



## URGENT BUSINESS AND SUPPLEMENTARY INFORMATION

### Accounts, Audit and Risk Committee

17 March 2021

Agenda Item Number	Page	Title	Officer Responsible	Reason Not Included with Original Agenda
10.	(Pages 3 - 52)	External Audit Update	Director of Finance	Following discussions between officers and the Chairman of the Committee, it was decided that updated 446GPS(R) Local Government Audit Results Report be submitted to the Committee

*If you need any further information about the meeting please contact Sharon Hickson, Democratic and Elections [democracy@cherwell-dc.gov.uk](mailto:democracy@cherwell-dc.gov.uk), 01295 221554*

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# Cherwell District Council Audit results report

Year ended 31 March 2020

12 March 2021

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Private and Confidential

12 March 2021



Dear Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Accounts, Audit and Risk Committee. This report summarises our preliminary audit conclusion in relation to the audit of Cherwell District Council for 2019/20.

We have substantially completed our audit of Cherwell District Council for the year ended 31 March 2020. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section O3. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Accounts, Audit and Risk Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Accounts, Audit and Risk Committee meeting on 17 March 2021.

Yours faithfully

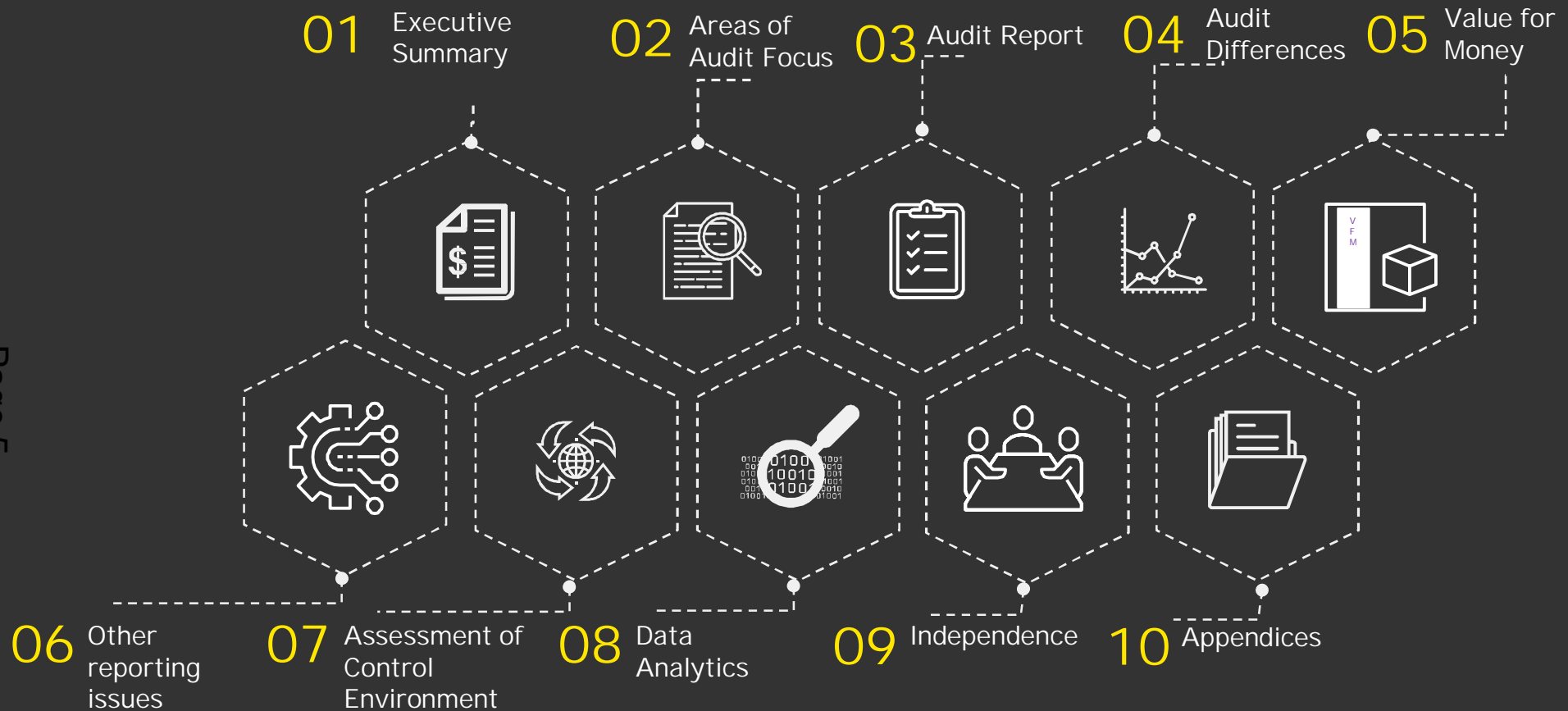
Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk)).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. As appointed auditor, we take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



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# Executive Summary



# Executive Summary

## Scope update

In our audit planning report sent to the 18 March 2020 Accounts, Audit and Risk Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

### Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

### Changes to our risk assessment as a result of Covid-19

- Valuation of Property Plant and Equipment - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.

Disclosures on Going Concern - Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.

Events after the balance sheet date - We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Local Authority.

- Adoption of IFRS16 - The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

### Changes to the scope of our audit as a result of Covid-19

- We revised our risk assessment on key estimates (PPE and Pensions) and are extending our use of internal specialists to support our work in these areas.

### Changes in materiality

In our Audit Planning Report, we stated that our audit procedures would be performed using a materiality of £2.4m, with performance materiality at 75% of overall materiality of £1.8m, and a threshold for reporting misstatements of £122K. We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

We updated our materiality assessment upon receipt of the draft financial statements. This resulted in a revised materiality of £2.14m, with performance materiality at 75% of overall materiality of £1.6m, and a threshold for reporting misstatements of £107K.



# Executive Summary

## Scope update

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19. The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the potential impact on our audit fee on page 35.

We considered the potential impact on our audit opinion of the following:

Property, Plant and Equipment (PPE) valuation – the external valuer flagged a material uncertainty in their valuation report to the Council. We engaged with our internal valuation specialists to support the audit team's understanding of the extent of the uncertainty. We considered an Emphasis of Matter in respect of PPE valuation but concluded that this was not necessary. This is subject to final review and consultation.

Going concern – given the significance of the Covid-19 pandemic on the financial operations and financial management of the Authority we have been required to complete additional procedures in respect of Going Concern. We requested additional information from the Director of Finance and raised a number of questions to understand the implications of Covid-19 on longer terms financial plans. Depending on our review of that information and responses there may be an impact on our audit report for 2019/20. This could take the form of either an Emphasis of Matter disclosure in our audit report or a Material Uncertainty disclosure. This is currently subject to internal consultation with our internal professional practice directorate.

We will update the Committee at the meeting on 17<sup>th</sup> March on the above areas.

We expect to issue the audit certificate at the same time as the audit opinion.





# Executive Summary

## Status of the audit

We have substantially completed our audit of Cherwell DC's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding matters we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

Review of the final version of the financial statements

Completion of subsequent events review

Receipt of the signed management representation letter

Consultation process for the going concern

Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

We expect to issue the audit certificate at the same time as the audit opinion.

## Audit differences

There are two unadjusted audit differences arising from our audit. These are not material but are above the level at which we must report to you.

1. £166,250 adjustment for the incorrect proportion of the council's ownership of Fairway Methodist Church
2. £134,920 overstatement of the NDR Appeals provision in 2018/19

The Council does not propose to amend for these adjustments as they are not material.

There were also two prior year amendments:

1. The receipts in advance and provisions figures on the council's balance sheet 2018/19 were originally transposed in error. The equivalent figures were shown correctly in the consolidated balance sheet, and the amendment makes them consistent. There is no impact on the financial position
2. We queried the basis for valuation of car parks, as the percentage of income used by the Council estimated in its draft statements was significantly higher than the income actually achieved. As a result of these queries we revisited the valuation in the previous year and the Council agreed that it should be changed in the same way as the 2019/20 valuation

There were also some minor disclosures which have been adjusted by management. Details can be found in Section 4 Audit Differences.

We will provide a final update at the Committee in relation to any other matters identified.



# Executive Summary

## Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Cherwell DC's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Accounts, Audit and Risk Committee.



# Executive Summary

## Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified no significant risks.

We have no matters to report about the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We had no issues to report.

We note that at the time of audit, 25 members of the Council had not completed their required annual declaration of interests. However all relevant disclosures have now been received or in two cases where Members had left in May 2019, we undertook alternative procedures.

## Independence

Please refer to Section 09 for our update on Independence.



## 02 Areas of Audit Focus



## Areas of Audit Focus

# Significant risk

### Misstatements due to fraud or error

#### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We have not identified a heightened risk of management override overall, but we have identified a specific area where management override might occur: incorrect capitalisation of revenue spending. Our specific response to this risk is set out in the next slide.

#### What judgements are we focused on?

We have considered the risk of management override and the areas of the financial statements that may be most susceptible to this risk. For the Council, we have identified the potential for the incorrect classification of revenue spend as capital and the allocation of shared costs between South Northamptonshire Council and Cherwell District Council as particular areas where there is a risk of fraud or error.

#### What did we do?

- Identified fraud risks during the planning stages.
- Asked management about risks of fraud and the controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Determined an appropriate strategy to address those identified risks of fraud.
- Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements
- Specific testing where amounts have been allocated between Cherwell District Council and South Northamptonshire Council.

#### What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.





# Areas of Audit Focus

## Significant risk

### Incorrect capitalisation of revenue expenditure

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#### What is the risk?

Under ISA240 there is also a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

For Cherwell District Council, we consider this risk to be related to the inappropriate capitalisation of revenue expenditure.

We have considered the capitalisation of revenue expenditure on property, plant and equipment as a specific area of risk given the extent of the Authority's capital programme.

#### What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure.

#### What did we do?

We sample tested additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.

#### What are our conclusions?

We have not identified any issues with management's accounting policies or practices in relation to opting to finance expenditure from capital sources.

Capital expenditure in relation to Investment is not material, so we focused our testing on property, plant and equipment capital additions and also Revenue Expenditure Financed from Capital Under Statute (REFCUS) capital additions.

Our testing of capital additions has not identified any instances where expenditure had been inappropriately capitalised.





# Areas of Audit Focus

## Significant risk

### Valuation and classification of Castle Quay

#### What is the risk?

The fair value of the Castle Quay development represents a significant balance in the Council's group Statement of Accounts.

The asset is subject to an annual revaluation, and management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end value recorded in the balance sheet.

The Castle Quay development continues to be potentially affected by the weakness of the retail sector. We also note that our valuers in 2018/19 identified improvements that could be made to the valuation methodology.

#### What judgements are we focused on?

- Management judgements of ownership arrangements and how they are disclosed
- Correctness of reporting and disclosure of group elements in the consolidated financial statements
- Correctness of consolidating adjustments
- Completeness of related party disclosures

#### What did we do?

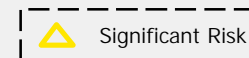
We:

- considered the work performed by the Council's valuer. This means testing and challenging the information and assumptions used by the valuers using our specialists;
- used specialists in our Real Estate team to support our work reviewing the assumptions used in the valuation of this asset. This was a focus of professional scepticism in view of recent reports on the fragility of the retail sector e.g. increases in discount rates ("yield") having a negative impact on carrying value
- tested that the asset has been correctly classified within the balance sheet, and that the accounting entries relating to its valuation have been correctly reflected in the Statement of Accounts.

#### What are our conclusions?

We liaised with our specialist Real Estate team on their review of the valuation of Castle Quay.

Our specialists concluded that the valuation in the financial statement falls within an acceptable range. They have however identified areas for improvement in the valuation methodology in future.





# Areas of Audit Focus

## Significant risk

### Risk of error in the valuation of land and buildings (updated post Covid-19)

#### What is the risk?

The fair value of Property, Plant and Equipment and Investment Properties represent significant balances in the Authority's accounts, totalling approximately £194 million and subject to valuation changes, impairment reviews and depreciation charges.

In calculating amounts recorded in the Authority's balance sheet, management are required to make material judgements and apply estimation techniques.

#### What judgements are we focused on?

We focused on aspects of the land and buildings valuation which could have a material impact on the financial statements, primarily:

- harder to value assets – such as schools which are valued on a depreciated replacement cost basis;
- the assumptions and estimates used to calculate the valuation; and
- changes to the basis for valuing the assets.

#### What did we do?

We confirmed that the Authority's valuers are members of RICS and registered valuers. We reviewed the instructions provided to the valuer against the requirements of the Code and IFRS and found no issues.

For a sample of assets we assessed whether the valuation basis was appropriate and whether the assumptions used were supportable and reperformed the valuers' calculations.

We challenged the information provided by the valuer as the management's expert.

We have considered the impact of assets not revalued in year, and whether this could lead to a material misstatement of the closing asset valuation.

#### What are our conclusions?

We updated our risk assessment in light of the impact of Covid-19 and the fact that the external valuer had highlighted a 'material uncertainty' in their valuation report. As a result we instructed our internal valuers to support us with our work in this area.

We asked our internal valuers to support us with a review of a range of assets across the portfolio including property, plant and equipment and investment properties.

We considered the impact of assets not revalued in year and the fact that assets valuations occur effective as at 1 April 2020. We challenged officers on the material correctness of valuations at that date and amendments have been agreed as appropriate.

Our work on investment properties identified an issue in the valuation of car parks, as a result of which the valuation was amended (and an adjustment made for the previous year).



## Audit risks

### Other areas of audit focus

We have identified other areas of the audit not classified as significant risks, but still important when considering the risks of material misstatement to the financial statements and disclosures. These may be key audit matters which we will include in our audit report.

#### What is the risk/area of focus?

##### Pension Asset Valuation

The Local Authority Accounting Code of Practice, and IAS19, require the Council to make extensive disclosures in its financial statements about its membership of the Local Government Pension Scheme administered by Oxfordshire County Council.

The Council's pension fund liability is a material estimated balance and the Code requires that this asset be disclosed on its balance sheet.

The information disclosed is based on the IAS 19 report issued to the Council by its actuary, Hymans Robertson.

Accounting for the scheme involves significant estimation and judgement, so management engages an actuary to perform the calculations on its behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and on the assumptions underlying fair value estimates.

#### What did we do?

We:

- liaised with the auditors of Oxfordshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to Cherwell District Council;
- assessed the work of the Pension Fund actuary (Hyman Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team;
- reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19; and
- considered any impact in year from the McCloud judgement.

We raised no issues as a result of our work.

## Other areas of audit focus (cont.)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the area of focus?	What did we do?
<p><u>Group Boundary Assessment</u></p> <p>The Council now consolidates three wholly owned subsidiary companies in its accounts, and also holds an interest in a joint company with South Northamptonshire Council to process housing benefit claims across both Councils from June 2018.</p> <p>As in previous years, our work in this area is not contained with the assumptions used by Public Sector Audit Appointments Limited (PSAA) in setting the Council's audit fee. We have included an estimate of the likely additional fee in relation to this matter; this is reflected in Appendix A of this report.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• reviewed the Council's assessment of its group boundary</li> <li>• tested the consolidation of entries relating to these subsidiary entities into the Council's Group Statement of Accounts</li> <li>• issued instructions to the auditors of the component entities as appropriate.</li> </ul> <p>• There were no issues arising from our work in this area.</p>



# 03 Audit Report



# Draft Audit Report

## Draft audit report

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHERWELL DISTRICT COUNCIL

##### Opinion

We have audited the financial statements of Cherwell District Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

Authority and Group Movement in Reserves Statement,  
Authority and Group Comprehensive Income and Expenditure Statement,  
Authority and Group Balance Sheet,  
Authority and Group Cash Flow Statement  
the Expenditure and Funding Analysis  
Collection Fund and  
the related notes 1 to 39 of the Authority Financial Statements, notes 1 to 4 of the Collection Fund, and notes 1 to 3 of the Group Financial Statements.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:  
give a true and fair view of the financial position of Cherwell District Council and Group as at 31 March 2020 and of its expenditure and income for the year then ended; and  
have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:  
the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or  
the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

##### Other information

The other information comprises the information included in the Statement of Accounts for 2019/20 set out on pages 4-22 other than the financial statements and our auditor's report thereon. The Director of Finance is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.



# Draft Audit Report

## Our opinion on the financial statements

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are satisfied that, in all significant respects, Cherwell District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;

we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;

we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;

we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;

we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or

we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Director of Finance

As explained more fully in the Statement of the Director of Finance's Responsibilities set out on page 23, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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



# Draft Audit Report

## Our opinion on the financial statements

### Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor’s report.

### Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether Cherwell District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Cherwell District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Certificate

We certify that we have completed the audit of the accounts of Cherwell District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

### Use of our report

This report is made solely to the members of Cherwell District, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority’s members as a body, for our audit work, for this report, or for the opinions we have formed.



# 04 Audit Differences





# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of adjusted differences

We highlight misstatements greater than £1.6m corrected by management and identified during the course of our audit.

There was a reduction of £3,073K in the valuation of property, plant and equipment (and an associated impact of £486K in investment properties) as a significantly higher estimate had been used in the draft statements than was supported by actual figures available at the time of audit. We then challenged the valuation in the previous year, which gave rise to the equivalent prior year amended for reductions of £4,751K in PPE and £623K in investment properties.

Long-term debtors in note 33 were adjusted from £11,885K to £10,055K.

Interest revenue recorded in note 7b was originally shown as £1,896K and correctly amended to £4,398K.

Grant income in note 31 was understated by £2,251K.

Increase in General Fund Reserves in note 9 was understated by £2,413K.

Opening balances of £1,671K on the MIRS were adjusted for consistency with the balance sheet: this was reclassification from unusable to usable reserves.

There are two uncorrected misstatements. These are:

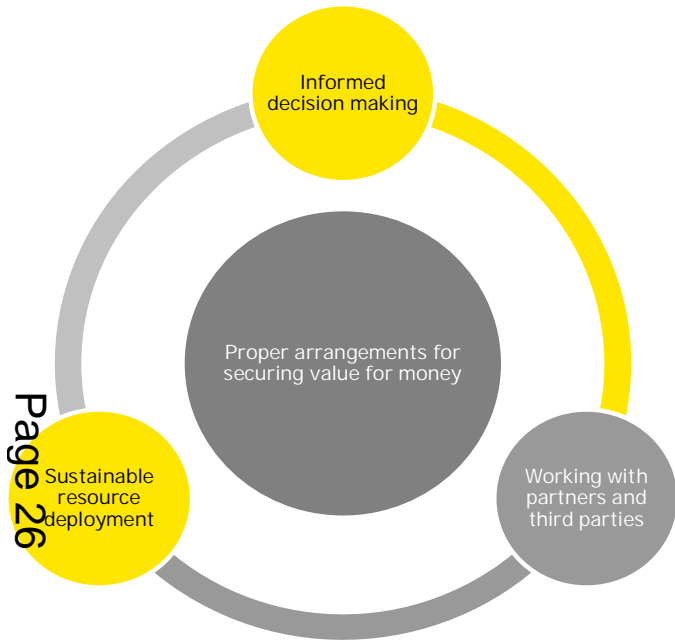
1. £166,250 adjustment for the incorrect proportion of the council's ownership of Fairway Methodist Church
2. £134,920 overstatement of the NDR Appeals provision in 2018/19





05

## Value for Money



## Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

"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"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

## Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

## Overall conclusion

We did not identify any significant risks around these criteria.

We therefore expect to have no matters to report about the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. We are currently updating the work we did in this area at planning.



## 06 Other reporting issues

## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2019/20 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

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### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters arising to the Accounts, Audit and Risk Committee.

# Other reporting issues

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit discussed with management;
- Written representations requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

We note that at the time of audit, 25 members of the Council had not completed their required annual declaration of interests. However all relevant disclosures have now been received or in two cases where Members had left in May 2019, we undertook alternative procedures.



07

# Assessment of Control Environment



# Assessment of Control Environment

## Reliance on internal audit

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice. As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



# 08 Data Analytics





# Use of Data Analytics in the Audit

- ▶ Data analytics – revenue recognition, income & expenditure, payroll

## Analytics Driven Audit

### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2019/20, our use of these analysers in the Authority's audit included testing journal entries and employee costs, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

#### Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

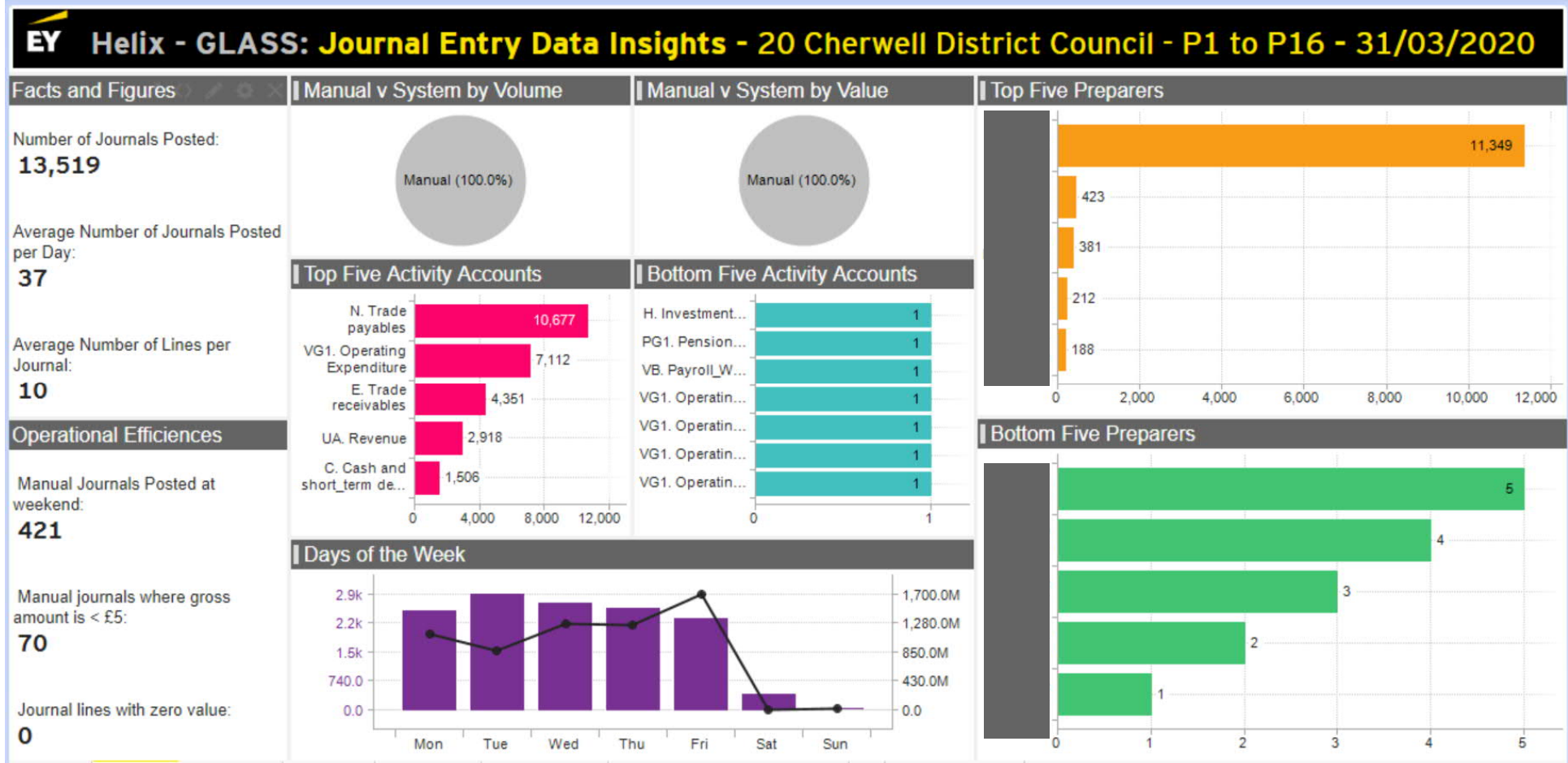


## Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2019/20. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.

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## Journal Entry Testing

### What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Journal entry data criteria – 31 March 2020

### What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.



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### What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

### What are our conclusions?

We isolated a sub-set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



09

# Independence

## Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated 10 March 2020.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Accounts, Audit and Risk Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Committee on 18 November 2020.

Additional fees because of the Council's group structure, valuation work around the significant risk of Castle Quay valuation, and issues around the closure of the 2018/19 accounts. This has not yet been formally agreed by PSAA

\*\* The fee for housing benefit work is the base fee and does not include any extended testing; however in the past some extended testing has always been required in order to comply with DWP expectations, so the actual fee is likely to be higher. From 2018-19 onwards the work falls outside the PSAA regime and is subject to a separate fee proposal and engagement terms.

\*\*\* The scale fee for 2019/20 is set by PSAA as indicative and does not reflect the actual costs of undertaking the audit, to address all risks identified and to meet current regulatory standards. In our planning report we stated we are also in an unprecedented period of change. A combination of pressures is affecting Local Audit and the sustainability of delivery is now a real challenge. We have been discussing with PSAA the basis on which the scale fee was set. We also note this is consistent with the findings of the Redmond report.

We have also incurred additional costs in addressing the increased risks associated with C 19, including asset valuations and the impact on the going concern assessment. We will discuss and agree a fee with management and PSAA, and communicate progress to the Audit & Governance Committee.

As part of our reporting on our independence, we set out below a summary of the fees which you have paid us in the year ended 31 March 2020.

We confirm that we will undertake non-audit work on the certification of the Housing Benefit claim. We have agreed a separate Engagement Letter for the operation of this work.

Description*	Final Fee 2019/20 £	Planned Fee 2019/20 £	Final Fee 2018/19 £
Total Audit Fee – scale fee	40,138	40,138	40,138
Work over and above scale fee	TBC	TBC	*33,977
Total audit fee	TBC	TBC	74,115
Non-audit work: HB certification work	TBC	**4,500	21,500
Total non-audit services	TBC	**4,500	21,500
Total fee	***note	***note	95,615

## New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

### Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
  - Tax advocacy services
  - Remuneration advisory services
  - Internal audit services
  - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Accounts, Audit and Risk Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Accounts, Audit and Risk Committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

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### Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

To date we have not identified any non-audit services being provided to the Council which would be prohibited under the new standard.

## Other communications

### EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

[https://www.ey.com/en\\_uk/who-we-are/transparency-report-2020](https://www.ey.com/en_uk/who-we-are/transparency-report-2020)



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# 10 Appendices



# Appendix A

## Required communications with the Accounts, Audit & Risk Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Terms of engagement	Confirmation by the Accounts, Audit and Risk Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report	
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report	

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	Audit results report
Subsequent events	<ul style="list-style-type: none"> <li>• Asking the Accounts, Audit and Risk Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	
Fraud	<ul style="list-style-type: none"> <li>• Asking the Accounts, Audit and Risk Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Accounts, Audit and Risk Committee responsibility.</li> </ul>	Audit results report

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit planning report</p> <p>Audit results report</p>

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> <li>Management's refusal for us to request confirmations</li> <li>Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>Enquiry of the Accounts, Audit and Risk Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Accounts, Audit and Risk Committee may be aware of</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit results report

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	<ul style="list-style-type: none"> <li>An overview of the type of work to be performed on the financial information of the components</li> <li>An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.</li> </ul>	Audit planning report  Audit results report
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations requested from management and/or those charged with governance</li> </ul>	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit results report
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit Planning Report Audit Results Report
Certification work	<ul style="list-style-type: none"> <li>Summary of certification work</li> </ul>	Certification Report

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# Management representation letter

## Management Rep Letter

[To be prepared on the entity's letterhead]  
[Date]

Ernst & Young  
FAO: Maria Grindley  
EY  
Apex Plaza  
Reading  
RG1 1YE

This letter of representations is provided in connection with your audit of the council financial statements of Cherwell District Council ("the Council") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the council financial statements give a true and fair view of the Council financial position of Cherwell District Council as of 31 March 2020 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 for the Council.

We understand that the purpose of your audit of our council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 for the Council.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the council financial statements. We believe the Council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and are free of material misstatements, including omissions. We have approved the council financial statements.
3. The significant accounting policies adopted in the preparation of the Council financial statements are appropriately described in the Council financial statements.
4. As members of management of the Council, we believe that the Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 for the Council that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the council financial statements taken as a whole.
6. We have not corrected the financial statements for these differences:
  - £166,250 incorrect proportion of the council's ownership of Fairway Methodist Church
  - £134,920 overstatement of the NDR Appeals provision in 2018/19 because [specify reasons for not correcting misstatement].

# Management representation letter

## Management Rep Letter (cont.)

### B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the Council financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:
  - involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or
  - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the council financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on 17 March 2021.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

# Management representation letter

## Management Rep Letter (cont.)

### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent. No guarantees have been given to third parties.

### E. Subsequent Events

1. Other than those described in Note X to the council financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the council financial statements or notes thereto.

### F. Group audits

1. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.
2. The Council has two wholly owned companies that it supports financially via a variety of financial arrangements: Graven Hill and Crown House. These are long term arrangements, to which it will remain committed over the medium to longer term. The Council has provided loans to both companies which are long term in nature, and through these vehicles will remain committed to financially supporting these wholly owned companies over the long term.

### G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

### Representations required in specific circumstances

When the comparative information has been restated, i.e. in the form of a prior year adjustment

There were two prior year adjustments:

The receipts in advance and provisions figures on the council's balance sheet for 2018/19 were originally transposed in error. The equivalent figures were shown correctly in the consolidated balance sheet, and these have been made consistent. There is no impact on the financial position.

We queried the basis for valuation of car parks, as the percentage of income used by the Council estimated in its draft statements was significantly higher than the income actually achieved. As a result of these queries we revisited the valuation in the previous year and the Council agreed that it should be changed in the same way as the 2019/20 valuation.

The comparative amounts have been correctly restated to reflect the above matters and appropriate note disclosure of these restatements have also been included in the current year's consolidated and council financial statements. Going Concern

Note [X] to the consolidated and council financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

### Other illustrative representations

#### Use of the Work of a Specialist

We agree with the findings of the specialists that we engaged to evaluate the IAS 19 actuarial valuations of the Pensions Liability, the valuation of Property, Plant and Equipment and Investment Property and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.



# Management representation letter

## Management Rep Letter (cont.)

Pensions Liability, Property, Plant and Equipment, and Investment Property Estimate

We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We confirm that the significant assumptions used in making the Pensions Liability, the valuation of Property, Plant and Equipment and Investment Property appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic, and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and council financial statements due to subsequent events, including due to the COVID-19 pandemic.

Retirement benefits

On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,



\_\_\_\_\_  
Director of Finance

\_\_\_\_\_  
Chairman of the Accounts, Audit and Risk Committee

# Appendix C

## Regulatory update

Since the date of our last report to the Audit & Governance Committee/Board, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Oxfordshire County Council 
Code of Audit Practice 2020	<ul style="list-style-type: none"> <li>The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.</li> </ul>	<ul style="list-style-type: none"> <li>The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed.</li> <li>Further updates will be provided when possible.</li> </ul>
Going Concern - ISA (UK) 570 (Revised September 2019)	<ul style="list-style-type: none"> <li>The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020.</li> <li>This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.</li> </ul>	<ul style="list-style-type: none"> <li>Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage.</li> <li>Further updates will be provided when possible.</li> </ul>
Independence	<ul style="list-style-type: none"> <li>The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs). This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed.</li> </ul>	<ul style="list-style-type: none"> <li>We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.</li> <li>To date we have not identified any non-audit services which would be prohibited under the new standard.</li> </ul>

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