Cherwell District Council

Audit planning report

Year ended 31 March 2018

30 May 2018

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30 May 2018

Members of the Accounts, Audit & Risk Committee
Cherwell District Council
Bodicote House,
Bodicote
Banbury OX15 4AA

Dear Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Accounts, Audit & Risk Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 30 May 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Neil Harris

Associate Partner

For and on behalf of Ernst & Young LLP

Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).
The 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 February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Accounts, Audit & Risk Committee and management of Cherwell District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Governance Committee, and management of Cherwell District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Accounts, Audit & Risk Committee and management of Cherwell District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2017/18 audit strategy

Earlier deadline for production of the financial statements

What is the issue?

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July. The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include slippage in delivering data for analytics work in format and to time required, late working papers, internal quality assurance arrangements and capacity of the finance team to deliver draft accounts within the deadline.

These changes provide risks for both the preparers and the auditors of the financial statements.

The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include slippage in delivering data for analytics work in format and to time required, and the provision of late working papers. As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk. To mitigate this risk we will require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

Given the difficulties experienced in the prior year and the changes in the finance team in the current year we consider that this significantly increases the risk that the Council will be unable to meet an earlier deadline for the preparation of audited accounts.

Since completing our audit of the Council's 2016/17 accounts we have been engaged with the Council's finance team on a range of activities to to support the Council in meeting the earlier close deadline. These include:

- Introducing the Client Portal, an online tool enabling information to be exchanged securely and efficiently, reducing email traffic and time spent by finance officers dealing with audit queries.
- Undertaking some testing of transactions during May 2018.
- Discussion on key areas of judgement and estimation.

Where we have sought to undertake testing before the end of May 2018, we have experienced delays in a number of areas, including:

- Receipt of income, expenditure, and payroll transaction data to enable sample selection,
- Receipt transaction data for additions and disposals to property, plant and equipment
- Receipt of data relating to the valuation of property, plant and equipment.
- Receipt of working papers to relating to the payment of Exit packages paid to former employees in 2017/18.

These delays, together with the late finish to our 2016/17 audit and the number of risk areas identified in relation to our 2017/18 audit (see Sections 2 and 3 of our Audit Plan), further increase the risk that the Council will be unable to meet an earlier deadline for the preparation of audited accounts. We will continue to work with the Council to undertake further testing throughout May 2018. We have agreed with Officers that we will review the working papers prepared in support of the 2017/18 financial statements before making a final judgement on the ability of the Council to meet an earlier deadlines. We will provide Members with a verbal update on this at the meeting of the Accounts, Audit & Risk Committee on 30 May 2018.

Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Accounts, Audit & Risk Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error (all entities)	Fraud / significant risk	No change in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively. For a local authority, we consider that the potential for the incorrect classification of revenue spend as capital is a particular area of risk.
Misstatements due to fraud or error arising from revenue recognition (limited to Graven Hill Village Development Company Limited)	Fraud / significant risk	Change in risk focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. 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 the Council's Group Statement of Accounts, we consider that this risk is limited to the cost of sales charged to the profit and loss account by the Council's wholly owned subsidiary company, Graven Hill Village Development Company Limited. The costs comprise a combination of direct costs, and costs estimated on the basis of individual dwelling plots. These costs totalled £3.5 million as at 31 March 2018.
Valuation and classification of Castle Quay (Cherwell District Council)	Significant risk	New significant risk	During the 2017/18 financial year, the Council purchased the freehold of Castle Quay. The asset is subject to valuation by the Council's valuer, and management are required to make material judgemental inputs and apply estimation techniques to calculate the year-end value recorded in the balance sheet. We will review the work undertaken to determine the fair value of this asset, and management's assessment as to the classification of this asset within the balance sheet.
IAS 19 Valuation (Cherwell District Council)	Significant risk	Change in focus from inherent risk to significant risk	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the pension fund administered by Oxfordshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £97.9 million. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Overview of our 2017/18 audit strategy

Audit risks and areas of focus			
Risk / area of focus	**Risk identified**	**Change from PY**	**Details**
Property, Plant and Equipment Valuation	Other financial statement risk	Change in risk focus from significant risk to other area of audit focus	Property, Plant and Equipment, specifically other land and buildings, represents a significant balance in the Council's accounts which are subject to valuation changes, impairment reviews and depreciation charges. Land and buildings are initially measured at cost and then revalued to fair value. The Council will engage an external expert valuer who will apply a number of complex assumptions. Annually assets are assessed to identify whether there is any indication of impairment. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Investment in subsidiary entities	Area of audit focus	New area of audit focus	Prior to 31 March 2018, the Council has issued loans totalling £15.5 million to its wholly owned subsidiary companies, including £4.5 million to Crown House Estates (in settlement of debts held by Crown House at the point of acquisition by the Council) and £11 million to Graven Hill Village Holdings Limited (to fund the development of the Graven Hill site). These amounts are in addition to the Council's investment in the share capital of each entity, which is currently valued at £1.1 million and £21.4 million respectively. Accounting for these investments involves estimation and judgement as to whether provision is required for any expected losses. We will assess the extent to which the Council has assessed the recoverability of its investment, and whether the Council has made adequate provision for any expected losses.
Group Boundary Assessment and Production of Subsidiary Entities	Area of audit focus	New area of audit focus	The size and complexity of the Cherwell District Council group has increased during 2017/18. The Council now has 3 wholly owned subsidiary companies (2 in 2016/17). Clark Howes currently provide accounting and external auditing services to the Graven Hill companies. We will consideri the implications of these arrangements for our audit of the Council's Group Statement of Accounts, in particular the extent to which we review and re-perform the work undertaken by Clark Howes.

Overview of our 2017/18 audit strategy

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Value for Money Conclusion	Significant risk	Change in risk focus	During the 2017/18 financial year, the Council • Took a decision to facilitate the future development of Banbury town centre through the acquisition of the Castle Quay site at a cost of £65 million; and • Acquired a new, wholly owned subsidiary company, Crown House Estates, at a cost of £5.6 million to facilitate the development of Crown House in Banbury. These activities have seen a significant increase in the Council's borrowing, with the authority going from being debt free at 31 March 2017, to having total borrowing of £96 million at 31 March 2018. Given the significance and importance of these decisions to the Council's strategic, operational and financial priorities, we believe it is important that we review the Council's decision making process, focussing in particular on the extent to which the is managing any risks arising and securing its financial resilience.

In addition to the risk set out above there have been changes to the materiality used in the performance of our audit procedures that impact the level of work required. More information on this has been set out on the following pages.

Overview of our 2017/18 audit strategy

Materiality

Planning materiality
£944k

Materiality has been set at £944k, which represents 1% of the Council's prior year gross expenditure on provision of services. plus expenditure on parish council precepts, interest payable, pension interest costs, and the costs associated with holding Investment Property. This compares to 2% which was used in the prior year. When determining the amount to be used as performance materiality we take into account the overall level of risk associated with the entity. This decrease has an impact on the level of work we are required to perform, and therefore the audit fee.

Performance materiality
£707k

We set performance materiality at 50% or 75% of planning materiality. We have set performance materiality at 75% of planning materiality, which is £707k. While we identified material errors in the Council's 2016/17 financial statements these were limited to the valuation of property, plant and equipment. Having considered the nature of these errors, and the Council's response, we are satisfied that it is appropriate to set performance materiality at the higher threshold.

Audit differences
£47k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and collection fund) greater than £47k. Other misstatements identified will be communicated to the extent that they merit the attention of the Accounts, Audit & Risk Committee.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

Further information on our materiality level, including the amounts we have allocated to component auditors, is set out on pages 23 and 28 of this report.

Overview of our 2017/18 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Cherwell District Council give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and

- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

02 Audit risks

Our response to significant and fraud risks

Misstatements due to fraud or error

What is the risk?	What will we do?
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. For Cherwell District Council, we consider that this risk manifests itself in: • The incorrect classification of revenue spend as capital; • The inappropriate classification of revenue spend as Revenues Expenditure Financed from Capital Under Statute (REFCUS); and • Failure to make a prudent assessment of the Minimum Revenue Provision (MRP).	We will: • Identify the risk of fraud during the planning stage of our audit, and keep that assessment under review throughout the duration of our audit; • Inquire of management about the risks of fraud, and the controls established to mitigate those risks. • Understand the oversight given by those charged with governance of management's processes over fraud. • Consider the effectiveness of management's controls to address the risk of fraud. • Determine an appropriate strategy to address the identified risks of fraud. • Perform mandatory procedures regardless of specifically identified fraud risks, including the testing of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. • Review critical judgements made by management in applying accounting policies. • Assess management's assumptions made about the future regarding major sources of uncertainty. • Evaluate the business rationale for significant unusual transactions; • Test a sample of capital expenditure, including Revenue Expenditure Funded from Capital Under Statute (REFCUS) to verify that revenue costs have not been inappropriately capitalised. • Verify that adjustments between the accounting basis and funding basis have been correctly made in accordance with the Code, and reflected appropriately in the Council's Movement in Reserves Statement. • Verify that the Capital Financing Requirement (CFR) has been calculated in according with the Code. • Verify that the Minimum Revenue Provision (MRP) has been appropriately calculated in accordance with the prudential code.

Our response to significant and fraud risks

Misstatements due to fraud or error - risk of fraud in revenue and expenditure recognition

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the Council's Comprehensive Income and Expenditure Statement.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. 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 our audit of Cherwell District Council, we consider that this risk is limited to the cost of sales charged to the profit and loss account by the Council's wholly owned subsidiary company, Graven Hill Village Development Company Limited. The costs comprise a combination of direct costs, and costs estimated on the basis of invidvidual dwelling plots. These costs totalled £3.5 million as at 31 March 2018.

What will we do?

We will:

- Include the risk of fraud in revenue expenditure recognition as a significant risk in our instructions to Clark Howes (as auditors to Graven Hill Village Development Company Limited). We will review the work undertaken by Clark Howes in relation to this risk and review the work performed by Clark Howes in relation to this income. In particular, we will review the work undertaken by Clark Howes, and perform additional audit procedures ourselves, if appropriate, to:
    - Test expenditure allocated to the cost of sales to supporting invoices and cash payment; and
    - Test the basis of the estimation techniques applied in determing amounts charged to costs of sales from work in progress.

Our response to significant and fraud risks

Valuation and classification of Castle Quay

What is the risk?

The fair value of the Castle Quay development will represent 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.

What will we do?

We will:

- Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. We will engage specialist support from our Real Estate team to support our testing of the valuation of this asset;
- Test and challenge the information and assumptions used by the valuers in performing their valuation;
- Engage support from specialists within our Real Estate team to support our work in relation to the valuation of this asset.
- Test that the asset has been correctly classified within the balance sheet, and that the accounting entries relating to the valuation of this asset have been correctly reflected in the Statement of Accounts.

Our response to significant and fraud risks

Pension Liability Valuation

What is the risk?	What will we do?
Pension Liability Valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Oxfordshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £97.9 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: • Put in place a programme of work and instruct the auditors of Oxfordshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to Cherwell District Council; • Assess the work of the Pension Fund actuary (Barnett Waddingham) 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; and • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Other areas of audit focus

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 and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Valuation of Property, Plant & Equipment and Investment Property The fair value of Property, Plant and Equipment and Investment Properties represent significant balances in the Council's single entity accounts, totalling £108 million and £19 million respectively at 31 March 2017. These balances are subject to valuation changes, impairment reviews, and depreciation charges. In calculating amounts recorded in the Council's balances sheet, management are required to make material judgements and apply estimation techniques. We consider that where assets are valued at either depreciated replacement cost or existing use value, or on the basis of their market value, the judgments and estimates made by management are more likely to have a significant impact on the valuation of the asset; we will therefore focus our work on assets valued on this basis.	We will: • Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre); • Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for Property, Plant and Equipment, and annually for Investment Property. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; • Review assets that are not subject to valuation in 2017/18 to confirm the remaining asset base is not materially misstated; • Consider changes to the useful economic lives as a result of the most recent valuation; and • Test accounting entries, ensuring these have been correctly processed in the financial statements,
Investment in subsidiary entities Prior to 31 March 2018, the Council has issued loans totalling £15.5 million to its wholly owned subsidiary companies, including £4.5 million to Crown House Estates (in settlement of debts held by Crown House at the ppoint of acquisition by the Council) and £11 million to Graven Hill Village Holdings Limited (to fund the development of the Graven Hill site). These amounts are in addition to the Council's investment in the share capital of each entity, which is currently valued at £1.1 million and £21.4 million respectively.	We will • Review the extent to which the Council has assessed the recoverability of the Council's investment; and • Assess whether the Council has made adequate provision for any expected losses.

Other areas of audit focus

What is the risk/area of focus?	What will we do?
Group Boundary Assessment and Production of Subsidiary Entities The size and complexity of the Cherwell District Council group has increased during 2017/18. The Council now has 3 wholly owned subsidiary companies (2 in 2016/17). Additionally, the Council also holds an interest in a company established jointly with South Northamptonshire Council that will commence the processing of housing benefit claims across both Councils in June 2018. Clark Howes currently provide accounting and external auditing services to the Graven Hill companies. We are currently considering the implications of these arrangements for our audit of the Council's Group Statement of Accounts, in particular the extent to which we review and re-perform the work undertaken by Clark Howes. As has been the case in previous years, our work in this area is not contained with the assumptions used by Public Sector Audit Appointments Limited (PSAA Ltd) in setting the Council's 2017/18 audit fee. The extent of our involvement in the audit of Clark Howes' audit of the subsidiary companies will impact on the size of the variation we will seek. We have included an estimate of the likely additional fee in relation to this matter; this is reflected in Appendix A of this report.	In relation to this matters we will: • Review the Council's assessment of its group boundary • Test the consolidation of entries relating to these subsidiary entities into the Council's Group Statement of Accounts • Issue instructions to Clark Howes, as auditors of the three components entities. We have set out on pages 27 and 28 further details of our planned engagement with Clark Howes.

03 Value for Money Risks

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 2017/18 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.

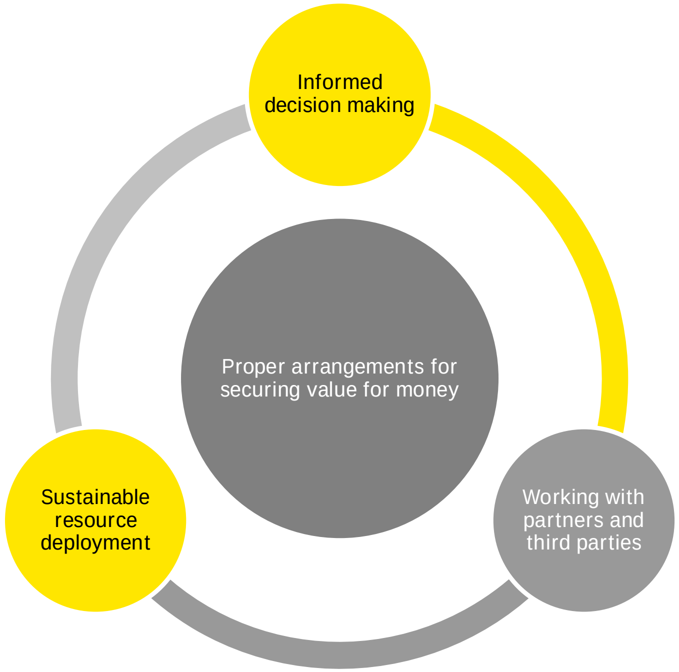
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risks noted on the following page which we view as relevant to our value for money conclusion.



Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
The Council has been actively pursuing its commercial investment strategy over the past few years. During the 2017/18 financial year, the Council • Taken a decision to facilitate the future re-development of Banbury town centre through the acquisition of Castle Quay area of the town centre at a cost of £65 million; and • Acquired a new, wholly owned subsidiary company, Crown House Estates to facilitate the development of Crown House in Banbury. The cost of this acquisition was £5.6 million. These activities have seen a significant increase in the Council's borrowing, with the authority going from being debt free at 31 March 2017, to having total borrowing of £96 million at 31 March 2018. Given the significance and importance of these decisions to the Council's strategic, operational and financial priorities, we believe it is important that we review the Council's decision making process, focussing in particular on the extent to which the is managing any risks arising.	• Taking informed decisions; • Deploying resources in a sustainable manner; and • Work with partners and other third parties.	Our approach will focus on: • The quality of the information provided to Members and Officers when taking decisions in relation to the projects; • The extent to which the Council have sought and considered relevant technical, legal and independent professional advice to inform the decisions it took. • Reviewing the Council's due diligence and decision making process, and in particular the adequacy of the Council's processes to fully consider the relevant prudential risks, its level of gearing, costs and benefit of investing in long–term projects, alongside investing in the expansion of other Council services. • The extent to which the Council has identified, considered, and mitigated the risks around these projects; • The extent to which the Council has considered its long term financial resilience when choosing to invest in these projects, and the extent to which the financial implications of these projects are reflected within the Council's Medium Term Financial Plan; • The extent to which the Council has considered alternative funding options; and • The adequacy of the processes established by the Council to review and monitor delivery of the agreed outputs. We anticipate that our work in this area will involve additional audit work that is not contained with the assumptions used by Public Sector Audit Appointments Limited (PSAA Ltd) in setting the Council's 2017/18 audit fee. We have included an estimate of the likely additional fee in relation to this risk. This is reflected in Appendix A of this report.

Other areas of audit focus

We have identified other areas of the audit that have not been classified as significant risks, but are still important when considering our overall value for money conclusion, and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Follow-up on Matters Identified in the Prior Year. In the prior year we experienced significant difficulties in completing our audit. This included the adequacy of working papers and their reconciliation to the financial statements, the timeliness of deliverables and responses to auditor queries, errors in the basis of which items of property, plant and equipment were valued, leading to material errors in the draft Statement of Accounts, and the significant amount of time taken to matters we raised during the course of our audir. All of the above has had an impact on the efficiency of the accounts and audit process for both the Council and us as your auditors. We therefore issued an Except for Value for Money Conclusion. As part of our 2017/18 audit, we will follow-up the steps taken by the Council to address the weaknesses identified.	Our approach will focus on: • Reviewing the changes made to the financial reporting process to address the issues identified in the prior year; • Reviewing the accounts closedown timetable, including the timescales for the preparation of the financial statements and supporting working papers ready for audit; • Considering the Council's allocation of tasks to individuals in the finance team for both preparation and review to ensure these are reasonable; • Assessing the results of the interim audit for improvements in the process; • Considering the adequacy of the draft financial statements and working papers, as well as the finance teams ability to respond to additional queries in a timely manner; • Consider the overall accounts and audit experience as we complete the audit, seeking validation that changes have been made to address the issues identified in the prior year; • Reviewing internal audit reports to identify any significant issues identified during finance related rviews and consider the impact on the overall control environment; and • Testing for any significant impact resource capacity has had on the Council's in year financial reporting and budget setting. This will include comparing forecast vs actual outturns, assessing appropriate segregation of duties in the preparation and review/sign off of in-year reporting and budget setting during 2017/18. We will also assess the significant assumptions used in the budget setting process for appropriateness.

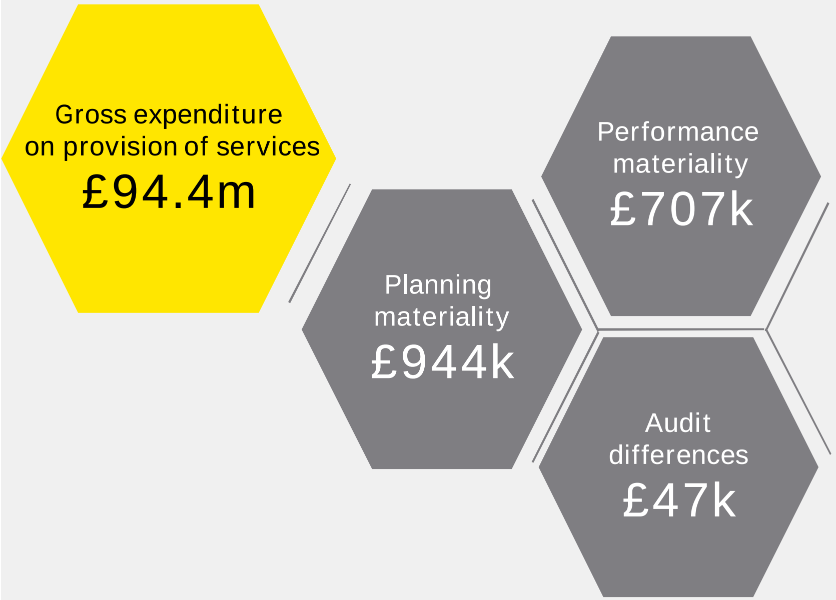
04 Audit materiality

NH21

Audit materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £944k. This represents 1% of the Council's prior year gross expenditure on provision of services. plus expenditure on parish council precepts, interest payable, pension interest costs, and the costs associated with holding Investment Property. It will be reassessed throughout the audit process. The main function of the entity is to provide services to the local community and as such the income statement is considered to be the most appropriate basis for determining materiality. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.



We request that the Accounts, Audit & Risk Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements, and takes into account the overall level of risk we have identified in relation to our audit. It will be reassessed throughout the audit process. This decrease has an impact on the level of work we are required to perform, and therefore the audit fee.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £707k which represents 75% of planning materiality. This is in line with the prior year's performance materiality percentage.

Component performance materiality range – we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group. We have set out the scope of our group audit on pages 27 and 28 of our report.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund financial statements that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Accounts, Audit & Risk Committee, or are important from a qualitative perspective.

Specific materiality – We will set a lower level of materiality for the following: Remuneration disclosures (including severance payments, exit packages and termination benefits), related party transactions, and members' allowances. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

NH21 See earlier comments.
Neil Harris, 17/05/2018

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards
- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code
- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

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.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

Our intention is to carry out a fully substantive audit in 2017/18 as we believe this to be the most efficient audit approach. Although we are therefore not intending to rely on individual system controls in 2017/18, the overarching control arrangements form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement.

Analytics:
We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Accounts, Audit & Risk Committee.

Internal audit:
We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit planning, where they raise issues that could have an impact on the financial statements.

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. Significant components: A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. Not significant components: The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below. We provide scope details for each component within Appendix E.

2	A	Full scope audits
0	B	Specific scope audits
0	C	Other Procedures

Scope definitions

Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

Specified Procedures: locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

Scoping the group audit

The below table sets out the scope of our audit. We set audit scopes for each reporting unit which, when taken together, enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment, and other factors when assessing the level of work to be performed at each reporting unit.

Detailed scoping

In scope locations	Scope	Statutory audit performed by EY	Coverage	Component Performance Materiality	Current year rationale for scoping	
			Gross Expenditure		Size	Risk
Cherwell District Council	Full	Yes	95%	£707,000	Yes	Yes
Graven Hill Village Holdiing / Development Company	Full	No	<5%	£320,000	Yes	Yes
Crown Estates	Specific	No	<1%	£140,000	Yes	Yes
CSN Limited	Review	No	<1%	N/A	Yes	Yes
TOTAL FULL & SPECIFIC SCOPE			100%			

Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams. We have listed our planned involvement below.

Location name	Planned involvement by the Group team
Graven Hill Village Holding Company Limited Graven Hill Village Development Company Limited Crown House Estates	We will: • Issue Group Auditor Instructions to Clark Howes. • Assess the independence of Clark Howes and identify the extent of additional procedures we need to perform. • Participate in Clark Howes' planning event in person or by conference call. • Review audit working papers prepared by Clark Howes in relation to significant areas, in particular working papers covering the risk of management override, and risk of revenue recognition. • Attend Clark Howes' audit closing meetings, in person or by conference call.

06 Audit team

Audit team

Audit team structure:

Neil Harris
Associate Partner

Stephen Bladen
Senior Manager

Chipo-Grace Tete
Senior

EY Real Estate
(Valuations Specialist)

EY Pensions
(Pensions Specialist)

EY Transaction Advisory Services and EY Fraud Investigation Dispute Services (FIDS)
(Accounting and Governance Specialists)

Audit team and use of specialists

Audit team

The engagement team is led by Neil Harris, who has significant experience on council audits. Neil is supported by Stephen Bladen, an experienced Senior Manager, within our government and public sector team , who is responsible for the day-to-day direction of audit work and is the key point of contact for the Council. Our on site fieldwork wlll be lead by Chipo-Grace Tete, an experience senior within our government and public sector team.

Specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Property, Plant and Equipment, and Investment Properties	Management specialist – Montagu Evans (external valuer) EY specialist – EY real estates (in relation to Castle Quay valuation and where required)
Pension valuations and disclosures	Management actuarial specialist – Barnett Waddingham EY specialists - EY Pensions Advisory, PwC (Consulting Actuary to the PSAA)
Fair value of financial instrument disclosure	Management specialist – for the provision of fair value information in respect of financial instruments (Arlingclose)
Accounting and Governance Specialists engaged to support our review of the Council's acquisition of the Castle Quay development.	EY Transaction Advisory Services (TAS) and EY Fraud Investigation Dispute Services (FIDS)

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the Accounts, Audit & Risk Committee and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Accounts, Audit & Risk Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes	May 2018	Accounts, Audit & Risk Committee: 30 May 2018	Audit Planning Report
Interim audit testing	May 2018	Accounts, Audit & Risk Committee: 30 May 2018	Progress report (verbal)
Year end audit	July 2018		
Audit Completion procedures	July 2018	Accounts, Audit & Risk Committee: 25 July 2018	Audit Results Report Audit opinions and completion certificates
Conclusion of reporting	July 2018	Accounts, Audit & Risk Committee: 25 July 2018	Annual Audit Letter

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Neil Harris, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Group. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and where we do so, we will comply with the policies that you have approved, and the Financial Reporting Council's Ethical Standards, and the National Audit Office's Auditor Guidance Note 01. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, we do not undertake any non-audit work on behalf of the Council. Therefore no additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Group. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

EY Transparency Report 2017

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 ended 1 July 2017 and can be found here:

http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
PSAA scale fee – Code work (Note 1)	52,127	52,127	83,127
Impact of lower materiality thresholds	8,000 – 12,000	N/A	N/A
Castle Quay valuation significant risk	4,000 - 6,000	N/A	N/A
Value for Money significant risk	6,000 – 9,000	N/A	N/A
Area of Audit focus – group considerations	8,000 - 10,000	N/A	N/A
Total audit fees	26,000 – 37,000	52,127	83,127
Other non-audit services not covered above (certificstion of Housing Benefit subsidy claim)	8,844	8,844	12,495
Total other non-audit services	8,844	8,844	12,495
Total fees	86,971 – 97,971	60,971	95,622

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

All fees exclude VAT

Note 1 – This amount is subject to approval by the PSAA and will be billed as soon as this is confirmed.

The final fee for 2016/17 includes a proposed variation of £31,000 to the PSAA scale fee of £52,127. This arises from the additional costs we incurred in:

- Testing of the valuation of property, plant and equipment.
- The additional work involved on giving an opinion on the Council's Group Statement of Accounts.
- Reviewing of additional versions of the Council's draft financial statements.
- Dealing with matters raised by a local elector.
- The work undertaken in relation to our Except for value for money conclusion.

We have agreed the additional fee with the Council. This amount is currently subject to approval by PSAA Ltd and will be billed as soon as this is confirmed.

Appendix A

Fees

We have included a number of fee ranges above for the additional work we are required to complete as part of the current year audit. These relate to:

1. The impact of being required to undertake our audit to a lower materiality level as a result of the increase in the risk profile of the Council. The lower threshold against which our audit procedures are to be performed means that additional audit testing will be required. This also decreases our threshold for investigating variances where we performed procedures such as substantive analytical review.

2. The additional work required as a result of the increase risk associated with the acquisition of Castle Quay, primarily relating to the use of EY specialist to provide assurance over the valuation of one particular asset. Details of this can be seen in section 2.

3. The work required to address the significant value for money risk set out in section 3.

4. The nature, timing and extent of our group audit procedures and our audit testing of the component subsidiaries. This will depend on our assessment of the independence and the work undertaken by the component auditor, Clark Howes.

Due to the ongoing nature of the risks, we are not yet in a position to give a definitive view on the extent of work required but will keep this under review with management and provide you with updates accordingly. All scale fee variations will be subject to agreement with the PSAA.

Required communications with the Accounts, Audit & Risk Committee

We have detailed the communications that we must provide to the Accounts, Audit & Risk Committee.

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Accounts, Audit & 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	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report – May 2018
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report – July 2018

Required communications with the Accounts, Audit & Risk Committee

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit results report – July 2018
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Audit results report – July 2018
Fraud	• Enquiries of the Accounts, Audit & Risk Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Audit results report – July 2018
Related parties	• Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit results report – July 2018

Appendix B

Required communications with the Accounts, Audit & Risk Committee

Required communications	What is reported?	Our Reporting to you When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report – May 2018 Audit Results Report – July 2018
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report – July 2018
Consideration of laws and regulations	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Accounts, Audit & 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 & Risk Committee may be aware of	Audit results report – July 2018
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit results report – July 2018
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report – July 2018
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report – July 2018

Required communications with the Accounts, Audit & Risk Committee

		Our Reporting to you
Required communications	What is reported?	When and where
Auditors report	• Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report	Audit results report – July 2018
Fee Reporting	• Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit Planning Report – May 2018 Audit Results Report – July 2018
Certification work	Summary of certification work undertaken	Certification report – December 2018
Group audits	• An overview of the type of work to be performed on the financial information of the components • 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 • 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 • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • 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	Audit Planning Report – May 2018 Audit Results Report – July 2018

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	• Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. • Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Concluding on the appropriateness of management's use of the going concern basis of accounting. • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Accounts, Audit & Risk Committee reporting appropriately addresses matters communicated by us to the Accounts, Audit & Risk Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.