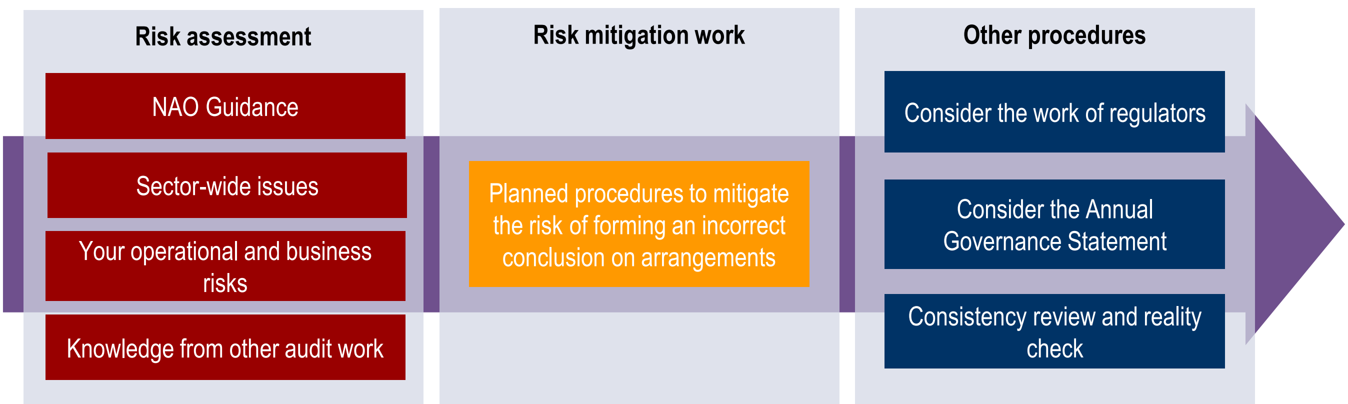
We are required to form a conclusion as to whether the CFA has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the CFA 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; and
- working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below:



Significant risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) significant risk exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the CFA being inadequate. As outlined above, we draw on our deep understanding of the CFA and its partners, the local and national economy and wider knowledge of the public sector.

5. VALUE FOR MONEY (CONTINUED)

Significant risks (continued)

For the 2018/19 financial year, we have identified the following significant risk to our VFM work:

Description of significant risk	Planned response
Delivery of Budgets and Financial Resilience The continual pressures on public sector finances are well documented and led to another challenging budget setting process for 2018/19. The CFA set a balanced budget on 7 Feb 2018. The month 8 forecast shows that the CFA may deliver a £34k overspend against its revenue budget and a £232k underspend on capital. The revenue deficit is derived from an increase in expenditure of £298k and an increase in income of £264k. As the planned overspend is small no action is being proposed by the CFA at this stage, although ongoing monitoring will occur until the year end. There will be significant changes in Local Government finances over the next few years, which will culminate in a major change in the way Local Government is financed from 2020/21 onwards. These include the 2019 Spending Review, the Fair Funding Review and the introduction of 75% local retention of business rates (up from 50% retention). At the moment the CFA do not know if they will gain or lose under these changes and the ongoing funding position is very uncertain from 2020/21. Another potential pressure is the ongoing firefighters pay award which has been budgeted at 2%. Any increases to this award (which potentially could go up to 15% as agreed in Scotland) would impact significantly on the CFA. It is assumed any future increases would be met by the government. If not each % increase would cost the CFA 200k per annum and would not be affordable under the current budget plans. As a result, the need for savings (or income generation) will continue to have a significant impact on the CFA's ongoing financial resilience and reduce the burden on the need to borrow or utilise reserves to balance any future budget deficits.	We will critically review whether the CFA has arrangements in place to ensure financial resilience, specifically that the MTFP has duly taken into consideration the latest available information on factors such as: • funding reductions; • business rate reform; • fair funding; • salary and general inflation; • demand pressures; • restructuring costs; and • sensitivity analysis given the degree of variability in the above factors. We will review the progress against planned savings and also monitor if the CFA have utilised reserves as planned in the original budget. We will review the findings from the recent HMICFRS review if the report is made available before the conclusion of our audit.

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the CFA's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter of 25 April 2018.

Service	2017/18 fee	2018/19 fee
Code audit work	£29,247 plus VAT	£ 22,520 plus VAT

Fees for non-PSAA work

We are not currently expecting to carry out any non –PSAA work in 2018-19.

Should the CFA or entities within the CFA's group wish us to undertake any other additional work, before agreeing to this we will consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. 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 ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- 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 confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Gavin Barker in the first instance.

Prior to the provision of any non-audit services Gavin Barker 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 at this stage. Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold
Overall materiality	£947,000
Performance materiality	£663,000
Trivial threshold for errors to be reported to the Corporate Governance Committee	£28,000

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 based on quantitative and qualitative factors.

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.

Our provisional materiality is set based on a benchmark of the 2017/18 total gross expenditure. We have calculated a headline figure for materiality but have also identified separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Corporate Governance Committee.

We consider that total gross expenditure at the surplus/deficit on provision of services level remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

We have set our materiality threshold at 2% of the benchmark based on the 2017/18 audited financial statements.

Based on the 2017/18 audited financial statements we anticipate the overall materiality for the year ending 31 March 2019 to be £947,000.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our first year of audit and accordingly we do not hold extensive cumulative audit knowledge about the CFA's financial statements. We have therefore set our performance materiality at 70% of our overall materiality being £663,000.

As with overall materiality, we will remain aware of the need to change this performance materiality level through the audit to ensure it remains to be set at an appropriate level.

Specific items of lower materiality

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account:

Item of account	Specific materiality
Officers' remuneration	£5,000 *
Termination benefits	£21,000
Members' allowances and expenses	£8,000
External audit costs	£3,000

* Reflecting movement from one salary band to another

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Corporate Governance Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £28,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Gavin Barker.

Reporting to the Corporate Governance Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Corporate Governance Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
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		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Changes relevant to 2018/19

IFRS 9 Financial Instruments - the standard replaces IAS 39 and introduces significant changes to the recognition and measurement of the CFA's financial instruments, particularly its financial assets.

Although the accounting changes may be complex and may require the reclassification of some instruments, it is likely that the CFA will continue to measure the majority of its financial assets at amortised cost. However, we are aware that consideration will need to be given to any holdings in property funds which may need to be reclassified from the available for sale category.

For CFAs that hold instruments that will be required to be measured at fair value under the new standard, there may be instances where changes in these fair values are recognised immediately and impact on the general fund. We are aware that, following the Ministry of Housing, Communities and Local Government consultations, a statutory override, will be put in place to mitigate the impact of these fair value movements on the CFA's general fund balance.

IFRS 15 Revenue from Contracts with Customers - the 2018/19 Code also applies the requirements of IFRS 15, but it is unlikely that this will have significant implications for most local authorities.

There are no other significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2018/19.

Changes in future years

Accounting standard	Year of application	Implications
IFRS 16 – Leases	2020/21	We anticipate that the new leasing standard will be adopted by the Code for the 2020/21 financial year. IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17. Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed. The introduction of this standard is likely to lead to significant work being required in order to identify all leases to which the CFA is party to.

APPENDIX C – MAZARS' CLIENT SERVICE COMMITMENT

We are here because of our clients; serving them in the best way we can is part of our DNA. We operate a Code of Conduct which drives our client service commitment in all areas, as set out below.