

Cherwell District Council

Annual Audit Letter for the year ended 31 March 2017

May 2018

Ernst & Young LLP



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Public Sector Audit Appointments Ltd (PSAA) have issued a “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website (www.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 23 February 2017)” issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This 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, 1More 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.

A hand holding a blue pen is writing on a document on a desk. In the background, there is a laptop, a calculator, and a white mug. A yellow rectangular box is overlaid on the left side of the image, containing the text "Executive Summary".

Executive Summary

Executive Summary

We are required to issue an Annual Audit Letter to Cherwell District Council (the Council) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: <ul style="list-style-type: none"> ▶ Financial statements 	Unqualified – the financial statements gave a true and fair view of the financial position of the Council and Group as at 31 March 2017 and of its expenditure and income for the year then ended.
<ul style="list-style-type: none"> ▶ Consistency of other information published with the financial statements 	Other information published with the financial statements was consistent with the financial statements.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We considered the Council's arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. We issued an except for Value for Money conclusion, reflecting weaknesses identified in relation to the Council's arrangements for reliable and timely financial reporting.

Area of Work	Conclusion
Reports by exception: <ul style="list-style-type: none"> ▶ Consistency of Annual Governance Statement 	The Annual Governance Statement was consistent with our understanding of the Council. We agreed with the Council additional wording for inclusion within the Annual Governance Statement, drawing attention to the matters that have resulted in our Except for value for money conclusion, and the steps the Council has taken to address these.
<ul style="list-style-type: none"> ▶ Public interest report 	We had no matters to report in the public interest.
<ul style="list-style-type: none"> ▶ Written recommendations to the Council, which should be copied to the Secretary of State 	We had no matters to report.

- ▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014

We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office on our review of the Council's Whole of Government Accounts return.	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 Authority is below the specified audit threshold of £350 million, and therefore falls below the threshold at which the NAO require us to undertake detailed procedures on the Council's submission.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 9 April 2018, and presented this report to the meeting of the Accounts, Audit & Risk Committee on 12 April 2018.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	We issued our certificate closing the audit on 17 April 2018.

In November 2017 we completed our audit of the Council's housing benefit subsidy claim. We have issued a separate report to those charged with governance of the Council summarising the results of the work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Neil Harris
Associate Partner
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this Annual Audit Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the Accounts, Audit & Risk Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 1 June 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2016/17 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the Annual Governance Statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.
- ▶ Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return.

Responsibilities of the Council

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 putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial Statement Audit



Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the Council and Group Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 17 April 2018.

During the course of our audit, we identified a significant matter in relation to the valuation of a number of assets leased to a third party providing leisure services on behalf of the Council, and the accounting treatment adopted by the Council for these assets. We requested that the Council complete a detailed assessment of the accounting treatment for each of these assets, having regard to relevant guidance within IFRIC 4, 12, and IAS 17, and then engage further work from its value to assess the valuation of these assets. As a result of this, the valuation of a number of items of property plant and equipment changed significantly from those included within the Statement of Accounts presented to Members on 28 June 2017. The Council prepared a revised set of financial statements for 2016/17, reflecting these revised valuations, and including consequential amendments to the Movement in Reserves Statement, Cash Flow Statement, and Expenditure and Funding Analysis.

We considered that the Council lacked sufficient capacity to investigate and resolve these matters on a timely basis. In highlighting this, we recognised the significant challenges the Council's Finance team was dealing with, across both Cherwell District Council and South Northamptonshire Council. We did, however, issue an except for Value for Money conclusion, reflecting weaknesses identified in relation to the Council's arrangements for reliable and timely financial reporting. Given the significant challenges ahead for the Council, in terms of both the Council's increasing commercialisation agenda, and with IFRS 9, 15, and 16 becoming relevant to Local Government bodies in the next 2 – 3 years, it is important that the Council invests appropriately in its finance function to meet these challenges. We will continue to review and report progress on the Council's plans to address these issues as part of our 2017/18 audit.

The key issues identified as part of our 2016-2017 audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that 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.</p>	<p>To address this risk we carried out a range of procedures including:</p> <ul style="list-style-type: none"> Gaining an understanding of the oversight given by those charged with governance of management's processes and controls in respect of fraud;

Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.

For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We obtained a full list of journals posted to the general ledger during the year and using our data analytics tool confirmed the completeness of the population and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation; and
- Testing any significant unusual transactions, including adjustments through the Movement in Reserves Statement.

As a result of this work we did not identify:

- Any material weaknesses in controls or evidence of material management override.
- Any instances of inappropriate judgements being applied.
- Any other transactions which appeared unusual or outside the Council's normal course of business.

Risk of fraud in revenue recognition

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In this 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 manipulating expenditure recognition.

For the Council, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

To address this risk we completed the following procedures:

- Tested material revenue and expenditure streams, including accounting estimates.
- Tested income and expenditure transactions around the period end to assess whether the recognition or deferral of this income and expenditure was appropriate.
- Tested capital expenditure on property, plant and equipment confirmed it met the relevant requirements to be capitalised.

As a result of the procedures we completed we were satisfied that the Council has recognised income and expenditure appropriately, and that the values disclosed in the Authority's financial statements are not materially misstated.

Valuation of Property, Plant & Equipment

Property, Plant and Equipment (PPE) represents the largest value on the Council's balance sheet, and the valuation of these represents a significant estimate in the Council's financial statements.

Although not identified in our Audit Plan, we subsequently identified the valuation of property, plant and equipment, as a significant risk. The basis of this was the significant year on year movements identified in relation to certain assets, and concerns over the accounting treatment adopted by the Council in relation to a material level of assets leased to third parties providing leisure services on behalf of the Council.

Land and buildings are initially measured at cost and then revalued to fair value. Revaluations are performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period.

Revaluations are generally undertaken by the Council's external valuer.

Annually assets are assessed to identify whether there is any indication of impairment.

To address this risk we:

- Carried out specific work to understand the reasons for the significant year on year movements in the value of certain property plant and equipment assets, and whether this give rise to a need to restate prior periods in accordance with IAS 8;
- Reviewed the terms of reference provided to your valuer, and agree the source data used by your valuer to supporting records;
- Assessed the work of your valuer;
- Engaged specialist support from our own valuation experts to assist us in assessing the valuation of those assets valued on the basis of depreciated replacement cost, and those assets where there has been a significant movement between the current year and prior year value;
- Agreed the outputs to your fixed asset register and financial statements;
- Tested whether impairment and depreciation charges are applied in line with the Council's accounting policies;
- Where the Council had changed valuation bases, we evaluated the rationale; and
- Where assets are not revalued in-year, we reviewed the Council's impairment assessment and considered whether the carrying value of those assets remains appropriate.

As noted elsewhere within this letter, we noted that a number of assets leased to a third party providing leisure services on behalf of the Council had been valued on an incorrect basis. The Council undertook further work to assess the accounting treatment for these assets, and the correct basis of valuation. This had a material impact on the valuation of these assets, which the Council corrected in a revised set of financial statements. We have no further matters to report to you.

Other Key Findings	Conclusion
<p>Interest in Other Entities</p> <p>The Council will continue to prepare group accounts in 2016-17, consolidating the balances and transactions of its wholly owned subsidiary company, Graven Hill Village Holdings Limited, as required by the Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice). We will review and test whether the Council has:</p> <ul style="list-style-type: none"> • Adopted and correctly applied accounting policies that comply with the requirements of the Code. • Correctly consolidated the subsidiary accounts. • Made all appropriate disclosures in accordance with adopted accounting policies and requirements of the Code. 	<p>To address this risk we:</p> <ul style="list-style-type: none"> • Tested whether the Council has accounted for its interest in Graven Hill Village Holdings Limited in accordance with the Code. • Tested whether appropriate disclosure has been given of the Council’s interest in Graven Hill Village Holdings Limited, including any related party transactions. • Engaged with Clark Howes (as the auditors of Graven Hill). Our involvement included: <ul style="list-style-type: none"> ○ Discussions with Clark Howes on the susceptibility of material misstatement to Graven Hill’s financial statements due to fraud or error; ○ Reviewing the working papers prepared by Clark Howes to support their opinion on the financial statements of Graven Hill; and ○ Reviewing the outputs from Clark Howes’s audit of Graven Hill, including their ISA 260 report. <p>We consider the Council has accounted for its interest in Graven Hill Village Holdings Limited appropriately, and have no significant matters to report to you.</p>
<p>CIPFA Code Changes</p> <p>Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) changing the way the financial statements are presented These changes impact the CIES and MiRS, and include the introduction of the new ‘Expenditure and Funding Analysis’ note as a result of the ‘Telling the Story’ review of the presentation of local authority financial statements.</p>	<p>As a result of these changes, the service analysis in the accounts is now based on the organisational structure under which the Authority operates and shows the Authority’s segmental analysis. As part of our audit we:</p> <ul style="list-style-type: none"> • Reviewed the Expenditure and Funding Analysis, CIES, MIRS and new notes to ensure disclosures are in line with the Code. • Reviewed the analysis of how these figures were derived, and how the Council’s general ledger was re-mapped to reflect the Authority’s organisational structure.

- Agreed the restated comparative figures back to the Authority’s segmental analysis and supporting working papers.

We were satisfied that the accounts were compiled in accordance with the new Code requirements, and that the figures reported by the Council were materially accurate.

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	Thresholds applied
Planning materiality	We set materiality at £2 million (2016: £1.7 million), representing 2% of the Council’s gross expenditure. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Accounts, Audit & Risk Committee that we would report to the Committee all uncorrected audit differences in excess of £100,000 (2016: £85,000).

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified were:

- Ø Remuneration disclosures including any severance payments, exit packages and termination benefits;
- Ø Related party transactions; and
- Ø Members’ allowances.

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

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with the edges of several coins visible. The lighting is warm, highlighting the metallic texture and the ridges on the edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

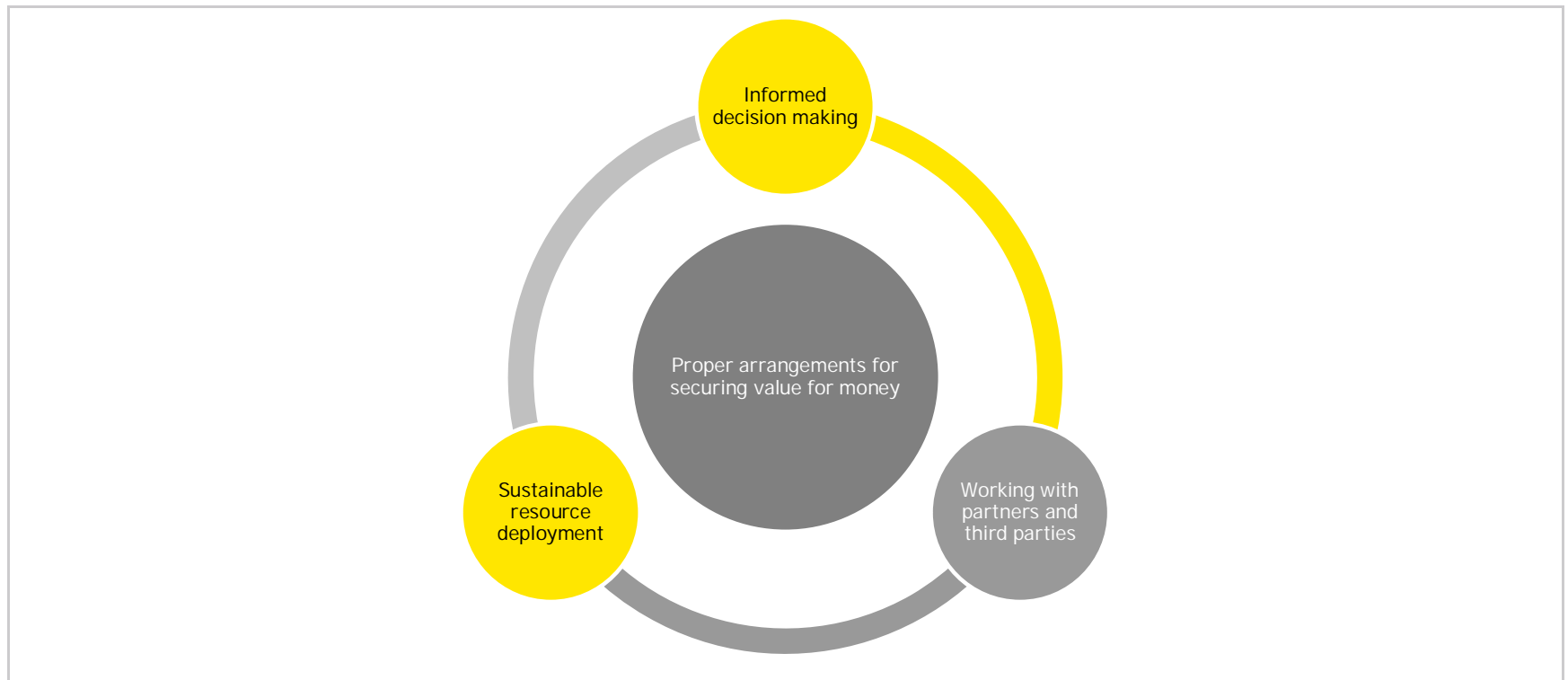
Value for Money

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. This is known as our value for money conclusion.

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.



Our Audit Plan identified two significant risk in relation to these arrangements. These related to the Council’s decision to:

- Proposed investment in the Silverstone Heritage Experience; and
- The adequacy of the arrangements established by the Council to exercise oversight of its wholly owned subsidiaries, Graven Hill Village Holdings Limited and Graven Hill Village Development Limited.

Subsequent to the preparation of our Audit Plan, the Council took the decision not to invest in the Silverstone Heritage Experience. Therefore we no longer considered this a risk to our value for money conclusion. During the course of our audit, we responded to a matter raised with us by a member of the public in relation to the legality of the service charges paid the Council to Sanctuary Housing Association. We also identified this as an other risk to our value for money conclusion.

We have performed the procedures outlined in our Audit Plan. We did not identify any significant weaknesses in the Council’s arrangements in relation to the significant risks identified. We have set out below a summary of our findings.

As we have noted elsewhere within our report, we considered that the Council lacked sufficient capacity to investigate and resolve these matters identified during the course of our audit of the Council’s Statement of Accounts was evidences of weaknesses in the Council’s arrangements for reliable and timely financial reporting. We therefore issued an ‘Except for’ value for money conclusion on 17 April 2018.

Significant Risks	Conclusion
<p>Arrangements for oversight of wholly owned subsidiaries</p> <p>The Council has established two wholly owned subsidiary companies to deliver a self-build housing project at Graven Hill in Bicester. We assessed the effectiveness of the Council’s arrangements to exercise oversight of these entities, including:</p> <ul style="list-style-type: none"> • The progress made by the Council in establishing an effective shareholder agreement. • Processes established by the Council to review and monitor the work of the subsidiary entities. • The processes established by the Council to set the remuneration of Councillor Directors of its subsidiary entities. • The adequacy of the audit arrangements established in relation to the subsidiary entity. 	<p>We consider that the Council had established appropriate arrangements the Council has in place during 2016/17.</p> <p>These included the steps taken by the Council to establish a formal shareholder agreement, and the establishment of a Committee to oversee the exercise the Council’s shareholder function, and the remuneration of directors.</p> <p>We found that the audit work undertaken on Graven Hill Village Holdings by the entity’s auditors had been appropriately planned and executed. As in previous years we note that both the accountancy and auditing functions continue to be undertaken by the same organisation, although safeguards have been established to maintain auditor independence.</p> <p>We consider that there is a need to keep the adequacy of these arrangements under review, in particular as the subsidiary is likely to grow considerably in size over the next 2 – 3 years, and other factors, for example, the development of Castle Quay, will stretch capacity within the Council’s finance team.</p> <p>Given these factors, the way in which the Council works with other entities, and in particular the governance and decision making processes established by the Council, will feature as a risk in our future Audit Plans.</p>

Other Key Findings	Conclusion
<p>During the course of our audit we responded to correspondence received from a local elector on the legality and appropriateness of the service charges paid by the Council to Sanctuary Housing Association. In responding to the local elector we</p> <ul style="list-style-type: none">• Considered the evidence obtained by the Council to support the amount of service charges paid.• Considered the legality of the service charges paid by the Council.• Considered whether any action is required of us under the Local Audit and Accountability Act 2014.	<p>In responding to this matter, we raised a number of questions with both the Council and Sanctuary Housing Association, and took legal advice under a framework agreement entered into by the National Audit Office, and to which all appointed auditors have access to.</p> <p>On the basis of the information made available to us, it was not possible to absolutely and definitively conclude the local elector raising this issue with us (and therefore the Council, through the Housing Benefit system) was liable to pay the service charge. We concluded, however, that the Council acted reasonably in exercising its powers to pay service charges through the Housing Benefit system. Therefore we concluded that no further action is required of us under the statutory powers available to us, or in relation to our value for money conclusion.</p> <p>However, while we received sufficient oral and written explanations from the Council, both we and the Council experienced significant delays in receiving appropriate responses to questions raised with Sanctuary Housing Association.</p> <p>We also considered that the Council could have been more rigorous and professionally sceptical in requesting and considering information and explanations received from Sanctuary Housing Association; and demonstrated this in a more open and transparent manner to the local elector raising the matter.</p> <p>We have no further matters to report with regard to this issue.</p>



Other Reporting
Issues

Other Reporting Issues

Whole of Government Accounts

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

The Authority is below the specified audit threshold of £350 million, and therefore falls below the threshold at which the NAO require us to undertake detailed procedures on the Council's submission. We confirmed this to the NAO alongside completion of our work on the Council's financial statements.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We agreed with the Council additional wording for inclusion within the Annual Governance Statement, drawing attention to the matters that have resulted in our Except for value for money conclusion, and the steps the Council has taken to address these.

We have no further matters to draw to your attention.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2016/17 financial statements from members of the public.

During the course of our audit we responded to correspondence received from a local elector on the legality and appropriateness of the service charges paid by the Council to Sanctuary Housing Association. We concluded that the Council acted reasonably in exercising its powers to pay service charges through the Housing Benefit system, and that no further action was required of us under the statutory powers available to us, or in relation to our value for money conclusion.

Further details on this matter are set out in the value for money section above.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Accounts, Audit & Risk Committee on 12 April 2018. 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 regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of your internal control we are required to communicate to you significant deficiencies in internal control. We brought to the attention of the Accounts, Audit and Risk Committee one matter. We considered that the Council lacked sufficient capacity to investigate and resolve the matters identified with the draft Statement of Accounts, in particular the valuation of property, plant and equipment, in a timely basis. In highlighting this, we recognised the significant challenges the Council's Finance team is dealing with, across both Cherwell District Council and South Northamptonshire Council. However, given the significant challenges ahead, in terms of both the faster close agenda, and with IFRS 9, 15, and 16 becoming relevant to Local Government bodies in the next 2 - 3 years, it is important that the Council invests appropriately in its finance function to meet these challenges. As noted elsewhere within our letter, we issued an except for Value for Money conclusion, reflecting weaknesses identified in relation to the Council's arrangements for reliable and timely financial reporting.

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are focused on the lenses, and their hands are visible holding the binoculars. The background is a soft, out-of-focus white. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
<p><i>Earlier deadline for production and audit of the financial statements from 2017/18</i></p>	<p>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.</p> <p>These changes provide risks for both the preparers and the auditors of the financial statements.</p> <p>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.</p> <p>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.</p> <p>To mitigate this risk we will require:</p> <ul style="list-style-type: none"> • 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 	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council has taken some steps in 2016/17. For example it has started to critically review and amend the closedown process to achieve earlier draft accounts production.</p> <p>As auditors, we have:</p> <ul style="list-style-type: none"> • Issued a thought piece on early closedown • As part of our strategic Alliance with CIPFA, jointly presented accounts closedown workshops. The Council attended one of these workshop[s] in January 2018. • Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017. • Facilitated faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year. <p>We have also worked with the Council to implement the EY Client Portal, this will:</p> <ul style="list-style-type: none"> • Streamline our audit requests through a reduction of emails and improved means of communication; • Provide on –demand visibility into the status of audit requests and the overall audit status; • Reduce risk of duplicate requests; and • Provide better security of sensitive data.

Area	Issue	Impact
	<ul style="list-style-type: none"> complete and prompt responses to audit questions. 	
IFRS 9 Financial Instruments	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> How financial assets are classified and measured How the impairment of financial assets are calculated The disclosure requirements for financial assets. <p>Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Authority and Group will have to:</p> <ul style="list-style-type: none"> Reclassify existing financial instrument assets Re-measure and recalculate potential impairments of those assets; and Prepare additional disclosure notes for material items <p>The Authority and Group is awaiting clarification of the exact requirements before investing time in the above work.</p>
IFRS 16 Leases	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard, the new standard will have a significant impact for local authorities who lease in a large number of assets, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20</p>	<p>Until 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Authority and Group will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p> <p>The Authority and Group is yet to commence work in this area due to the timing of implementation.</p>

Area	Issue	Impact
	Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.	

Appendix A

Audit Fees



Appendix A Audit Fees

We set out below a summary of our fees for the year ended 31 March 2017.

Description	Proposed Final Fee 2016/17	Planned Fee 2016/17	Scale Fee 2016/17	Final Fee 2015/16
Total Audit Fee – Code work	£83,127	£52,127	£53,127	£60,127
Total Audit Fee – Certification of claims and returns	£12,495	£12,495	£12,495	£8,844

Our proposed 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. We will confirm our final fee to the Council’s Accounts, Audit & Risk Committee once this has been agreed with PSAA Ltd.

Our work on the certification of grant claims and returns relates to our audit of the Council’s housing benefit subsidy claim. This work was completed in November 2017.

We confirm we have not undertaken any non-audit work outside of the PSAA’s requirements.

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ED None

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