Audit Strategy Memorandum

Bury Metropolitan Borough Council

Year ending 31 March 2019

MAZARS

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MAZARS

Mazars LLP

One St Peter's Square

Manchester

M2 3DE

Members of the Audit Committee

Bury Metropolitan Borough Council

Town Hall, Knowsley Street

Bury

BL9 0SW

14th February 2019

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2019

We are pleased to present our Audit Strategy Memorandum for Bury Metropolitan Borough Council 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 8 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 Bury Metropolitan Borough Council 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 0161 238 9248.

Yours faithfully

Karen Murray

Karen Murray, Director and Engagement Lead

Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Bury Metropolitan Borough Council (the Council) 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 Council for the year.

Reporting to the NAO

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.

Value for Money

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in it its use of resources. We discuss our approach to Value for Money work further in section 6 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 Council 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 Council 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 Audit Committee as those charged with governance.

2. YOUR AUDIT ENGAGEMENT TEAM

Engagement Lead	Karen Murray • karen.murray@mazars.co.uk • 0161 238 9248
Engagement Manager	Ian Pinches • ian.pinches@mazars.co.uk • 0161 238 9102
Audit Senior (Assistant Manager)	Justine Ogden • Justine.ogden@mazars.co.uk • 0161 238 9206

In addition as outlined in our engagement pack an engagement quality control reviewer has been appointed for this engagement.

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.

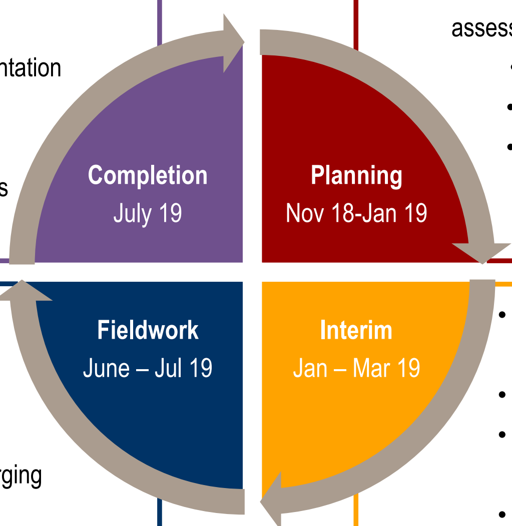
If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures 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 4.

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

- Final review and disclosure checklist of financial statements
- Final partner and EQCR review
- Agreeing content of letter of representation
- Reporting to Audit and Governance Committee
- Reviewing post balance sheet events
- Signing our opinion

- Updating our understanding of the Council
    - Initial opinion and value for money risk assessments
        - Agreement of timetables
        - Documenting systems and controls
        - Walkthrough 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

    - Consideration of key accounting issues
    - Development of our audit strategy
    - Controls testing, including general and application IT controls
    - Preliminary analytical procedures
- Early substantive testing of transactions

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will review the work performed by internal audit and use this 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.

We are not planning to rely on the work of internal audit, but should we do so, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

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

Items of account	Management's expert	Our expert
Defined benefit liability	Hyman Robertson Actuaries	PwC, consulting actuary, on behalf of National Audit Office
Property, plant and equipment valuation	Internal Valuations Team	We will use available third party information to challenge the valuer's key assumptions.
Valuation of shareholding in Manchester Airport Holding Limited	BDO LLP	In-house Mazars valuation team
Fair value of financial assets and liabilities	Link Assets Services	We will review the valuer's methodology to gain assurance that the fair value disclosures of the Council's financial assets and liabilities are materially correct. As well as consider the expert as assessed by National Audit Office.

4. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold (£'000s)
Overall materiality	11,764
Trivial threshold for errors to be reported to the Audit Committee	353

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 gross revenue expenditure at provision of services level. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that revenue expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of gross revenue expenditure at the surplus/deficit on provision of services level.

4. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based on the prior year audited accounts, we anticipate the overall materiality for the year ending 31st March 2019 to be in the region of £11,764k.

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. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 65% of overall materiality as performance materiality.

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
Officer Remuneration bandings	£5,000 *

* Reflecting movement from one salary band to another

Reporting Misstatements Threshold
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 Audit 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 £353k based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Karen Murray.

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

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

5. SIGNIFICANT 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 financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

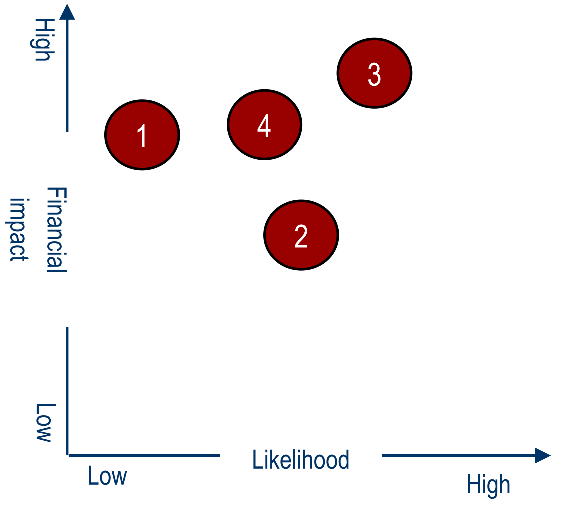
Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to 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 table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



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

5. SIGNIFICANT 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 Audit 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	**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. Based on our initial knowledge and planning discussions we have concluded that we can rebut the presumption of a revenue recognition risk for the Council's revenue income and expenditure.	We do not consider this to be a significant risk as the Council's income streams are inherently stable, well controlled and there is little incentive to manipulate revenue recognition. 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. Our audit approach will however incorporate testing from payments and receipts around the year-end to provide assurance that there are no material unrecorded items of income and expenditure in the 2018/19 accounts.

5. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks continued

	Description of risk	Planned response
3	**Property, plant and equipment valuation** 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 four 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. Each year the Council undertakes a desk-top exercise, with regards to local property indices, to confirm the value of assets not valued in year are materially correct.	In relation to the valuation of property, plant & equipment we will: • Critically assess the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the Council's programme of revaluations; • Consider whether the overall revaluation methodology used by the Council valuer is in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; • Critically assess the appropriateness of the underlying data and the assumptions used in the valuer's calculations, based on our expectations by reference to sector and local knowledge; • Assess the movement in market indices between the revaluation dates and the year end to determine whether there have been material movements over that time; • Critically assess the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; • Critically assess the approach that the Council adopts to ensure that assets not subject to revaluation in 2018/19 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers; • Test a sample of items of capital expenditure in 2018/19 to confirm that the additions are appropriately valued in the financial statements.

5. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks continued

	Description of risk	Planned response
4	**Defined benefit liability valuation** The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of Greater Manchester 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.	In relation to the valuation of the Council's defined benefit pension liability we will: • Critically assess the competency, objectivity and independence of the Greater Manchester Pension Fund's Actuary, Hymans Robertson; • Liaise with the auditors of the Greater Manchester Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include 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; • Review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; • Agree 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.

5. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Enhanced risk

	Description of risk	Planned response
1	**Valuation of Airport Share Holding** The Council's shareholding in the Manchester Airport Holdings Group Limited (MAHG Ltd.) has been valued by a firm of financial experts, engaged by management, based on assumptions about financial performance, stability, and key business projections. The figure disclosed in your accounts in relation to MAHG Ltd. is at fair value. There is a risk that the assumptions and methodology used by your experts are not appropriate and we will need to obtain assurance that accounting entries are not materially misstated.	We plan to address this risk by • Assessing the scope of work, qualifications, objectivity and independence of the expert engaged to carry out the valuation assessment of the airport shares. • Utilising the services of our internal valuation expert to review the work completed by management's expert and to evaluate the appropriateness of the assumptions applied to arrive at the figure in the financial statements.

6. VALUE FOR MONEY

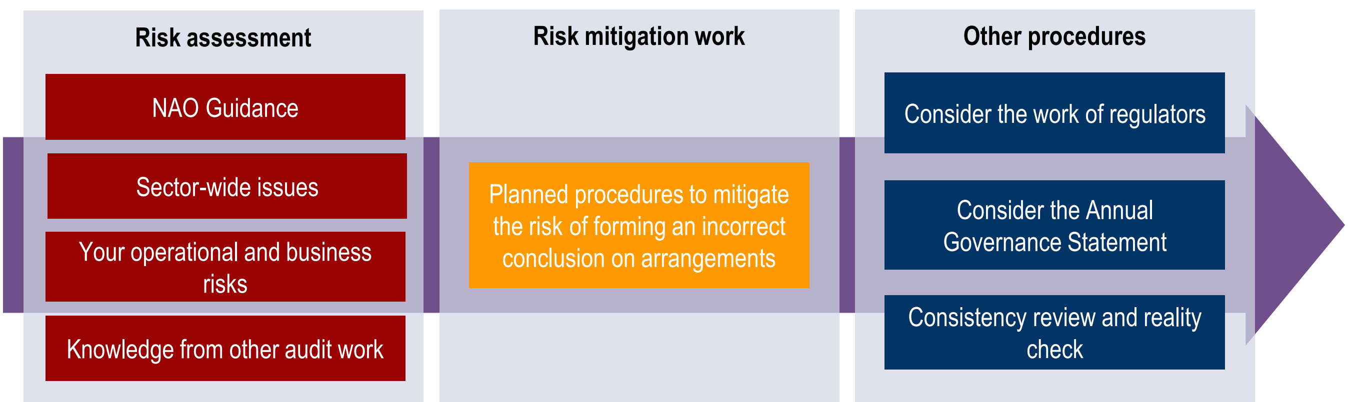
Our approach to Value for Money
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out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

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

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



Significant Value for Money 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) 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 Council being inadequate. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

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

Description of significant risk	Planned response
Working with partners and third parties: governance and risk management The Council is working with Bury CCG and other partners (such as local care providers), to help secure a sustainable health and social care economy. By putting in place arrangements for the Council, care organisations, and the CCG, to work more closely together, it is anticipated that developing new models of care for community health, primary care and social care services will have a significant impact.	We will review the arrangements in place for the Council to work with its partners to deliver transformation and efficiencies in the provision of health and social care services, how the governance arrangements operate, and how the arrangements and risks are monitored and managed.

6. VALUE FOR MONEY

Significant Value for Money Risks continued

Description of significant risk	Planned response
Sustainable Resource Deployment: financial resilience The Council continues to face significant financial pressures over the coming years both in terms of funding and revenue streams available, and increasing demand on services. The Council has a forecast budget gap over the coming years, and will need to deliver a programme of cost savings and management of service delivery in order to address this. The latest funding settlement has recently been announced by central governemnt, as well as some additional amounts made available within the autumn budget statement for specific purposes.	To address this risk we will: • Review the Council's outturn against the 2018-19 budgeted position • Review the Council's progress in setting a balanced budget for 2019/20, including the impact of additional monies provided to the council from central government, as well as the recent announcements regarding the 2019/20 Funding Settlement • Review the Council's arrangements for identifying and monitoring the delivery of saving plans to address the funding gap going forwards.

7. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council'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.

Service	2017/18 fee	2018/19 fee
Code audit work	116,730	89,882

Fees for non-PSAA work

We have not been engaged by the Council to carry out any additional work over and above the audit of the Council's statutory audit. In particular the Council has engaged a different audit firm to provide the assurance work on the Housing Benefit Subsidy claim and Teachers' Pensions return for 2018/19.

Should we be engaged to undertake any additional work 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 8.

8. 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 Karen Murray in the first instance.

Prior to the provision of any non-audit services Karen Murray 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.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

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 Council'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 Council will continue to measure the majority of its financial assets at amortised costs.

For Councils 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. MHCLG have announced a statutory provision will be put in place to mitigate the impact of fair value movements of pooled investment funds on local authority general fund balances.

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	2019/20	We anticipate that the new leasing standard will be adopted by the Code for the 2019/20 financial year, however this has not yet been confirmed. 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 Council (and its schools) are party to.