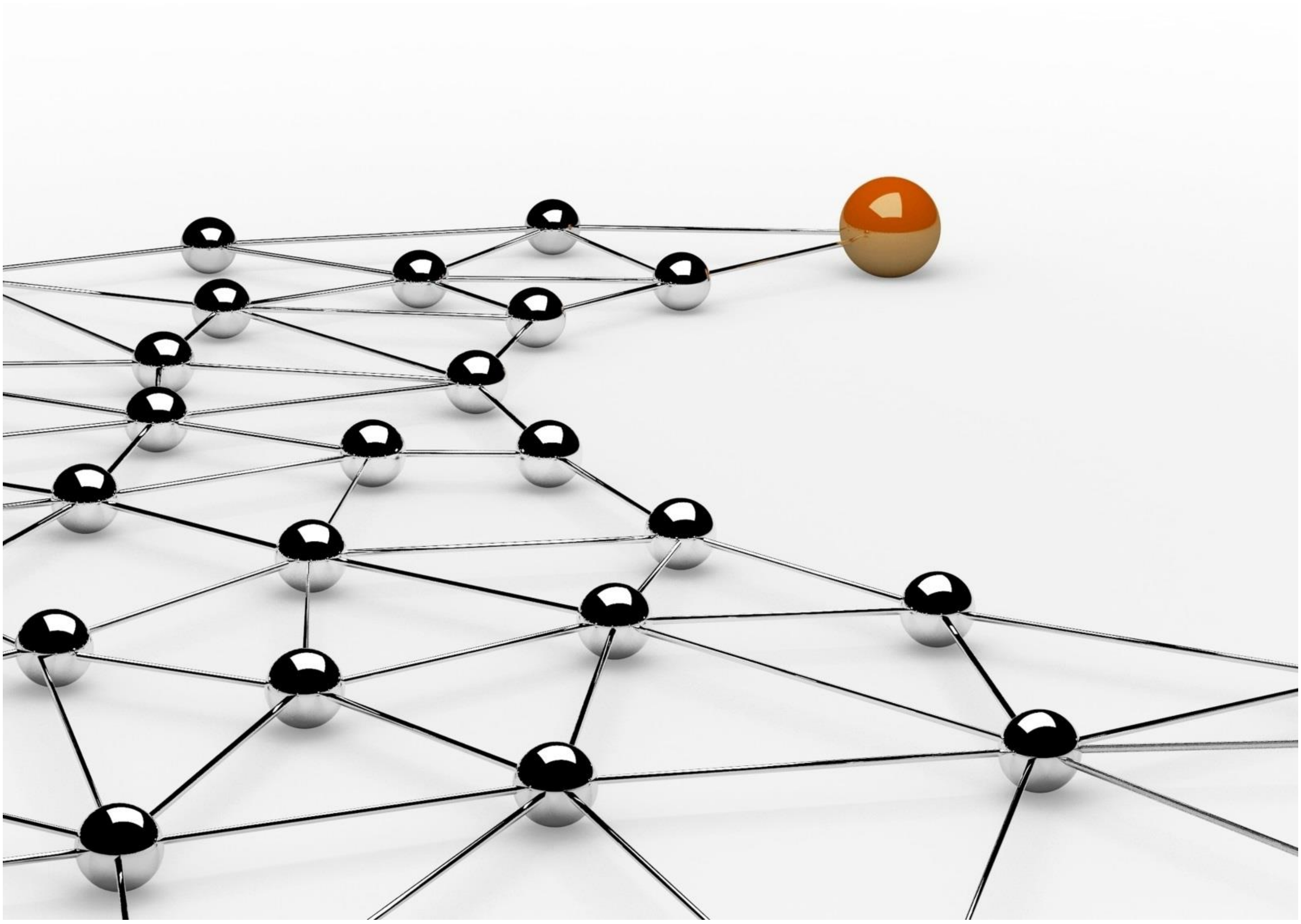
Audit Strategy Memorandum

City of York Council - Year ended 31 March 2016

April 2016



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Audit and Governance Committee
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1 April 2016

Dear Members

Audit Strategy Memorandum for the year ending 31 March 2016

We are pleased to present our Audit Strategy Memorandum for City of York Council for the year ending 31 March 2016.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and provide you with the details of our audit team. Appendix A summarises our considerations and conclusions on our independence as auditors.

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

This document will be presented at the Audit and Governance Committee meeting on 13 April 2016. If you would like to discuss any matters in more detail please do not hesitate to contact me on 07979 164467.

Yours faithfully

Gareth Davies
Partner, for and on behalf of Mazars LLP

Contents

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and 'Terms of Appointment' issued by Public Sector Appointments Limited. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

01 Purpose and background

Purpose of this document

This document sets out our audit plan in respect of the audit of the financial statements of City of York Council for the year ending 31 March 2016, and forms the basis for discussion at the Audit and Governance Committee meeting on 13 April 2016.

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

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

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

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

Scope of engagement

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

Responsibilities

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

- **Whole of Government Accounts**
  We report to the National Audit Office in respect of the consistency of the Council's Whole of Government Accounts submission with the financial statements.

- **Fraud**
  The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK and Ireland) we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

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

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

Significant matters considered

As part of our risk-based approach to planning we consider a number of key performance and control environment features together with external developments. The following paragraphs set out some of the key aspects for 2015/16. Our current view is that this information does not give rise to any additional significant risks for the opinion audit.

Performance and control environment

Ongoing pressure on the public finances presents significant challenges for the Council and the need to plan for further reductions in spending power coupled with increased demand for services.

The Council has made good progress in addressing its biggest challenges to date and has a proven track record of strong budget management and delivering planned budget reductions.

The 2015/16 revenue budget included £11.9m of savings proposals to address reduced funding and cost pressures.

We use the Council's latest financial monitoring reports and medium term financial plan to consider the current financial position. The following table summarises the 2015/16 predicted budget outturn, based on the third quarter reviews considered by the Executive in February 2016.

Area	Budget	Projected year end position	Projected overspend / (underspend)
Net revenue expenditure	£119.8m	£120.9m	£1.1m
Capital expenditure	£80.4m	£51.5m	n/a

As at the end of December 2015, the latest budget forecasts for 2015/16 showed financial pressures of £1.1m. In addition, a potential pressure of £3m exists due to issues with the Vale of York CCG, although it was hoped that this position would be resolved by the year end.

The Council has a significant capital programme, and the projected outturn for 2015/16 is £51.5m, compared to an original budget of £80.4m, the reduction mainly arising from slippage in the programme and re-profiling of budgets to future years.

The Council has set its revenue budget for 2016/17, including a 3% council tax increase. The medium term financial plan estimates the savings required in the four years 2016/17 to 2019/20 as £23m, of which £6.5m has been reflected in the 2016/17 budget.

External developments

The Council has to prepare its financial statements in line with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom. There have been a small number of changes to the Code for 2015/16, which include:

- applying the principles of IFRS 13 in respect of measuring fair value for the first time in 2015/16, meaning that some assets and liabilities held by the Council may need to be revalued on the basis of their fair value for the first time in 2015/16; and

- accounting for the Better Care Fund, a £12m pooled budget with NHS Vale of York CCG, requiring a number of additional disclosures in the 2015/16 financial statements.

Officers are aware of the new requirements and are making preparations to address them as part of the accounts closedown process.

02 Audit scope, approach and timeline

Audit scope

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

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

Audit approach

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

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

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

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

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

Planning

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

Interim work and final fieldwork

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

Completion

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

Reliance on internal audit

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

Where we intend to rely on the work of internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Reliance on other auditors

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

Items of account	Other auditor	Nature of assurance to obtain from the auditor
Defined benefit liability and associated IAS 19 entries and disclosures	KPMG – auditor of the North Yorkshire Pension Fund	We will agree a programme of work with KPMG and a timetable for the receipt of relevant information.

The work of experts

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

Items of account	Management's expert	Our expert
Defined benefit liability and associated IAS 19 entries and disclosures	Actuary (Mercer) – Tyne and Wear Pension Fund	National Audit Office's consulting actuary (PWC)
Property, plant and equipment valuations	Internal valuer from City of York Council	National Audit Office's consulting valuer (Gerald Eve)

Timeline

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

Jan-Mar 2016

- Planning meeting
- Issue Audit Strategy Memorandum

Jan-Jun 2016

- Interim work (walk-through tests, controls testing and IT risk assessment)
- Report interim findings and update Audit Strategy Memorandum if required – June

Jul-Sept 2016

- Fieldwork - 1 July to early September
- Issue Audit Completion Report - September
- Clearance meeting - September

By 30 Sep 2016

- Issue representation letter
- Finalise financial statements review and issue auditor’s report

03 Significant risks and key judgement areas

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

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

Significant risks

Management override of controls

Description of the risk

International Standards on Auditing (ISA) 240 – The auditor's responsibility to consider fraud in an audit of financial statements requires us to consider the potential for management override because controls that may be sufficient to detect error may not be effective in detecting fraud. In all entities, management at various levels is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we will address this risk

We will address this risk through performing audit work on:

- consideration and review of accounting estimates impacting on amounts included in the financial statements;
- consideration and review of any unusual or significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Pension Estimates (IAS 19)

Description of the risk

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

How we will address this risk

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

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

Other considerations

Group audit approach

In line with International Accounting Standards, local government bodies are required to consider interests in other entities and whether those interests might necessitate the production of group financial statements. The Council has determined that group financial statements are not required in 2015/16 on the grounds that group transactions are not material.

The Council has determined that it has an interest in Yorwaste as an associate. The Council has a 22.3% shareholding in Yorwaste and shows this as an investment on its balance sheet at a nominal value (£1m). The Council has a contract with Yorwaste for waste disposal services, and the contract costs, approximately £6.5m in 2015/16, are shown as expenditure in the Council's accounts.

The Council also holds a 50% share in Veritau and a related subsidiary, which provides assurance services including Internal Audit for the Council and other public sector bodies. The Council has identified this as a joint venture, but is not considered material. The contract costs the Council incurs with Veritau, approximately £0.6m in 2015/16, are shown as expenditure in the Council's accounts.

In our view, the current treatment of Yorwaste and Veritau in the Council's accounts is reasonable.

In addition, the Council has two wholly owned subsidiaries:

- City of York Trading Ltd (estimated turnover for 2015/16 is £5.8m); and,
- Make It York (estimated turnover for 2015/16 is £3.8m).

Although total turnover is material at £9.6m, the Council's argument for not producing group accounts in relation to these subsidiaries is founded on the fact that most of the turnover is reflected in the Council's accounts already. Most of the business of City of York Trading Ltd is with the Council and so therefore reflected as expenditure in the Council's accounts, and although only 25% of Make It York's turnover is reflected in Council expenditure, the remaining amount is not material.

Although group accounts are not being produced, we understand that officers plan to provide enhanced disclosures in the related party notes to the accounts, so that the reader of the accounts can readily understand the nature of these and other entities in which the Council has an interest and their relationship with the Council.

Based on the information we have at present, we are not minded to challenge the Council's view that group accounts are not required for 2015/16. We suggest that this position is closely monitored in future.

However, we do expect fully audited accounts of all of the Council's trading subsidiaries to be made available to us as part of the audit of the Council's accounts.

Bank reconciliation

In the 2014/15 audit, we recommended that further work was undertaken to resolve the remaining differences in the bank reconciliation, so that a fully balanced position can be reflected in the 2015/16 financial statements.

Initial discussions indicate that officers are on course to address the outstanding issues. We will follow this up further during the 2015/16 audit and report our conclusions in the Audit Completion Report in September 2016.

04 Value for Money Conclusion

Scope of work

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

Overall criterion

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

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

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

As part of our work, we will also:

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

City of York Trading Ltd

On 26 February 2016, we issued a Public Interest Report on governance issues in relation to remuneration of Council officers for work as Directors of City of York Trading Ltd. As part of the 2015/16 audit, we will follow up the implementation of our recommendations.

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

VFM risk – Responding to financial pressures and competing demands, and delivering significant projects and new ways of working
Description of the risk The Council faces financial pressures from reduced funding and continues to identify plans to deliver future savings and improvements. Without robust budgetary control and delivery of its action plans, the Council's financial resilience and service performance could deteriorate. There have been some high profile examples of problems with project delivery, such as the housing for older people procurement and more recently with the community stadium project. This has been the first year of operation of the Better Care Fund, which requires the Council to work with the local CCG and the wider health economy to reduce demand for acute healthcare. Any failures in these areas could compound the Council's financial and operational difficulties and impact adversely on services provided.
How we will address this risk We will review budget monitoring and reporting, focusing on areas where action plans are in place to make savings and improvements, and seek to minimise any adverse impact on service delivery. We will review the plans that are developed to deliver savings and improvements. We will focus on: • the budget process and the Medium-Term Financial Strategy; • the progress made in identifying savings required; • budget monitoring reports and other finance updates; and, • delivery of improved outcomes. In addition, we propose a number of more detailed specific probes in four areas of particular risk: • a review of the Community Stadium project; • a review of the operation of the first year of the Better Care Fund; • follow up on progress made on the housing for older people procurement; and, • a review of the operation of the improved programme and project management arrangements. We will work with officers to scope the work appropriately. We propose to engage our specialist advisory team to undertake the four specific probes work and we will report separately on the findings of this work. The budget review work is part of the core work on the VFM conclusion and is included in the scale fee. The four specific probes represent additional VFM work outside of the scale fee, and will be at an additional fee as set out in section 6 of this report. We will need to seek the approval of our regulator, Public Sector Audit Appointments Ltd for this level of additional work.

05 Your audit team

Below are your audit team and their contact details.

Engagement lead / Partner	• Gareth Davies • gareth.davies@mazars.co.uk • 07979 164 467
Engagement senior manager	• Gavin Barker • gavin.barker@mazars.co.uk • 0191 561 1917 or 07896 684 771
Team leader	• David Hurworth • david.hurworth@mazars.co.uk • 0191 383 6300

06 Fees for audit and other services

At this stage of the audit we are planning an increase of £25,000 from the scale fee set by Public Sector Audit Appointments Ltd. The increase is to carry out additional work considered necessary in relation to the VFM conclusion. The work will include:

- a review of the Community Stadium project;
- a review of the operation of the first year of the Better Care Fund;
- follow up on progress made on the housing for older people procurement; and,
- a review of the operation of the improved programme and project management arrangements.

Area of work	2015/16 Scale fee	2015/16 Proposed fee	2014/15 Final fee
Code audit work	101,607 [1]	126,607 [2]	183,476 [3]
Housing Benefit Subsidy certification	11,679	11,679	15,220
Non-audit work	n/a	0 [4]	21,900
Total fees	**113,286**	**138,286**	**220,596**

Fees exclude recoverable VAT

[1] The main reason for the reduction in the scale fee for Code audit work between 2014/15 and 2015/16, is that Public Sector Audit Appointments Ltd has passed on the 25% fee reduction arising from the final major procurement exercise undertaken by the Audit Commission before its closure in March 2015. The value of this reduction was £33,869. The rest of the difference was explained by additional work that was undertaken in the 2014/15 audit as set out in [3] below.

[2] The proposed fee for the 2015/16 audit is £25,000 higher than the scale fee. This is the estimated cost of the additional VFM conclusion work we have proposed. This relates to the four detailed specific probes set out on page 9 of this report. This work will require the approval of our regulator, Public Sector Audit Appointments Ltd.

[3] The final fee for 2014/15 includes an initial scale fee of £135,476, plus an additional £8,500 to reflect additional VFM conclusion work in relation to programme and project management. In addition, the final fee includes the additional cost of work in relation to our review of the governance arrangements surrounding the payments by City of York Trading Limited to two of its executive directors who were also officers of the Council. The cost of this work is £27,000 in audit fees and an additional £12,500 reimbursement of our legal costs, a total of £39,500. It is expected that these fees will be part of Code audit work for 2014/15 but we are currently awaiting approval of these fees by our regulator, Public Sector Audit Appointments Ltd.

[4] In 2014/15 we provided a number of non-audit services. For 2015/16, no additional non-audit work is planned at present.

Appendix A – Independence

We are required by the Financial Reporting Council to confirm to you at least annually in writing, that we comply with the Auditing Practices Board's Ethical Standards. In addition we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you, and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement, there are no relationships between us, and any of our related or subsidiary entities, and you, and your related entities, creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team who are required to rotate off a client after a set number of years; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We wish to confirm that in our professional judgement, as at the date of this document, we are independent and comply with UK regulatory and professional requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Gareth Davies, Engagement Lead.

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

No threats to our independence have been identified.

Appendix B - Materiality

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

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

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

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

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

We consider materiality whilst planning and performing our audit.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provide 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.

We have set materiality at the planning stage at £8.1m with a clearly trivial threshold of £243k below which identified errors will not usually be reported. We have set lower materiality levels for the disclosure of officer remuneration and emoluments and members' allowances as we consider these items to be of specific interest to users of the accounts sufficient to warrant audit procedures which would not otherwise be applied based on the materiality level for the audit as a whole. The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

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

Appendix C – Key communication points

ISA 260 'Communication with Those Charged with Governance' and ISA 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications
We will present to the Audit and Governance Committee the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Annual Audit Letter.

These documents will be discussed with management prior to being presented to the Audit and Governance Committee and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our independence;
- Responsibilities for preventing and detecting errors;
- Materiality; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Unadjusted misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Appendix D – Forthcoming accounting and other issues

The 2015/16 CIPFA Code of Practice on Local Authority Accounting (the Code) has made several changes to financial reporting requirements relevant to the Council, of which you should be aware.

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

Forthcoming accounting issues

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