Cherwell District Council

Annual Audit Letter for the year ended 31 March 2018

November 2018

Building a better working world

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a ‘Statement of responsibilities of auditors and audited bodies’. It is available from the Chief Executive of each audited body and via the PSAA website (www.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 and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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

01 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 2018. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▸ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its expenditure and income for the year then ended .
▸ Consistency of other information published with the financial statements	Other information published alongside the financial statements was consistent with the financial statements.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We issued a qualified conclusion on the Council's arrangements as a result of weakness identified in the governance over the acquisition of a wholly owned subsidiary company, Crown House (Banbury) Limited. Our detailed findings in relation to this are set out on pages 16 and 17.

Area of Work	Conclusion
Reports by exception: ▸ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council
▸ Public interest report	We had no matters to report in the public interest.
▸ 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 (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £500million. Therefore, we did not perform any audit procedures on the consolidation pack.

Executive Summary (cont'd)

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 27 September 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.	Our certificate was issued on 27 September 2018

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

[redacted]

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

02 Purpose and Responsibilities

Purpose and Responsibilities

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 2017/18 Audit Results Report to the 12 September meeting of 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 of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 30 May 2018 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 2017/18 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 (NAO) on you Whole of Government Accounts return. As the Council is below the specified audit threshold of £500million, we did not perform any audit procedures on the Council's return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements accompanied by an Annual Governance Statement. 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.

03 Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's financial statements are 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's financial statements 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 27 September 2018.

Our detailed findings were reported to the 12 September meeting of the Accounts, Audit & Risk Committee.

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

Significant Risk	Conclusion
Risk of Management Override 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)	To address this risk we: • Made enquiries of management about the risks of fraud, and the controls established to mitigate those risks. • Gained an understanding of the oversight given by those charged with governance of management's processes over fraud. • Considered the effectiveness of management's controls to address the risk of fraud. • Performed 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. • Reviewed the critical judgements made by management in applying accounting policies. • Assessed management's assumptions around future sources of uncertainty. • Evaluated the business rationale for significant and unusual transactions; • Tested a sample of capital expenditure, including REFCUS to verify that revenue costs have not been inappropriately capitalised. • Confirmed that adjustments between the accounting basis and funding basis have been correctly made in accordance with the 2018/19 Accounting Code of Practice for Local Authorities (the Code), and reflected appropriately in the Council's Movement in Reserves Statement. • Confirmed that the Capital Financing Requirement and MRP had been calculated in according with the Code. We noted that the Council had understated the MRP chargeable in 2017/18 by £75,000. The Council will correct this under-provision in 2018/19. Overall, our audit work has not identified any material issues, inappropriate judgements or unusual transactions which indicate that there has been any misreporting of the Council's financial position, that revenue or expenditure has been incorrectly recorded, or that management has overridden control.

Financial Statement Audit

Significant Risks	Conclusion
Misstatements due to fraud or error - risk of fraud in revenue and expenditure recognition 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 considered that this risk is limited to the cost of sales charged to the profit and loss account by the Council's wholly owned subsidiary companies, Graven Hill Village Holding Company Limited, and Graven Hill Village Development Company Limited. These costs comprise a combination of direct costs, or estimated on the basis of individual dwelling plots, and totalled £3.5 million as at 31 March 2018.	To address this risk we included the risk of fraud in revenue expenditure recognition as a significant risk in our instructions to Clark Howes (as auditors of the Graven Hill subsidiary companies). We reviewed the work undertaken by Clark Howes and, where necessary, perform additional audit procedures ourselves, to: • Test expenditure allocated to the cost of sales to supporting invoices and cash payment; and • Test the basis of the estimation techniques applied when determining amounts charged to costs of sales from work in progress. Overall, our audit work did not identify any material issues, inappropriate judgements or unusual transactions which indicate that there has been any misreporting of the Council's financial position, or that revenue or expenditure has been incorrectly recorded.
Valuation and classification of Castle Quay During the 2017/18 financial year the Council acquired the Castle Quay shopping complex. The fair value of the development represents a significant balance in the Council's group financial statements. The asset is subject to valuation, and management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end value recorded in the balance sheet.	To address this risk we engaged specialists from within our Real Estate team to support our work in relation to the valuation of this asset, and: • Considered 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. • Tested and challenged the information and assumptions used by the valuer in performing their valuation. • Confirmed that the asset had been correctly classified within the balance sheet, and that the accounting entries relating to the acquisition and valuation of the asset were correctly reflected within the financial statements. We were satisfied that the Council had correctly classified Castle Quay within its financial statements, reflecting the fact that the complex is held for investment purposes. In reviewing the valuation of this asset, we noted that the carrying value reflected its value in December 2017 value, rather than its value at the balance sheet date (as required by the Code). The change in the valuation date resulted in an increase in the value of this asset of £756,000. The Council reflected the updated valuation in its financial statements.

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
Pension liability valuation The Code and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is a scheduled body. The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement. 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.	In testing this liability we: • Liaised with the auditors of Oxfordshire Pension Fund to obtain assurances over the information supplied to the actuary; • Assessed the work of the Pension Fund actuary, including the assumptions used in calculating the liability; in doing so, we placed reliance on the work the work of PwC, the consulting actuary commissioned by the National Audit Office for all Local Government sector auditors, and the work of EY actuarial team in reviewing the work undertaken by PwC; and • Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to its pension liability and IAS19. In undertaking this testing, we noted that the draft financial statements were prepared on the basis of IAS19 data and assumptions taken at December 2017, with a forecast of the 31 March 2018 position. Oxfordshire Pension Fund's draft financial statements include an up to date estimate of the asset values within the fund at 31st March 2018. This estimate is £28.3 million less than the value reflected in the Council's estimate of its pension liability, reflecting a deterioration in market conditions. The Council's share of this difference in estimate is £1.2 million. The Council therefore obtained from its actuary an up to date IAS19 report. The updated report reflected a reduction in the Council's pension liability of £0.622 million. The Council reflected the reduced in this liability in its financial statements.
Valuation of Property, Plant & Equipment and Investment Property Material misstatement of the net assets of the Authority as a result of inappropriate judgemental inputs and/or estimation techniques to calculate the year-end balances recorded in the balance sheet. The fair value of Property, Plant and Equipment and Investment Property represent a significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. 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.	In testing the valuation of these assets we: • Considered 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 tested key asset information used by the valuers in performing their valuation. • Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for the valuation of property assets. We also considered if there were any specific changes to assets that had occurred and that these had been communicated to the valuer. • Reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated. • Considered any changes to useful economic lives as a result of the most recent valuation. • Tested accounting entries had been correctly processed in the financial statements. We noted that the valuation of car parks held by the Council was based on 10 months of income, and not 12. The Council therefore obtained a revised valuation for these assets, which increased the value of these assets by £0.860million. The Council reflected this revised valuation in the financial statements.

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
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 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.	In testing the value of the Council's investment in its subsidiary entities we have • Reviewed the extent to which the Council has assessed the recoverability of the Council's investment; and • Assessed whether the Council has made adequate provision for any expected losses. The Council has not made any provision for expected losses in respect of amounts loaned to its wholly owned subsidiary companies. Based on the testing we have undertaken, we are satisfied that the assets held within the subsidiary companies are sufficient to cover any losses, were any to crystallise, and therefore consider the approach taken by the Council is appropriate.
Group financial statements The size and complexity of the Cherwell District Council group 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 both accounting and external auditing services to the Graven Hill companies. Given the nature of this arrangement, we considered implications for our audit of the Council's Group Financial Statements, in particular the extent to which we review and re-perform the work undertaken by Clark Howes.	In relation to the Council's group financial statements we: • Issued instructions to Clark Howes, setting out details of the risks we identified to the Council's group financial statements that are relevant to their audit of the subsidiary companies, and our materiality thresholds. • We reviewed the steps taken by Clark Howes to safeguard the independence of their audit team, and are satisfied that no member of the audit team has been involved in the preparation of the financial statements. • We reviewed the detailed audit testing undertaken by Clark Howes on the Graven Hill companies, and will focus our review on those areas where we have identified a risk, or where auditor judgments is required. With regard to Crown House (Banbury) Limited, while we issued instructions to Clark Howes in relation to their audit of the entity, at the point we issued our opinion on the Council's group financial statements, Clark Howes had not completed their audit work, pending finalisation of the Crown House financial statements. We therefore undertaken direct testing of amounts consolidated by the Council in respect of Crown House. Based on the work we completed, the Council amended the disclosure in relation to amounts consolidated in respect of Crown House, reclassifying the amounts paid for the shares in Crown House as a long-term investment (from Long-Term debtors). We also recommended to the Council that they should work with Clark Howes, as auditors of Crown House (Banbury) Limited, to ensure that audit of the entity's financial statements are completed as soon as possible.

Financial Statement Audit (cont'd)

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 determined planning materiality to be £0.948 million, which is 1% of Gross Expenditure reported in the accounts of £94.892million. This comprises of gross expenditure on the provision of services, other operating expenditure and pension interest cost. 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 audit differences in excess of £0.047million.

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 include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits
- Related party transactions
- We evaluated any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

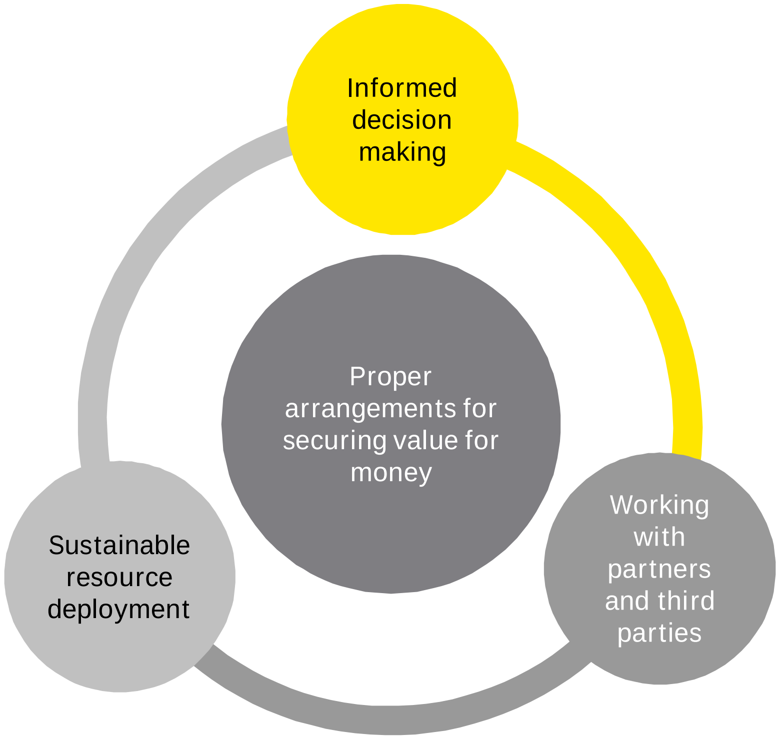
04 Value for Money

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.



We identified two significant risks around the Council’s arrangements. These related to the arrangements established by the Council to prepare its draft financial statements, and the extent to which the significant investment the Council has made in commercial activities were subject to appropriate due diligence.

We issued a qualified value for money conclusion, reflecting weaknesses in the Council’s governance arrangements in respect of the acquisition of the Crown House subsidiary. The following pages summarise our findings in response to the risk identified in our Audit Planning Report.

Value for Money (cont'd)

<table>
<tr><th>Significant risk</th><th>Conclusion</th></tr>
<tr><td>

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 (Banbury) Limited to facilitate the development of the Crown House site in Banbury. The cost of this acquisition was £5.6 million.

These activities have seen a significant increase in the Council's borrowing, which stands at £96 million at 31 March 2018. Given the significance and importance of these decisions to the Council's strategic, operational and financial priorities, we have reviewed the adequacy of the Council's decision making processes in relation to these investments.

This risk links to the Council's arrangements for:

- Taking informed decisions;
- Deploying resources in a sustainable manner; and
- Working with partners and other third parties.

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In relation to this risk we reviewed the quality of the information provided to Members and Officers when taking decisions in relation to these projects, and in particular the extent to which the Council sought and considered relevant technical, legal and independent professional advice to inform the decisions it took.

In relation to the Council's acquisition of Castle Quay, we have no matters to bring to your attention.

In relation to the Council's acquisition of the Crown House site, we identified a number of weaknesses in relation to its governance processes. We consider that these weaknesses are sufficiently significant to warrant a qualification of our value for money conclusion. We are concerned that members were not provided with sufficient and appropriate information to make an informed decision on the acquisition and discharge its fiduciary duty to taxpayers. Particular weaknesses we identified included:

- The Council engaged experts to review the financial model underpinning its assessment of the investment. It is unclear, however, what instructions were given to the Council's expert, and to date the Council have been unable to locate those instructions.
- In terms of the financial model adopted by the Council to assess the investment, it is unclear as to the basis upon which the inputs to the model were chosen, who ran the modelling exercise and which officers instructed the Council's expert. Of particular importance, it is unclear as to the extent to which the commentary, caveats and assumptions made by the Council's expert were addressed prior to the Council acquiring Crown House.
- We recognise that the Council has sought to acquire the Crown House site on a number of occasions since 2012 in order to support its objective of regenerating and improving Banbury Town Centre. Notwithstanding this, the acquisition of the site was not undertaken on the basis of a market assessment as was asserted to members in July 2017. Consequently, based on the information available to us at the point we concluded our audit, the cost of acquiring the site, and the costs to complete the development, could result in a forecast deficit which exceeds our level of materiality.

Officers took the following steps to address the weaknesses identified:

- Instructed Legal Counsel to review the decision and the actions required to rectify governance weaknesses identified.
- Prepared a report to Members setting out the steps the Council propose to take to address the weaknesses identified, presenting this report to an executive member briefing in September 2018.

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Value for Money (cont'd)

Significant risk	Conclusion
	• Undertook an extensive review and scrutiny into the decision making process and consideration of key documents. • Established an Investment Strategy Working Group (with cross-party membership) acting as forum to review the due diligence associated with the acquisition of new assets and commercial investment decisions. • Implemented a Programme Management framework setting out accountability and responsibility for the Council's key projects and initiatives. The Council also amended its Annual Governance Statement to reflect the weaknesses identified by our audit. We support the actions proposed by the Council, and, having considered the Council's response, we concluded that no further action, other than a qualification of our value for money conclusions, was required from ourselves. The next steps for the Council are to: • Undertake a social value and best value review of the Crown House transaction with the support of external advice to determine what further actions the Council should take to best secure a best value consideration. • Review the status and processes for other Council projects and initiatives to ensure no similar issues are identified, and if so, to remediate at an early stage.

Value for Money (cont’d)

Other matters to report	Conclusion
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 financial statements, and the significant amount of time taken to matters we raised during the course of our audit. These had s significant 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 have followed-up on the steps taken by the Council to address the weaknesses identified. This risk links to the Council’s arrangements for: • Taking informed decisions; • Deploying resources in a sustainable manner; and • Working with partners and other third parties.	We found that the Council had taken steps to strengthen arrangements for the preparation of its financial statements through the recruitment of specialist support to prepare the financial statements and supporting working papers. We found that: • The draft financial statements were prepared in accordance with statutory deadlines, with no material omissions. • Supporting working papers are significantly improved from prior year; these were prepared in advance of us starting our on-site work, were clearly linked to amounts within the financial statements, general ledger, and supporting evidence. • Matters raised during the audit process were responded to quickly and promptly. Our audit identified no significant matters in relation to our audit of the financial statements.

05 Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £500million. Therefore, we did not perform any audit procedures on the consolidation pack.

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.

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.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2017/18 financial statements from members of the public.

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 September 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 internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

06 Focused on your future

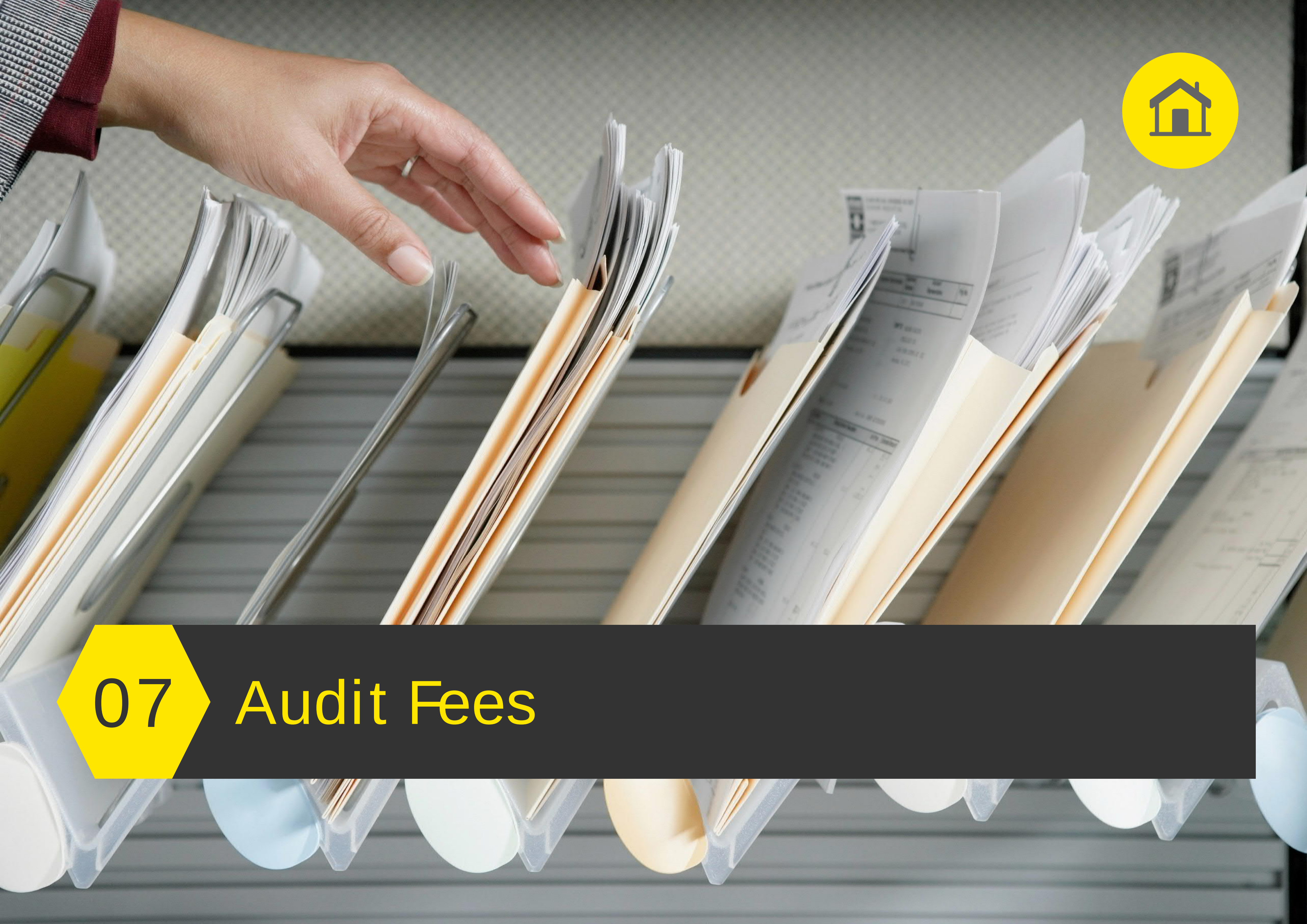
Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 9 Financial Instruments	Applicable for local authority accounts from the 2018/19 financial year and will change: • How financial assets are classified and measured; • How the impairment of financial assets are calculated; and • The disclosure requirements for financial assets. There are transitional arrangements within the standard and the 2018/19 Code of Practice has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.	Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to: • Reclassify existing financial instrument assets • Re-measure and recalculate potential impairments of those assets; and • Prepare additional disclosure notes for material items.
IFRS 15 Revenue from Contracts with Customers	Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except: • Leases; • Financial instruments; • Insurance contracts; and • For local authorities; Council Tax and NDR income. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. Now that the 2018/19 Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.	As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited. The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The Council will need to consider the impact of this on their own group accounts when that trading company is consolidated.

Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2019/20 Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the 2019/20 Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.



07 Audit Fees

Audit 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.

	Proposed fee 2017/18	Planned fee 2017/18	Scale fee 2017/18	Proposed Final Fee 2016/17
	£	£	£	£
PSAA scale fee – Code work (Note 1)	52,127	52,127	52,127	52,127
Scale Fee Variation				
Impact of lower materiality thresholds	12,500	8,000 – 12,000	N/A	N/A
Castle Quay valuation significant risk	7,850	4,000 - 6,000	N/A	N/A
Value for Money significant risk	8,800	6,000 – 9,000	N/A	2,483
Area of Audit focus – group considerations	9,600	8,000 - 10,000	N/A	4,403
Testing of the valuation of property, plant and equipment / errors in draft financial statements	N/A	N/A	N/A	14,456
Matter raised by member of the public	N/A	N/A	N/A	9,658
Total audit fees	90,877	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	8,844	12,495
Total other non-audit services	8,844	8,844	8,844	12,495
Total fees	99,721	86,971 – 97,971	60,971	95,622

The fee presented in our audit planning report was 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 having an effective control environment.

Where any of these 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.

We are currently seeking approval for scale fee variations set out above from PSAA Limited. We will inform the Council once these have been agreed.

Our work on the Council’s housing benefit subsidy claim is currently in progress. We will confirm our final fee for this in our annual certification report, which we expect to issue in December 2018.

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

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