

A photograph of a meeting table with documents and hands pointing at them. The background is a bright, white table with several sheets of paper. A person's hand in a yellow sleeve is pointing at a document. Another person's hand is also pointing at a document. A smartphone is visible on the table. The overall scene suggests a collaborative work environment.

# Cherwell District Council

Draft audit planning report

Year ended 31 March 2020

March 2020



Members of the Accounts, Audit & Risk Committee

Cherwell District Council  
Bodicote House  
Bodicote  
Banbury  
OX15 4AA

10 March 2020

Dear Committee Members

Draft audit planning report

We are pleased to attach our draft Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Accounts, Audit & Risk Committee with a basis to review our proposed audit approach and scope for the 2019/20 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 Provisional Audit 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. Our planning procedures remain ongoing because we were only able to give an opinion on the 2018/19 statements in February 2020; we will inform the Accounts, Audit & Risk Committee if there are any significant changes or revisions once we have completed these procedures, and provide an update to the members of the Committee.

This report is intended solely for the information and use of the Accounts, Audit & Risk Committee and management. It 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 18 March 2020, as well as to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Maria Grindley

For and on behalf of Ernst & Young LLP

# Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). 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 and further guidance (updated April 2018)" issued by PSAA sets out additional requirements with which auditors must comply, 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 may tell the Accounts, Audit & Risk Committee, and management of Cherwell District Council, the 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 2019/20 audit strategy



# Overview of our 2019/20 audit strategy

The 'dashboard' below 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 forthcoming 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                             | Fraud risk                      | No change in risk or focus | <p>Linking to our fraud risk below we have considered the capitalisation of revenue expenditure on property, plant and equipment as a separate risk, given the extent of the Council's capital programme.</p> <p>It is likely 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. Our planning work is continuing and will confirm whether we need to consider the risk more widely.</p> |
| Incorrect capitalisation of revenue expenditure                 | Fraud risk/<br>Significant risk | No change in risk or focus | <p>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.</p>                                                                                                                                             |
| Valuation of Castle Quay                                        | Significant risk                | No change in risk or focus | <p>We consider here the accounting treatment of the valuation of Castle Quay as it is a complex asset. We note also that - as in 2018/19 - the carrying value may be affected by the current fragility of retail sector assets, e.g. the widespread increase in discount rates ("yield") having a negative effect on valuation.</p>                                                                                                                                                                                           |
| Valuation of land and buildings including Investment Properties | Inherent risk                   | No change in risk or focus | <p>The valuation of land and buildings represent significant balances in the Council's accounts. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. There is a risk fixed assets may be under/overstated or the associated accounting entries incorrectly posted.</p>                                                                                                                                               |
| Pension valuation                                               | Inherent risk                   | No change in risk or focus | <p>The Council's pension fund deficit is a material estimated balance disclosed on the Council's balance sheet. Accounting for this scheme involves significant estimation and judgement, 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.</p>                                                                                         |

## Overview of our 2018/19 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                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|--------------------------------------------------------------------|-----------------|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Group Boundary Assessment and Consideration of Subsidiary Entities | Inherent risk   | No change                 | <p>The Council has 3 wholly owned subsidiary companies and also holds an interest in a joint company with South Northamptonshire Council to process housing benefit claims across both Councils from June 2018. Critchleys provided accounting and external auditing services to the Graven Hill companies, and Baldwins to Crown House.</p> <p>In 2018/19 our work in this area was additional scope from the scale fee set, and necessitated extra audit work. Baldwins' audit revealed material errors in the components statements and underlying issues in how the company had been set up. This necessitated more work for the external audit team as we must review the work of component auditors in appropriate detail to gain assurance for our purposes. It was also necessary for us to postpone giving our opinion on the Council's statements until this further work had been carried out.</p> <p>The 2019/20 audit scale fee also excludes group considerations but we will need to carry out extra work in the same way.</p> |
| Going concern compliance with ISA 570                              | Inherent risk   | Increase in risk or focus | <p>This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. We will discuss the detailed implications of the new standard with finance staff during 2019/20 ahead of its application for 2020/21.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| IFRS 16 - leases                                                   | Inherent risk   | Increase in risk or focus | <p>Although the new standard will not be included in the CIPFA Code of Practice until 2020/21, work will be necessary to secure information required to enable authorities to fully assess their leasing position and ensure compliance with the standard from 1 April 2020.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

# Overview of our 2019/20 audit strategy

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## Materiality

Planning  
materiality  
£2.43m

Materiality has been set at £2.43 million, which represents 2% of the prior year's gross expenditure on provision of services.

Performance  
materiality  
£1.83m

Performance materiality has been set at £1.83 million, which represents 75% of materiality.

Audit  
differences  
£122k

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, and collection fund) greater than £122k. Other misstatements identified will be communicated to the extent that they merit the attention of the Accounts, Audit & Risk Committee.

# Overview of our 2019/20 audit strategy

## Audit scope

This provisional Audit Plan covers the work that we plan 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 2020 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 in its use of resources.

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.

Taking the above into account, and as set out in this provisional audit plan, our professional responsibilities require us to assess independently the risks associated with providing an audit opinion, and to undertake appropriate procedures in response. Our Terms of Appointment with PSAA allow them to vary the fee depending on "the auditors' assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on areas such as the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years, and the expansion of factors affecting the value for money conclusion. Therefore to the extent that any of these - or any other risks - are relevant in the context of Cherwell District Council's audit, we will discuss the impact on the scale fee with management.

For the 2019/20 audit, Maria Grindley takes over from Neil Harris as your Engagement Lead. Susan Gill remains your Audit Manager and Shingirirai Guwamombe is the Senior Auditor.





02

# Audit risks



## Our response to significant risks

We have set out the significant risks (including fraud risks denoted by \*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues identified during the audit.

|                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Misstatements due to fraud or error*</p>                                                                                                                                                                                                                                                                                                                                                       | <p><b>What is the risk?</b></p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK) 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.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p> | <p><b>What will we do?</b></p> <p>Our procedures include:</p> <ul style="list-style-type: none"> <li>• asking management about risks of fraud and the controls to address those risks;</li> <li>• understanding the oversight given by those charged with governance of management's processes over fraud; and</li> <li>• considering the effectiveness of management's controls designed to address the risk of fraud.</li> </ul> <p>We also perform mandatory procedures regardless of specifically identified fraud risks, including:</p> <ul style="list-style-type: none"> <li>• testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>• assessing accounting estimates for evidence of management bias; and</li> <li>• evaluating the business rationale for significant unusual transactions.</li> </ul> <p>As well as our overall response, we specifically consider where these risks may occur, and identify separate fraud risks as necessary.</p> |
| <p><b>Financial statement impact</b></p> <p>Misstatements that occur in relation to the risk of fraud and error could materially affect the income and expenditure accounts. While there are no statutory financial performance targets in local government, management remains under pressure to ensure that the Council balances its annual budgets as central funding continues to reduce.</p> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

## Our response to significant risks (continued)

Incorrect capitalisation of revenue expenditure\*

### Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.

### 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.

We consider the primary focus of this risk to be related to the inappropriate capitalisation of revenue expenditure.

Our planning process is ongoing and we will update the report as necessary in this area.

### What will we do?

We plan to:

- review and test revenue and expenditure recognition policies;
- review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias;
- develop a testing strategy to test material revenue and expenditure streams, and review and test any material revenue cut-off at the year end;
- review in-year financial capital projections and compare them to the year-end position; and
- review capital expenditure on property, plant and equipment at the lower testing threshold to ensure that it meets the relevant accounting requirements for capitalisation.

## Our response to significant risks (continued)

|                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Valuation and classification of Castle Quay</b></p>                                                                                                                              | <p><b>What is the risk?</b></p> <p>The fair value of the Castle Quay development will represent a significant balance in the Council's group Statement of Accounts.</p> <p>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.</p> <p>The Castle Quay development continues to be potentially affected by the weakness of the retail sector. We also note that our valuers in 2018/19 identified improvements that could be made to the valuation methodology.</p> | <p><b>What will we do?</b></p> <p>We will:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• Test and challenge the information and assumptions used by the valuers in performing their valuation;</li> <li>• Engage support from specialists within our Real Estate team to support our work reviewing the assumptions used in the valuation of this asset. This will be the focus of professional scepticism in view of recent reports on the fragility of the retail sector e.g. increases in discount rates ("yield") having a negative impact on carrying value</li> <li>• 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.</li> </ul> |
| <p><b>Financial statement impact</b></p> <p>The valuation of Castle Quay is a material item on the balance sheet. In 2018/19 the valuation at year-end was £42.4m (2017/18 £61.1m)</p> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

## Other areas of audit focus

We have identified other areas of the audit not classified as significant risks, but still important when considering the risks of material misstatement to the financial statements and disclosures. These may be key audit matters which we will include in our audit report.

### What is the risk/area of focus?

#### Valuation of Land and Buildings

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represents significant balances in the Council's accounts and is subject to valuation changes and impairment reviews. Management must make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

### What will we do?

We will:

- consider any work performed by the Council's external valuers (Montagu Evans), including the adequacy of the scope of their work, their professional capabilities, and the results;
- sample test key asset information used by the valuers (e.g. building floor areas to support valuations based on price per square metre);
- consider using our valuation experts if necessary to gain the required assurance;
- consider the annual cycle of valuations to ensure that assets have been valued within a five-year rolling programme (as required by the Code) for PPE, and annually for IP. We will also consider whether there are any specific changes to assets communicated to the valuer;
- review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- consider changes to useful economic lives as a result of the most recent valuation; and
- test that accounting entries have been correctly processed in the financial statements,

## Audit risks

### Other areas of audit focus

We have identified other areas of the audit not classified as significant risks, but still important when considering the risks of material misstatement to the financial statements and disclosures. These may be key audit matters which we will include in our audit report.

#### What is the risk/area of focus?

##### Pension Asset Valuation

The Local Authority Accounting Code of Practice, and IAS19, require the Council to make extensive disclosures in its financial statements about its membership of the Local Government Pension Scheme administered by Oxfordshire County Council.

The Council's pension fund liability is a material estimated balance and the Code requires that this asset be disclosed on its balance sheet.

The information disclosed is based on the IAS 19 report issued to the Council by its actuary, Hymans Robertson.

Accounting for the scheme involves significant estimation and judgement, so management engages an actuary to perform the calculations on its behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and on the assumptions underlying fair value estimates.

#### What will we do?

##### We will:

- undertake IAS19 protocol procedures - assisted by the Pension Fund audit team - to obtain assurances over the information supplied to the actuary for Cherwell District Council;
- assess the work of the Pension Fund actuary, including the assumptions used. We do this by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors - and considering relevant reviews by the EY actuarial team; and
- review and test the accounting entries and disclosures made in the Council's financial statements for IAS19.

## Other areas of audit focus (cont.)

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.

### What is the area of focus?

#### Group Boundary Assessment

The Council now has three wholly owned subsidiary companies and also holds an interest in a joint company with South Northamptonshire Council to process housing benefit claims across both Councils from June 2018.

As 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 audit fee. We have included an estimate of the likely additional fee in relation to this matter; this is reflected in Appendix A of this report.

### What will we do?

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 the auditors of the three component entities as appropriate.

## 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?

#### Going Concern Compliance with ISA 570

This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee.

The CIPFA Guidance Notes for Practitioners 2019/20 accounts states 'The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.'

'If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.'

### What will we do?

#### The revised standard requires:

- auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;
- greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Authority obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements;
- improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While the Council are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements;
- a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- necessary consideration regarding the appropriateness of financial statement disclosures around going concern.

The revised standard extends requirements to report to regulators where we have concerns about going concern.

We will discuss the detailed implications of the new standard with finance staff during 2019/20 ahead of its application for 2020/21.



## Other areas of audit focus (continued)

### What is the risk/area of focus?

#### IFRS16 – leases

IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as “pay as you go” arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to be published, but in July 2019 CIPFA/LASAAC issued ‘IFRS 16 leases and early guide for practitioners’.

This early guidance provides comprehensive coverage of the requirements of the forthcoming provisions, including:

- the identification of leases
- the recognition of right-of-use assets and liabilities and their subsequent measurement
- treatment of gains and losses
- derecognition and presentation and disclosure in the financial statements,
- the management of leases within the Prudential Framework.

The guidance also covers the transitional arrangements for moving to these new requirements, such as:

- the recognition of right-of-use assets and liabilities for leases previously accounted for as operating leases by lessees
- the mechanics of making the transition in the 2020/21 financial statements (including the application of transitional provisions and the preparation of relevant disclosure notes).

### What will we do?

IFRS 16 – leases introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases.

The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet.

Although the new standard will not be included in the CIPFA Code of Practice until 2020/21, work will be necessary to secure information required to enable authorities to fully assess their leasing position and ensure compliance with the standard from 1 April 2020.

In particular, full compliance with the revised standard for 2020/21 is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2020 in order to identify:

- all leases which need to be accounted for
- the costs and lease term which apply to the lease
- the value of the asset and liability to be recognised as at 1 April 2020 where a lease has previously been accounted for as an operating lease.

We will discuss progress made in preparing for the implementation of IFRS 16 – leases with the finance team over the course of our 2019/20 audit.



03

# Value for Money Risks





## Background

We are required to consider whether the Council has 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

For 2019/20 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 the Council's arrangements to:

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.

In considering the Council's 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 it is already required to have, and to report on through documents such as the annual governance statement.

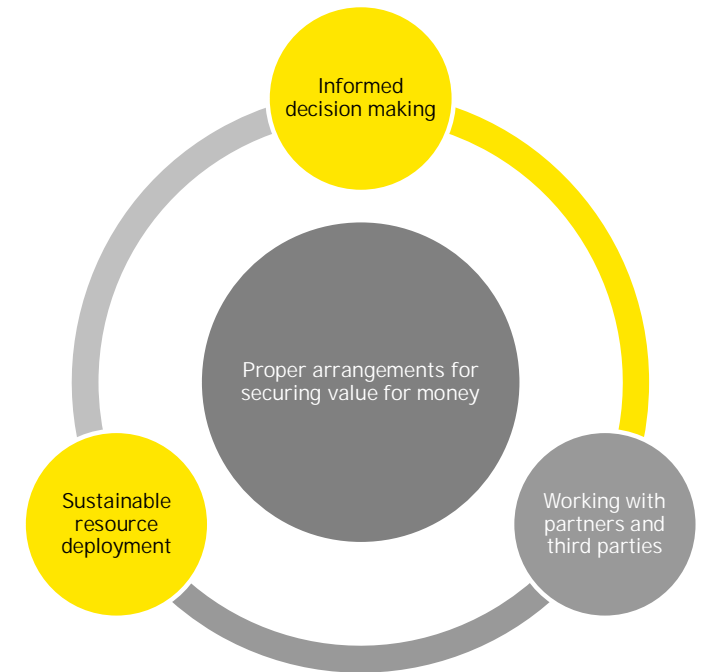
We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"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. It also enables us to determine the nature and extent of any further work necessary. If we do not identify any significant risks, we do not need to carry out further work.

Our risk assessment supports the planning of enough work to enable us to deliver a safe conclusion on arrangements to secure value for money. It also enables us to determine the nature and extent of any further work necessary. If we do not identify any significant risks we do not need to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. We have not yet identified any significant risks, but planning is still in progress.

At the time of writing this report, our value for money planning for 2019/20 had not yet been undertaken. Our risk assessment for 2019/20 will be communicated in the Audit Plan issued at the completion of our procedures for March 2020.





04

## Audit materiality

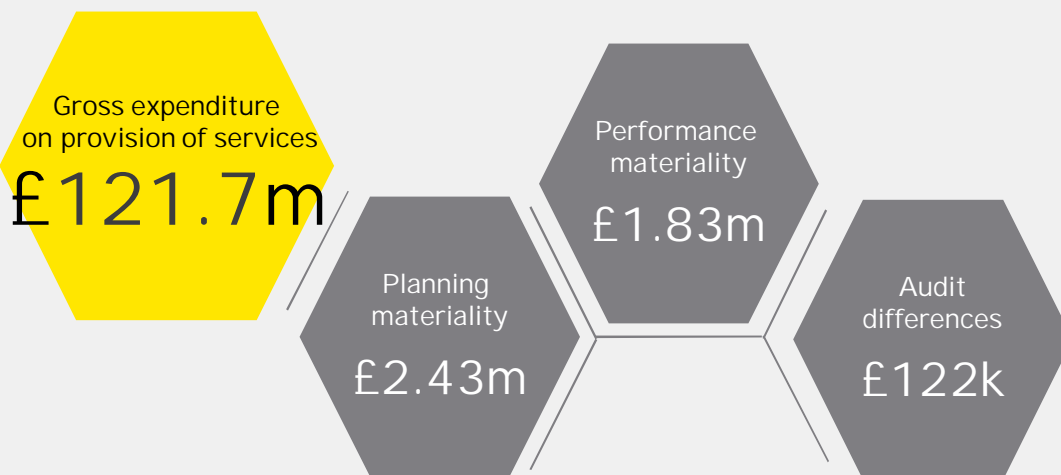


# Materiality

## Materiality

For planning purposes, materiality for 2019/20 has been set at £2.43 million for the Council's financial statements. This represents 2% of the Council's prior year gross expenditure on provision of services (from the audited 2018/19 financial statements). It will be reassessed throughout the audit process. 2% is considered the sector 'norm' for a local government body with a similar risk profile to Cherwell District Council.

As planning is in progress, we will review materiality for both group and components and report to you when agreed. 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 above which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality** – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £1.83 million, which represents 75% of planning materiality.

**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. This will be reported in our updated Audit Planning Report when Group scoping is complete.

**Audit difference threshold** – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund where they have an effect on income or 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 any corrected misstatements, will be communicated insofar as they merit the attention of the Accounts, Audit & Risk Committee, or are important from a qualitative perspective.

**Specific materiality** – We have set a materiality of £1k for remuneration disclosures, related party transactions, members' allowances, and exit packages. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements. We also note that the public interest in these areas dictates that misstatements are reported exactly.



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).

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 Statement; 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 must consider whether the Council has '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.

For 2019/20 we plan to follow a substantive approach to the audit. We have concluded that this is the most efficient way to obtain the level of audit assurance needed to conclude that the financial statements are not materially misstated.

Analytics:

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

- help to identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Are more likely to identify 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 to the Accounts, Audit & Risk Committee.

Internal audit:

We will meet the Head of Internal Audit, and 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 plan, if 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.

At the time of writing this report, our group scoping was not yet complete.

## Scoping the group audit

### 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.

### Key changes in scope from last year

Key changes in scope from last year will be advised when our scoping is complete.



06

Audit team



## Use of specialists

The core audit team is lead by Maria Grindley, Associate Partner, and Susan Gill as Manager. Shingirirai Guwamombe, Senior, will lead the fieldwork.

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 we use EY or third party specialists for the current year are:

| Area                            | Specialists                                                                                                                                                                                                                                                                                                                  |
|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Valuation of Land and Buildings | <p>EY Valuations Team</p> <p>We will consider any valuation aspects that may require EY valuation specialists to review any material specialist assets and the underlying assumptions used by the Council's valuers. This is likely to be the case for the Castle Quay development because of its continuing complexity.</p> |
| Pensions disclosure             | <p>EY Actuaries</p> <p>PWC report for the NAO on the 4 LGPS actuaries</p>                                                                                                                                                                                                                                                    |

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 the specialist's 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 2019/20.

From time to time matters may arise that require immediate communication with the Accounts, Audit & Risk Committee and we will discuss them with the Accounts, Audit & Risk 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                                 | March      |                                            | Draft Audit Planning Report                                        |
| Risk assessment and setting of scope     | March      |                                            |                                                                    |
| Walkthrough of key systems and processes | April      | Accounts, Audit & Risk Committee           | Audit Planning Report                                              |
| Audit testing: I&E and balance sheet     | April      |                                            |                                                                    |
|                                          | May        | Accounts, Audit & Risk Committee           | Audit Planning Report and Interim Audit Update                     |
| Year end audit                           | May - June |                                            |                                                                    |
| Audit Completion procedures              | July       | Accounts, Audit & Risk Committee           | Audit Results Report<br>Audit opinions and completion certificates |
|                                          | August     |                                            |                                                                    |
|                                          | September  | Accounts, Audit & Risk Committee           | 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 promptly 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 the Council’s governance on matters in which it has an interest.

| Required communications                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Planning stage                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Final stage                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <ul style="list-style-type: none"> <li>▶ Any principal threats to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the Council, its affiliates and directors, and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> <li>▶ 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]</li> </ul> | <ul style="list-style-type: none"> <li>▶ In order for the Council 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;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ 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;</li> <li>▶ Written confirmation that all covered persons are independent;</li> <li>▶ Details of any inconsistencies between FRC Ethical Standard and the Council’s policy for the supply of non-audit services by EY and any apparent breach of that policy;</li> <li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul> |

During the audit, we must communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of any safeguards, 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 contracted, and details of any written proposal to provide non-audit services submitted;

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



## 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 any principal threats. 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 the Council's policy.

### Overall Assessment

Overall we consider that the safeguards adopted appropriately mitigate the principal threats identified, so we confirm that EY is independent and the objectivity and independence of Maria Grindley - the 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 Council. 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 the Council. 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 we will comply with the policies that the Council has approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with the Council's policy on pre-approval. The ratio of non-audit fees to audit fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is 32.5%; this is because we have provided non-audit services in the form of certifying the annual Housing Benefit claim, which is reported to the DWP every November. The fee for this work was £21,500 (compared to the audit fee of £66,138). No additional safeguards are required given that this fee is below the 70% threshold.

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 the Council. 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, 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.

## Relationships, services and related threats and safeguards

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. 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

### Other threats

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

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

## Other communications

### EY Transparency Report 2019

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 30 June 2019:

[https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/\\$FILE/ey-uk-2019-transparency-report.pdf](https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/$FILE/ey-uk-2019-transparency-report.pdf)



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 Housing, Communities and Local Government. 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 requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

|                                                                          | Actual fee<br>2019/20 | Indicative fee<br>2019/20 | Final Fee<br>2018/19 |
|--------------------------------------------------------------------------|-----------------------|---------------------------|----------------------|
|                                                                          | £                     | £                         | £                    |
| Total Fee – Code work                                                    | 40,138 (Note 3)       | 40,138                    | 40,138 (Note 1)      |
| Castle Quay valuation significant risk                                   |                       | TBC                       | 6,000                |
| Area of audit focus: group boundaries                                    |                       | TBC                       | 15,000               |
| PPE valuations / errors in draft statements                              |                       | TBC                       | 5,000                |
| <b>Total audit</b>                                                       | <b>tbc</b>            | <b>TBC</b>                | <b>66,138</b>        |
| Non-audit services; certification of annual Housing Benefit form MPF720A | TBC                   | 4,500                     | 21,500 (Note 2)      |
| <b>Total fees</b>                                                        | <b>tbc</b>            | <b>TBC</b>                | <b>87,638 (TBC)</b>  |

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 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.

(1) The 18/19 scale fee excludes the work done to cover significant risks itemised specifically. We included estimates for these areas in our audit plan, but are awaiting agreement from officers and approval from PSAA for the final amounts

(2) The 18/19 work has just been completed and a final fee determined. The cost of extended testing was £17,000. For 2019/20 the planned fee represents only the base fee, i.e. it does not include any extended testing.

(3) For 2019/20, the scale fee will be affected by a range of factors which will result in additional work. Once our planning is completed we will set out an estimate of the potential additional fee for this below. The areas of the Council's financial statements identified so far as part of our initial planning procedures, which require additional audit procedures and the potential need to engage specialists are as follows:

- the valuation of PPE and the net pension liability;
- the valuation of Castle Quay
- the group boundary and related work
- value for money risks identified.




We are also in an unprecedented period of change. A combination of pressures is affecting Local Audit and the sustainability of delivery is now a real challenge. As an illustration, 85 organisations in the PSAA regime had not received their 2018/19 audit opinion by the end of January 2020.

Overall we must therefore revisit with PSAA the basis on which the scale fee was set.

## Appendix B

# 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.                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                    | Audit planning report                                                                                                                |
| Significant findings from the audit        | <ul style="list-style-type: none"> <li>• Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Any significant difficulties encountered during the audit</li> <li>• Any significant matters arising from the audit that were discussed with management</li> <li>• Written representations that we ask for</li> <li>• Expected modifications to the audit report</li> <li>• Any other matters significant to the oversight of the financial reporting process.</li> </ul> |                                                                                                    | Audit results report                                                                                                                 |
| Representations                            | Written representations requested from management and/or those charged with governance                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                    | Audit results report                                                                                                                 |
| Material inconsistencies and misstatements | Material inconsistencies or misstatements of fact identified in other information which management has refused to revise                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                    | Audit results report                                                                                                                 |
| Auditors report                            | <ul style="list-style-type: none"> <li>• Any circumstances identified affecting the form and content of our auditor's report</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                    | Audit results report                                                                                                                 |

## Appendix B

# Required communications with the Accounts, Audit & Risk Committee (continued)



Our Reporting to you



| Required communications |  What is reported?                                                                                                                                                                                                                                                                                                                                                                                   |  When and where |
|-------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| Going concern           | <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul> | Audit results report                                                                               |
| Misstatements           | <ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request for any uncorrected misstatement to be corrected</li> <li>• Corrected misstatements where significant</li> <li>• Material misstatements corrected by management</li> </ul>                                                          | Audit results report                                                                               |
| Fraud                   | <ul style="list-style-type: none"> <li>• Enquiries of the Accounts, Audit &amp; Risk Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>• Any fraud identified by us, or information obtained that indicates that a fraud may exist</li> <li>• A discussion of any other matters related to fraud</li> </ul>                                                                                                  | Audit results report                                                                               |
| Related parties         | <ul style="list-style-type: none"> <li>• Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the entity</li> </ul>              | Audit results report                                                                               |

## Appendix B

# Required communications with the Accounts, Audit & Risk Committee (continued)



Our Reporting to you

| Required communications               |  What is reported?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |  When and where |
|---------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| Independence                          | Communication of all significant facts and matters bearing on EY's objectivity and independence, and that of all individuals involved in the audit,<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the Council to maintain objectivity and independence</li> </ul> | Audit Planning Report and Audit Results Report                                                     |
| External confirmations                | <ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                 | Audit results report (if applicable)                                                               |
| Consideration of laws and regulations | <ul style="list-style-type: none"> <li>• Audit findings of non-compliance where this is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off"</li> <li>• Asking the Accounts, Audit &amp; Risk Committee about possible instances of non-compliance with laws and regulations where they may have a material effect on the financial statements and that the Accounts, Audit &amp; Risk Committee may know about</li> </ul>                                                                                                       | Audit results report                                                                               |
| Internal controls                     | <ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Audit results report                                                                               |
| Fee Reporting                         | <ul style="list-style-type: none"> <li>• Breakdown of fee information when the audit plan is agreed</li> <li>• Breakdown of fee information at the completion of the audit</li> <li>• Any non-audit work</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                | Audit planning report<br>Audit results report                                                      |
| Certification work                    | Summary of certification work undertaken                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | HBAP Letter                                                                                        |



## Additional audit information

### Other required procedures during the course of the audit

As well as the key areas of audit focus outlined in section 2, we must perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below.

#### 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 obtaining audit evidence 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 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 on 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, whether the Accounts, Audit & Risk Committee reporting process appropriately addresses matters communicated by us to the 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

To determine whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate (and in light of the surrounding circumstances), could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation 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 the Committee its expectations of 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, we cannot anticipate all the circumstances that could ultimately influence our judgement on materiality. At the end of the audit we will form our final opinion by considering 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.