

Cherwell District Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP





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The Members
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20 October 2015

Dear Members

Annual Audit Letter 2014-15

The purpose of this annual audit letter is to communicate the key issues arising from our work to the Members and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014-15 Audit Results Report that was presented to the Accounts, Audit & Risk Committee (AAR Committee) on 23 September and to the 9 October 2015 Special AAR Committee. We do not repeat them here.

The matters reported here are those we consider most significant for Cherwell District Council.

We would like to take this opportunity to thank officers for their assistance during the course of our work.

Yours faithfully

Mick West
Director
For and on behalf of Ernst & Young LLP
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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014-15 audits.

The Audit Commission’s ‘Statement of responsibilities of auditors and audited bodies’ (Statement of responsibilities). It is available from the accountable officer of each audited body and via the [Audit Commission’s website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission’s 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, 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.

1. Executive summary

Our 2014-15 audit work was undertaken in accordance with the Audit Plan presented to the AAR Committee on 26 March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements and on the consistency of other information published with them
- ▶ reviewing and reporting by exception on the Council's AGS
- ▶ forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources
- ▶ undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statement of Cherwell District Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland)	On 19 October 2015 we issued an unqualified audit opinion on the Council's financial statements
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources	On 19 October 2015 we issued an unqualified value for money conclusion
Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts	We reported our findings to the National Audit Office on 19 October 2015
Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance	No issues to report
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit	No issues to report
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act	We responded to one elector's question during the year. We determined no action was required.
<i>As a result of the above we have also:</i>	
Issued a report to those charged with governance of the Council with the significant findings from our audit.	Our Audit Results Report was presented to the AAR Committee meeting on 23 September 2015

Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

Issued on 19 October 2015

In January 2016 we will also issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work we have undertaken.

2. Key findings

2.1 Financial statements audit

The Council's Statement of Accounts is an important tool to show both how the Council has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 19 October 2015.

Our detailed findings were reported to the 23 September 2015 AAR Committee. The findings were further considered at the 9 October Special AAR Committee. The key messages are set out below.

Late opinion

A key audit matter was discussed at the AAR Committee on 23 September 2015. Following debate, the AAR Committee delegated authority to the Head of Finance in consultation with the Chairman of the Committee to complete and resolve the matter. However, the AAR Committee did not have the authority to delegate approval of the accounts to an Officer and therefore a Special AAR Committee needed to be convened on 9 October – after the 30 September 2015 reporting deadline.

The details of the matter discussed are set out below:

- ▶ Our audit identified a £1.5m debtor relating to a 2011-12 overpayment into the business rate national pool that had not been communicated to Department of Communities and Local Government (DCLG).
- ▶ On 7 September, we requested management representations on the nature of the debtor, correspondence with DCLG, estimated expectation of when monies would be received and proposed an initial audit adjustment to disclose this as a significant judgement in the financial statements. At this point, we also asked why the debtor should not be impaired.
- ▶ From the evidence provided, no engagement with DCLG for this debtor occurred until September 2015. A recalculated 2011-12 NNDR 3 (the return to DCLG that calculates a council's certified business rate income) was signed on 8 September 2015.
- ▶ This was reported on page 11 of our Audit Results Report to the 23 September 2015 AAR Committee as follows:

"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.”

- ▶ Discussions over reimbursement with DCLG were at a very early stage, continuing up to, and after, the date of the 23 September 2015 Committee. There was uncertainty as to DCLG’s position on the validity of the debtor. At this point, we had not received all evidence requested in support of the debtor, in particular a clearly documented judgement and timeline.
- ▶ We did request further evidence after the date of the AAR Committee. A full management judgement was received 29 September 2015.
- ▶ We responded on 29 September 2015, that having now received the evidence and judgement provided, we were in a position to conclude that the view taken by the Council was not unreasonable based on the information and explanations received.
- ▶ Unfortunately, the AAR Committee was not able to delegate authority for the approval of the accounts, and therefore the opinion deadline of 30 September was missed.
- ▶ The debtor is still being debated with DCLG. The outcome is not, as of the date of writing, confirmed.

Other matters

We did not identify any material misstatements. A small number of audit adjustments were made.

We also commented on the following matters for future consideration:

- ▶ How the AAR Committee should review the draft financial statements after they have been certified by the chief finance officer and before they are finalised.
- ▶ Developing further the joint finance team to ensure it is well placed to meet future challenges such as the earlier closure and audit deadlines.

2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014-15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 19 October 2015. The key messages were:

- ▶ Overall arrangements are judged adequate.

We also identified the following opportunities for developing arrangements to meet the growing financial challenges the Council faces

- ▶ Refining the procedures for managing and reporting on the level and use of earmarked reserves.

- ▶ Making the plans for and delivery of efficiencies and savings more transparent.

2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

2.5 Objections received

We did not receive any formal objections to the 2014-15 financial statements from members of the Public. A local elector did exercise their statutory right to ask a question of the auditor, we did not believe this required further audit action.

2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the AAR Committee on 23 September 2015. In our professional judgement the firm is independent and the objectivity of the audit engagement director and audit staff has not been compromised within the meaning of regulatory and professional requirements.

2.8 Certification of grant claims and returns

We will issue the Annual Certification report for 2014-15 in January 2016.

3. Fees

Our fee for 2014-15 has not yet been finalised. This is due to extra fee applying in respect of the additional work on an elector's question and for group accounts. The final fee will be discussed and agreed with the Director of Resources and will need to be reviewed by Public Sector Audit Appointments (PSAA) who are responsible for setting audit fees.

	Scale fee 2014-15	Proposed final fee 2014-15
Total Audit Fee – Code work	£69,503	£74,768
Total Audit Fee – Certification of claims and returns		
<i>Our work in this area is ongoing; therefore the final fee is yet to be confirmed.</i>	£16,660	£16,660
Elector's questions	-	1,263

4. Looking ahead

Description	Impact
<p>Earlier deadline for production and audit of the financial statements from 2017/18 The Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that from the 2017/18 financial year the timetable for the preparation and approval of accounts will be brought forward.</p> <p>As a result, the Council will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>The Council is aware of this challenge and the need to start planning for the impact of these changes. This will necessarily include review of the processes for the production and audit of the accounts, including areas such as the production of estimates, particularly in relation to pensions and the valuation of assets, and the year end closure processes.</p>
<p>Highways Network Assets (formerly Transport Infrastructure Assets): The Invitation to comment on the Code of Accounting Practice for 2016/17 sets out the requirements to account for Highways Network Assets under depreciated replacement cost from the existing depreciated historic cost. This is to be effective from 1 April 2016.</p> <p>This will be a material change of accounting policy for the Council. It will also require changes to existing asset management systems and valuation procedures.</p> <p>Relevant assets may also be held outside of the highways department, for example within the Housing Revenue Account, which will also have to be valued on the revised basis.</p> <p>Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities.</p>	<p>CIPFA has produced <i>LAAP bulletin 100</i>, which provides a suggested timetable for actions to prepare for this change. This has been supplemented by the issue of the <i>Code of Practice on Transport Infrastructure Guidance Notes (May 2015) and ITC (July 2015)</i>.</p> <p>Although the main impact is on highways authorities, this change may have implications for the Council. This is a fundamental change in approach which will require new accounting and estimation approaches.</p>

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