

Cherwell District Council

Audit Results Report

For the year ended 31 March 2015

September 2015



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Section 1

Executive summary

Executive summary – key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Accounts, Audit and Risk Committee (AAR Committee) – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2014/15 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- ▶ We have not identified any material misstatements. A small number of audit adjustments have been proposed and one uncorrected misstatement, which we have agreed will be corrected in 2015/16, requires approval by the AAR Committee.
- ▶ We have one matter that is currently under review relating to a £1.5m debtor with the Department of Communities and Local Government. Details are set out on page 11.
- ▶ We have made some recommendations for improvement. These are set out at in Section 4 of this Report.
- ▶ We expect to issue an unqualified opinion on the Council's financial statements.

Value for money

- ▶ In the conduct of our audit, we have had to alter the planned approach communicated to you in our Audit Plan presented to the March AAR Committee. We increased our assessment of the Council's financial resilience to a 'Significant Risk' to reflect the significant financial challenges facing the sector. Further details are set out at Section 5 of this Report.
- ▶ We have identified some areas for improvement over budget management, forecasting and the use of reserves.
- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- ▶ We have not reported any significant matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

Other audit matters

- ▶ During the course of our audit, a local elector exercised their statutory right to ask a question of the external auditor. The matter has been discussed with the Council and we saw no basis for further investigation. The elector is expected to pursue this matter further with the Council. Should the AAR Committee wish for further details, we suggest this is requested of Officers directly.

Section 2

Extent and purpose of our work

Extent and purpose of our work

The Council's responsibilities

- ▶ The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
- ▶ The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

- ▶ Our audit was designed to:
 - ▶ Express an opinion on the 2014/15 financial statements and the consistency of information included in the foreword.
 - ▶ Report on an exception basis on the Annual Governance Statement.
 - ▶ Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion).
 - ▶ Discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

As a component auditor, we also follow the NAO group instructions and report the results on completion of the WGA work through the Assurance Statement to the NAO and to the Council.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Section 3

Addressing audit risks

Addressing audit risks – significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. We have also confirmed that the presumed risk of improper recognition of revenue exists. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p>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.</p>	<p>We:</p> <ul style="list-style-type: none"> ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. ▶ Reviewed accounting estimates for evidence of management bias. ▶ Evaluated the business rationale for significant unusual transactions. 	<p>Our audit work has not identified any evidence of management override of controls.</p> <p>Our review of journal controls, covering and testing of journal entries has not identified any significant issues.</p> <p>Our review of accounting estimates did not reveal evidence of management bias and business rationales were provided in support of significant transactions.</p> <p>Our planned procedures in relation to this risk are complete. We have identified no findings that would indicate there is a risk of material misstatement due to fraud or error.</p>
<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>We:</p> <ul style="list-style-type: none"> ▶ Reviewed and tested revenue recognition policies ▶ Reviewed and discussed with management the possibility and application of significant accounting estimates on revenue recognition for evidence of bias ▶ Considered whether there were any unusual significant transactions ▶ Tested material revenue streams 	<p>Our audit work has not identified any significant issues in relation to the risk identified</p>

Addressing audit risks – other audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Other audit risks		
<p>The Council will perform the function of a strategic developer for the Graven Hill project through a 100% owned Company Limited by Share (Graven Hill Development Company).</p>	<p>We carried out appropriate audit procedures to enable us to form our opinion on the group accounts. This included an assessment of the inherent risk of a new subsidiary, the nature, value and volume of transactions, including consolidation adjustments, and the work of the appointed accountant and auditor.</p>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>The Company is a separate legal entity and will be required to prepare its own single entity accounts, which will be subject to audit in their own right. Although transactions in 2014/15 will be limited to acquisition costs and other incidental expenditure; these costs are likely to be above the threshold requiring consolidation in the controlling entities accounts.</p>	<p>The cost of the additional audit work was not covered by the Audit Commission's scale fee and, as set out in our Audit Plan, subject to a scale fee variation.</p>	<p>The additional fee arising is £6,165</p>
<p>This means that for the first time in 2014/15 the Council will be required to prepare group accounts to incorporate the financial results of the Company.</p>		

Section 4

Financial statements audit – issues and findings

Financial statements audit – issues and misstatements arising from the audit

Progress of our audit

Our audit is substantially complete, although we are completing our work in the following areas:

- ▶ Residual completion procedures:
 - ▶ Completion of audit documentation on journals, PPE and Payroll.
 - ▶ Receipt of a letter from the Pension Fund auditor to confirm whether there are any material concerns arising from that audit.
 - ▶ Final review and checks on areas such as compliance with laws and regulations, potential litigation and going concern.
 - ▶ Presentational checks of the post audit financial statements.
- ▶ Obtaining and reviewing the final Letter of Representation.
- ▶ Updating our post balance sheet review, up to the date of signing the opinion.

Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

We will provide an update of progress at the AAR Committee meeting.

Uncorrected misstatements

There is one error within the draft financial statements, which management has chosen not to adjust until 2015/16. This related to the incorrect recognition of a provision grant funding from the Home Improvement Agency.

Corrected misstatements, misclassifications and disclosure changes

Our audit identified a small number of adjustments that our team have agreed with Officers.

Details of these adjustments are set out at Appendix A .

We also agreed some presentational and narrative changes to the financial statements as well as suggested areas for further improvements in 2015/16. These are not significant in nature or volume.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:

- ▶ Qualitative aspects of your accounting practices; estimates and disclosures;
- ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- ▶ Any significant difficulties encountered during the audit; and
- ▶ Other audit matters of governance interest.

Qualitative aspects of accounting practice

We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.

Key estimates and judgements include:

- ▶ future levels of government funding;
- ▶ pension fund valuations;
- ▶ provisions;
- ▶ asset valuations;
- ▶ useful life of capital assets; and
- ▶ impairments.

The Council's approach is appropriate and consistent with the Local Government Code of Accounting Practice. We do, however, have two matters to report to the AAR Committee:

- ▶ Council's judgement on a £1.5m debtor with the Department of Communities and Local Government.
- ▶ Business rate appeals provision.

Financial statements audit – issues and misstatements arising from the audit

DCLG debtor

The Council has recognised a £1.5m debtor with the Department of Communities and Local Government (DCLG) for differences arising on its NNDR3 (Business Rates) Return form 2014. The position on the debt owing to the Council was raised with the DCLG in September 2015. Given there has been a change in regulations as well as significant time passing, there is a risk that DCLG does not agree to the transaction.

The Council has not impaired the £1.5m to take account of any risk of non-payment. An audit adjustment has been made to disclose this matter in Note 8.2 of the financial statements.

We have asked the Council to seek some evidence from DCLG as to its view on the legitimacy of the debtor and for this to be received prior to signing the financial statements. Should DCLG disagree with the Council's debt, we will need to consider whether the debtor should be impaired and if so, by how much. We will also need to consider the impact to our value for money conclusion.

We will keep this matter under review and update the AAR Committee at its meeting on 23 September.

Business rate appeals

As described in note 8.2 and disclosed in note 8.20, the Council has calculated a £6.7m provision for Business Rate (NNDR) appeals, the Council's share of which is £2.6m. We have reviewed the Council's approach for this estimate and have observed that the provision assumes all appeals will be resolved within twelve months. This is the Council's best case estimate based on information supplied by the Valuation Office, however given the volume of transactions all appeals may not be realised in the first year.

The effect of this would be to split the classification on the balance sheet as a current and long-term liability. We do not believe the calculation to be materially misstated, however we have recommended the Council revisit the basis of its calculation for 2015/16.

Other matters arising

Through the course of our work, we have identified areas for improvement and other matters to be raised to the AAR Committee. These are set out below.

Key observation 1 – Committee reporting

The financial statements must be certified by the Chief Financial Officer by 30 June. There is no such requirement to provide the AAR Committee with draft financial statements prior to 30 June. We observed the finance team under additional pressures this year with interim staff (see *Key Observation 2*) and the impact of a shared management team servicing two Audit Committee's simultaneously.

Over the next few years, reporting deadlines are advancing. With less time to draft the financial statements, the Council will need to re-evaluate its entire financial reporting process, including committee reporting.

In our experience, local authorities have adopted a range of models, which we would be happy to discuss further. The following list is not exhaustive, and the Council must make its own decision over what approach it takes:

- ▶ Continue with the current state.
- ▶ Schedule an AAR Committee for the month after the accounts are certified by the CFO.
- ▶ Provide the AAR Committee with a key issues paper, covering estimates, judgements and policies in lieu of draft financial statements.
- ▶ Skip the provision of draft accounts and provide the AAR Committee with audited financial statements, This is consistent with other entities in the public and corporate sector.

Recommendation 1: The Council should consult with the AAR Committee how to best service its assurance needs over the financial statements in light of advanced reporting deadlines.

Financial statements audit – issues and misstatements arising from the audit

Key observation 2 – Finance team restructure

It is important to recognise that, as set out at Appendix A, there have been limited audit findings and the outcome of the audit is expected to be an unqualified opinion. We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Through the course of our audit, we observed a number of changes in personnel in the finance team as well as the use of interim staff to support the function. We experienced some delays in responding to our queries and responses were sometimes incomplete or required further investigation. In addition, a small number of working papers were incomplete or did not reconcile to the financial statements. This included key control documentation such as the Council's bank reconciliation.

Officers were helpful and supportive during the audit. The aforementioned challenges mainly arose due to many members of the team being either interim or new to post. We raise this point because the joint finance team will undergo a future restructuring to ensure it is fit for purpose as a fully shared service with South Northamptonshire Council. This is a particularly important task to ensure the Council is able to:

- ▶ Implement faster closure of the financial statements of two Councils.
- ▶ Adjust to the continued challenges and changes in local authority funding.
- ▶ Implement, and culturally adjust to, more effective financial management.

Matters in relation to fraud

We have previously discussed the risk of fraud with the AAR Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.

Matters in relation to laws and regulations

We are not aware of any significant incidences of non-compliance with relevant laws and regulations.

Written representations

A standard letter of representation has been requested from the Council. This is set out at Appendix D.

Related parties

We are not aware of any related party transactions which have not been disclosed. We have, however, noted that the Council has not disclosed the year end debtor / creditor position for related parties. We have agreed that this will be revisited in 2015/16.

Going concern

Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Difficulties encountered during the audit

There are no matters to bring to the AAR Committee's attention.

Financial statements audit – application of materiality

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Description	Amount (£'000)
Planning Materiality and Tolerable Error	<p>We determined planning materiality to be £1.6 million, calculated on 2% of gross expenditure reported in the Council's financial statements. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> <p>We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion.</p> <p>We have set tolerable error at the upper level of the available range because there were no corrected significant errors in the Council's 2013/14 financial statements and no uncorrected errors.</p>	1,614
Reporting Threshold	We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £81,000,	81

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Financial statements audit – internal control, written representations and whole of government accounts

Internal control

- ▶ 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.
- ▶ We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- ▶ We have reviewed the Annual Governance Statement and can confirm that:
 - ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
 - ▶ It is consistent with other information that we are aware of from our audit of the financial statements.
- ▶ 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.

Request for written representations

- ▶ We have requested a management representation letter to gain management's confirmation in relation to a number of matters.

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 are specified by the National Audit Office.
- ▶ We have substantially concluded our work and have no issues to report at this stage. We are currently finalising our work in this area and will report any updated matters that arise to the AAR Committee.

Section 5

Arrangements to secure economy, efficiency and effectiveness

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Cherwell District Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 – arrangements for securing financial resilience

- ▶ 'Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future'
- ▶ During our audit, we re-evaluated the extent of the risk to the Council in securing financial resilience. As a result, we set the risk arising from "Pressures from economic downturn" as a significant risk.

Our work did not identify any other matters relating to aspects of your corporate performance and financial management framework which are not covered by the scope of the two specified criteria to the left.

Criteria 2 – arrangements for securing economy, efficiency and effectiveness

- ▶ 'Whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity'

Arrangements to secure economy, efficiency and effectiveness

Financial resilience

Pressures from the economic downturn

A significant audit risk in the context of the value for money conclusion is the risk that the auditor may issue the wrong value for money conclusion. Where auditors identify a significant value for money conclusion risk they will need to undertake additional audit work to enable them to reach an appropriate conclusion.

To date the Council has responded well to the financial pressure resulting from the continuing economic downturn. However, the Comprehensive Spending Review will continue to impact on the Council's budget and medium term financial planning during current and forthcoming financial years.

We addressed this risk across the Council's arrangements to secure financial resilience against the following themes:

- ▶ key financial performance indicators
- ▶ financial governance
- ▶ financial planning
- ▶ financial control

Key indicators of performance

The Council achieved an overall favourable outturn against budgets of £0.27m. The general fund balance increased from £1.5m to £1.7m and revenue earmarked reserves have increased from £13.4m to £16.6m. It has no reported issues with cash flow or liquidity.

However, beyond these high level measures there are two particular items that we need to bring to the AAR Committee's attention.

Key observation 3 – Pensions

The Council's Pension Liability has increased from £63.9m to £78.9m and is the most significant liability on the Council's balance sheet. At a national level, the Local Government Pension Scheme Advisory Board estimated a £47bn funding deficit in 2014. The next triennial valuation of the pension fund is due in 2016, which is likely to have another material effect on the Council's financial position. This is an area the Council will need to keep under review.

Key observation 4 – Earmarked reserves

We have reviewed the Council's use of earmarked reserves through our audit. In doing so, we have observed that:

- ▶ The Council has an established process to review and approve earmarked reserves annually. Executive receive a report and there are arrangements to delegate responsibility to officers to manage earmarked reserves on a more detailed basis.
- ▶ However, this process could be improved to demonstrate greater transparency and good governance by including: timelines and the specific triggers for spending earmarked reserves.
- ▶ We also noted the use of transferring budget underspends into earmarked reserves. This is acceptable practice. However, when local authorities recurrently underspend, a question needs to be asked whether the budgets being set are realistic and / or adequately reflect the use of set aside funds in reserves. This is particularly relevant when earmarked reserves increase year on year.

CIPFA's advisory bulletin (LAAP 99) on the use of reserves, recommends councils have a clear protocol:

- ▶ setting out the reason and purpose of the reserve;
- ▶ how and when the reserve will be used;
- ▶ procedures for the management and control of the reserve; and
- ▶ process for regular review of the reserve.

Within the Council's protocols, there is a clear review of the reserves and delegated authority to specific Officers in conjunction with a lead member. What is not evident in the Council's committee reports is a clear outline on how and when the reserve will be used.

Recommendation 2: The Council should revisit its approach to reporting the use of earmarked reserves, to specifically set out how and when each reserve will be used.

Recommendation 3: The Council should formally review the level of earmarked reserves against a documented timetable for use. This will enable the Council to establish whether any earmarked reserves should be transferred back to the general fund.

Arrangements to secure economy, efficiency and effectiveness

Financial planning

The Council has a well developed process which integrates with corporate and service planning within the context of the Medium Term Financial Plan (MTFP). The framework and plan are flexible to allow the Council to target resources at changing priorities and are underpinned by robust procedures.

In setting its annual and medium term budgets, the Council considers the national and local context to ensure that the assumptions made are appropriate. The MTFP demonstrates that the Council has given detailed thought to how it will achieve its priorities and has actions linked to these taking into consideration resources available.

Key observation 5 – financial management

In conjunction with our observations on the planned finance function restructure, we recognise that the Council needs to evolve in line with the challenges facing the sector to implement a framework and culture for effective financial management. Based on the work we have performed, we note that:

- ▶ The Council's financial management reporting to Executive does not use a full suite of Key Performance Indicators (KPIs). Reporting is adequate, however given the changing and challenging financial environment, many entities have adopted a scorecard of KPIs covering, for example, cashflow, working capital, return on investment, debtor days, creditor days, debt recovery etc.
- ▶ We note the Council has an established process to develop and scrutinise the annual budget and medium term financial plan. An area of good practice used by the Council is scenario planning with the Budget Planning Committee. An area for further consideration is formal stress testing of the Council's financial and business plan.
- ▶ As set out on page five of the draft financial statements, the Council received higher than expected income from business rates and new homes bonus. This, in conjunction with other budget variances led to an unplanned £4.5million transfer to reserves in 2014/15. This includes transfers of budget underspends into earmarked reserves. As the shared finance team develops, there is an opportunity for further transformation to achieve greater value. For example, empowering the finance team to challenge budgets and reduce recurrent underspends, improve forecasting and , challenging assumptions and suggesting business improvements

We support the Council's current endeavours in developing a more engaged and effective approach to financial management within the Council.

Ref: 1507540

Financial governance

Members and officers have a clear understanding of the Council's financial environment and the extent of the financial challenges it faces. It has comprehensive financial and performance monitoring arrangements in place with reporting through the Executive and full Council.

Key observation – tracking savings and efficiencies

The Council has a number of projects that aim to deliver efficiencies, cost savings and service resilience. Notably, many of these involve joint working with South Northamptonshire Council. The Council currently tracks the successful delivery of the savings required through the annual budget and medium term financial plan. That is to say that there is no specific formal reporting of savings plans or efficiencies achieved on a project by project basis.

As the extent of financial challenges increases, we would expect the Council to implement more specific measures for tracking and reporting efficiencies and cost savings. We are happy to share examples of how other organisations have achieved this.

Recommendation 4 – The Council should investigate how it can separately report and profile the savings achieved through specified efficiency projects.

Key observation – governance of Graven Hill

The Graven Hill Development is an exciting and important project for the Council. The two subsidiary companies are still in their infancy as are the corporate governance arrangements. Our work has not identified any matters to bring to your attention, however we do expect this to be a greater feature of our work in 2015/16.

Arrangements to secure economy, efficiency and effectiveness

Financial control

No material issues or concerns have been noted in relation to the Council's arrangements for financial control. The Head of Internal Audit Annual Report states there are:

- "No high or critical risk findings individually or in aggregate per report rating.
- All findings were medium or low risk rating."

The Internal Audit Annual Opinion is quoted as: "There are weaknesses in the framework of governance, risk management and control which potentially put the achievement of organisational objectives at risk and there is non-compliance with controls that may put the achievement of organisational objectives at risk. Improvements are required in those areas to enhance the adequacy and effectiveness of governance, risk management and control."

From our work as your external, and in particular, noting the view of Internal Audit that there are no high or critical findings individually or in aggregate, we have no matters to report that impact our conclusions.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- ▶ prioritising resources
- ▶ improving efficiency & productivity

Overall our work highlighted that the Council maintains a self-awareness on its performance and continually challenges itself to deliver its services economically, efficiently and effectively.

Prioritising resources

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

There is leadership from senior management and members on prioritising resources and spending reductions and action taken to review and challenge strategic priorities and cost-effectiveness of existing activities in the context of the MTFP, and the impact of changing circumstances, to identify where activities do not contribute sufficient value.

Improving efficiency & productivity

The Council has appropriate understanding of its costs.

Decision making is based on appropriate information: operational performance is assessed during the year through the quarterly performance monitoring reports, which are reviewed by Executive. All reports have a risk assessment as part of their introduction which summarises any impact that the report has on, for instance, quality, risk management and performance.

The Council met 94% of the performance targets linked to its corporate priorities in 2014/15. Of those not met arrangements are in place to drive improvement and there is no evidence that the Council's ongoing implementation of savings has had a significant adverse impact on service delivery in key priority areas.

Section 6

Independence and audit fees

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated March 2015.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. 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 confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ 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 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 AAR Committee on 23 September 2015.
- ▶ We confirm that we have met the reporting requirements to the AAR Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements were set out in our Audit Plan dated March 2015.

Audit fees

- ▶ The table below sets out the scale fee and our final proposed audit fees.
- ▶ Please note, that the fee variation for the 2014/15 external audit and for responding to the elector's question is yet to be approved by Public Sector Appointments.

	Proposed final fee 2014/15	Scale fee 2014/15	Variation comments
	£	£	
Audit Fee: Code work	74,768	69,503	As set out on page 8, the variation is due to the increased scope arising from Group Accounts.
Certification of claims and returns	16,660	16,660	Our work in this area is ongoing, therefore the final fee is yet to be confirmed.
Non-Audit work	-	-	
Elector's questions	1,263	-	This reflects the costs associated with responding to a question on the Council's accounts.

- ▶ We have not undertaken any non-audit fee work

Section 7

Appendices

Appendix A – corrected audit misstatements

- ▶ The following corrected misstatements, greater than £0.08 million have been identified during the course of our audit and warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements.

Disclosures

Disclosure note	Nature
	Description
Note 8.7 – Financing and Investment Income and Expenditure Note 8.11 – Investment Properties	Income and expenditure relating to Investment Properties had not been fully included in the notes to the accounts.
Note 8.22.2 - Capital Adjustment Account	A movement within the disclosure note to ensure fixed asset disposals is consistent with Note 8.9 – Property, Plant and Equipment
Note 8.36.2 – Leases	Page 55 of the draft financial statements recorded the minimum lease payments receivable under finance leases to be £25,220k. This should be £25,156k. Page 56 of the draft financial statements recorded the minimum lease payments receivable under operating leases as £4,292k. This should be £4,040k. There was no effect on in-year income for these changes.

Appendix B – uncorrected audit misstatements

- ▶ The following corrected misstatements, greater than £0.08 million have been identified during the course of our audit and warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements.

Balance sheet and statement of comprehensive income and expenditure

Item of account	Nature	Type	Comprehensive income and expenditure statement	
			Balance sheet	Comprehensive income and expenditure statement
	Description	F, P, J	Debit/(credit)	Debit/(credit)
Provisions	<p>The Council has made a £0.2million provision for unspent grant monies from the Home Improvement Agency. This does not meet the accounting criteria for a provision as the agreement does not require unspent funds to be repaid.</p> <p>The immediate impact is to eliminate the provision and recognise the £0.2million as income in the year.</p> <p>However, the Council is able to create an earmarked reserve in 2015/16 for these funds. This would have the effect of moving the £0.2million from provisions to earmarked reserves. This second adjustment would nullify any impact on the Council's income and expenditure for the year. In effect, it moves the £0.2million from provisions and into reserves.</p>	F, J	£0.2million	(£0.2million)
Cumulative effect of corrected misstatement				

Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

Appendix C – Recommendations and Action Plan

#	Recommendation	Management response	Implementation date & responsibility
1	The Council should consult with the AAR Committee how to best service its assurance needs over the financial statements in light of advanced reporting deadlines.		
2	The Council should revisit its approach to reporting the use of earmarked reserves, to specifically set out how and when each reserve will be used.		
3	The Council should formally review the level of earmarked reserves against a documented timetable for use. This will enable the Council to establish whether any earmarked reserves should be transferred back to the general fund.		
4	The Council should investigate how it can separately report and profile the savings achieved through specified efficiency projects.		

Appendix D – Management Representation Letter

[***Prepare on client letterhead***]

Ernst & Young LLP

Dear Sirs

Cherwell District Council – Financial Statements for the year ended 31 March 2015

This representation letter is provided in connection with your audit of the financial statements of Cherwell District Council (“the Council”) for the year ended 31 March 2015. 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 financial statements give a true and fair view of the financial position of Cherwell District Council as of 31 March 2015 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), 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 (England) 2011 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.
2. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Council has 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 2014/15 that are free from material misstatement, whether due to fraud or error.
5. We have not adjusted the misstatements brought to our attention in the Audit Findings report, which are considered to be immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council’s internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by “whistleblowers”) which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements

D. 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 as agreed in terms of the audit engagement.
 - 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 are reflected in the financial statements
3. We have made available to you all minutes of the meetings of the Council, the Executive and the Accounts, Audit and Risk Committee (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 the following date:
 - Council 20 July 2015
 - Executive 7 September 2015
 - Accounts, Audit and Risk Committee 24 June 2015.

Appendix D – Management Representation Letter

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 period 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 financial statements.
5. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. 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 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, and have disclosed in the financial statements all guarantees that we have given to third parties.

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
 - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
 - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
 - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
 - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H Retirement benefits

1. 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.

I Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet(s).

J Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

K. Use of the Work of an Expert

1. We agree with the findings of the experts engaged to evaluate the *valuation of assets and pension fund liabilities* and have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the experts 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 experts.

L Annual Governance Statement

1. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

I confirm that this letter has been discussed and agreed at the Accounts, Audit and Risk Committee on 23 September 2015

Signed

Chief Financial Officer and Director of Resources

Chairman of the Accounts, Audit and Risk Committee

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ED None

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