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Cherwell District Council

Accounts, Audit and Risk Committee

Minutes of a meeting of the Accounts, Audit and Risk Committee held at Bodicote House, Bodicote, Banbury, OX15 4AA, on 21 September 2016 at 6.30 pm

Present: Councillor Mike Kerford-Byrnes (Chairman)
Councillor Ian Corkin (Vice-Chairman)

Councillor Sean Gaul
Councillor Barry Richards
Councillor Tom Wallis
Councillor Sean Woodcock

Substitute Members: Councillor Nicholas Mawer (In place of Councillor Hugo Brown)

Also Present: Councillor Barry Wood, Leader of the Council
Ed Cooke, Internal Audit, PwC
Neil Harris, Director Ernst Young (External Audit)
Steve Bladen, Manager Ernest Young, (External Audit)

Apologies for absence: Councillor Hugo Brown

Officers: Paul Sutton, Chief Finance Officer / Section 151 Officer
Kevin Lane, Head of Law and Governance / Monitoring Officer
Edward Bailey, Corporate Performance Manager
Natasha Clark, Interim Democratic and Elections Manager
Aaron Hetherington, Democratic and Elections Officer

20 **Declarations of Interest**

Members made the following general declarations of interest:

Councillor Ian Corkin, declaration, as a board member of Graven Hill Village Development Company.

21 **Petitions and Requests to Address the Meeting**

There were no petitions or requests to address the meeting.

22 **Urgent Business**

There were no items of urgent business.

23 **Minutes**

The Minutes of the meeting of the Committee held on 30 June 2016 were agreed as correct records and signed by the Chairman.

24 **Chairman's Announcements**

The Chairman referred to the informal briefing that had been arranged by the External Auditor and expressed his disappointment at the low number of attendees. He stressed the importance of the Committee having knowledgeable members and hoped that there would be continuity in membership going forward.

The Chairman explained that further training would be arranged for the Committee and encouraged members to attend.

25 **Internal Audit - Progress Report 2016/17**

The Chief Finance Officer submitted a report which presented to receive PwC's (the council's internal auditor) progress report summarising their internal audit work to date.

Resolved

(1) That the 2016/17 Internal Audit progress report be noted.

26 **External Audit: Audit Results Report 2015/16**

The Chief Finance Officer submitted a report to allow Members to consider the Ernst and Young LLP Results Report. The report included comments on the external audit of the 2015/16 Statement of Accounts.

In introducing the report, the Director, Ernst Young, thanked officers for their cooperation throughout the process and commented that he was pleased with the audit, which was substantially completed. It was expected that an "unqualified opinion" would be issued on the council's accounts.

The Chief Finance Officer advised the Committee that there had been a minor adjustment to the Cherwell District Council accounts as a result of a change to the Graven Hill accounts.

In the course of the discussion, Members agreed that Executive be recommended to consider whether the Council's financial interest in the

Graven Hill companies was adequately protected through their current arrangements for accounting and audit.

With to regards to the overpayment of NNDR to the Government, the Director, Ernst Young, confirmed that this had been fully disclosed in the accounts and treated as an in year adjustment.

Resolved

- (1) That having been considered, the matters raised in the report be noted before approving the 2015/16 financial statements (subsequent agenda item).
- (2) That the adjustments to the financial statements set out in Ernst Young's report (annex to the Minutes as set out in the Minute Book) be noted.
- (3) That the letter of representation on behalf of the Council be approved.
- (4) That Executive be recommended to consider whether the Council's financial interest in the Graven Hill companies is adequately protected through their current arrangements for accounting and audit.

27

Statement of Accounts 2015/16

The Chief Finance Officer submitted a report to obtain official sign-off by the Chief Financial Officer and the Chairman of Accounts, Audit and Risk Committee on the audited Statement of Accounts 2015/16.

In introducing the report, the Chief Finance Officer circulated an updated version of Section 13 (Group Accounts) of the accounts and referred to the consequential changes needed as a result of the changes in the Graven Hill accounts.

Resolved

- (1) That the carry forward of revenue budget underspends from 2015/16 to 2016/17 be approved.
- (2) That the updated balance on capital schemes which have slipped in 2015/16 to be carried forward into the 2016/17 capital programme be approved.
- (3) That the amendments to the 2015/16 draft financial statements and the resultant statement of accounts be approved and authority be delegated to the Chief Finance Officer in consultation with the Chairman of Accounts, Audit and Risk Committee to finalise any necessary non-material amendments to the statement of accounts and the letter of representations prior to publication.

28 **Changes to the Arrangements for Appointment of External Auditors**

The Chief Finance Officer submitted a report which summarised the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

Resolved

- (1) That Full Council be recommended to agree the recommendation of the Accounts, Audit and Risk Committee to support the Local Government Association (LGA) in setting up a national Sector Led Body by indicating intention to “opt-in”,

29 **Corporate Fraud Team Update**

The Chief Finance Officer submitted a report to provide members of the Accounts, Audit and Risk Committee with an update on the joint Corporate Fraud team including a progress report for quarter one of 2016-2017 and feedback from recent Corporate Fraud awareness presentations.

Resolved

- (1) That the report be noted.
- (2) That the plans for a further fraud awareness session for elected members be endorsed.

30 **First Quarter Risk Review 2016-17 and revised Shared Risk & Opportunities Management Strategy**

The Director - Strategy and Commissioning submitted a report which updated the Committee on the management of Strategic, Corporate and Partnership risks during the first quarter of 2016/17, to present the revised Risk & Opportunities Management Strategy and to report recommendations from the 2015/16 Risk Audit.

Resolved

- (1) That having reviewed the full Strategic, Corporate and Partnership Risk Register for 2016/17, no issues be identified for further consideration or referral to Executive.
- (2) That the risk exceptions highlighted and proposed actions be noted.
- (3) That the impact of the EU referendum vote result and implications on existing or newly identified emerging risks be noted.
- (4) That the recommendations and actions arising from the 2015/16 Risk Audit be noted.

- (5) That the revised Risk and Opportunities Management Strategy for 2016/17 be agreed.

31 **Quarter 1 Treasury Management Report**

The Chief Finance Officer submitted a report to receive information on treasury management performance and compliance with treasury management policy for 2016/17 as required by the Treasury Management Code of Practice.

Resolved

- (1) That the Quarter 1 Treasury Management report be noted.

32 **Work Programme**

The Committee considered its work programme for 2016/17

Resolved

- (1) That the work programme be noted.

33 **Exclusion of the Press and Public**

Resolved

That under Section 100A of the Local Government Act 1972, the public and press be excluded from the meeting for the following items of business on the grounds that, if the public and press were present, it would be likely that exempt information falling under the provisions of Schedule 12A, Part I, Paragraph 3 would be disclosed to them, and that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

34 **Quarter 1 Treasury Management Report - Exempt Appendix**

Resolved

- (1) That the exempt appendix be noted.

35 **Finance Improvement Plan - Update**

The Chief Finance Officer submitted an exempt report to present the Finance Improvement Plan, which was an outcome of the KPMG Review of NNDR Overpayment report adopted by this Committee on 20th January 2016.

Resolved

- (1) That the progress made thus far in delivering the Finance Improvement Plan and the remaining actions be noted.

The meeting ended at 8.40 pm

Chairman:

Date:

Cherwell District Council

**Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016**

21 September 2016

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. We, as appointed auditor, take no responsibility to any third party.

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

1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the accounts, audit & risk committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

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

Status of the audit	<p>We have substantially completed our audit of the financial statements of Cherwell District Council for the financial year ended 31 March 2016. Subject to satisfactory completion of the following outstanding items which are also detailed in Appendix A we will issue an audit opinion in the form which appears in Appendix D:</p> <ul style="list-style-type: none"> • completion of income and expenditure testing • complete our review of the work undertaken by Clark Howse on Graven Hill Village Holdings Limited, and Graven Hill Village Development Company Limited • final Director and Manager review of the accounts and audit work • review of the final version of the financial statements • completion of subsequent events review • receipt of the signed management representation letter <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Authority's financial statements.</p> <p>We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p> <p>The Council is below the materiality threshold set by the National Audit Office (NAO) for the Whole of Government Accounts return. We are therefore required to complete any procedures related to this, other than confirming that the Council is below the threshold.</p> <p>We expect to issue the audit certificate at the same time as the audit opinion.</p>
Audit differences	<p>Subject to completion of the outstanding matters detailed at Appendix A, we have not identified any errors for which management have chosen not to adjust.</p>

Scope and materiality In our audit plan presented at the meeting of the accounts, audit & risk committee on 2 March 2016, we communicated that our audit procedures would be performed using a materiality of £1,614million. We have reassessed this based on the actual results for the financial year and have increased this amount to £1,718million. The increase has arisen as a result of an increase in gross expenditure between 2014/15 and 2015/16. The basis of our assessment is 2% of gross operating expenditure, which has remained consistent with prior years.

The threshold for reporting audit differences which impact the financial statements has also increased from £81,000 to £85,000.

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

- **Remuneration disclosures including any severance payments, exit packages and termination benefits:** Our audit strategy was to check the bandings reported in Notes 8.30 and 8.31 of the financial statements, test the completeness of the disclosure and compliance with the Code requirements. We sample checked transactions back to the payroll system and supporting documentation.
- **Related party transactions:** Our audit strategy was to obtain and review declarations from senior officers and members of the Council and review for any material disclosures. We also confirmed that the disclosure in Note 8.34 complied with the Code requirements. We undertook a sample check of contracts included on the Council's contracts register against Companies House records to identify whether any key decision makers within the Council had an interest in the companies with which the Council had contracts.
- **Members Allowances:** Our audit strategy was to test the completeness of the disclosures within Note 8.29 and make sure that the disclosure was compliant with the Code by sample checking transactions back to the payroll system and other relevant supporting documentation.

We carried out our work in accordance with our Audit Plan.

Significant audit risks We identified the following audit risks during the planning phase of our audit, and reported these to you in our audit plan:

- risk of management override
- Group accounts
- Valuation of property, plant and equipment
- NDR Debtor

The 'addressing audit risks' section of this report sets out how we have gained audit assurance over those issues.

Other reporting issues We have no other matters we wish to report.

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

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

Executive Director
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Council's responsibilities

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

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

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- Report on an exception basis on the Annual Governance Statement;
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

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

3. Financial statements audit

Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan:

- Risk of management override

We update our planning throughout the course of our audit, and following receipt of the draft accounts, we updated our risks assessment and identified the following additional significant risks:

- Valuation of Property, Plant & Equipment
- National Non-Domestic Rates Debtor
- Preparation of Group Accounts

Due to the changes in our risk assessment and in response to the Council's finance improvement plan arising from the 2014-2015 audit of accounts, we presented these changes and the impact on our audit strategy to a member briefing which took place on the 14th September 2016.

Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>During the course of our audit we have:</p> <ul style="list-style-type: none"> ▶ Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. ▶ Review accounting estimates for evidence of management bias. ▶ Evaluate the business rationale for significant unusual transactions. 	<p>We found that:</p> <ul style="list-style-type: none"> ▶ Journal entries recorded in the general ledger, and other adjustments made on the preparation of the financial statements, were appropriate. ▶ The revenue and expenditure recognition policies adopted by the Council were appropriate. ▶ Our testing identified no significant or unusual transactions.
<p>Group Accounts</p> <p>The Council has two companies in the group, Graven Hill Village Holdings Ltd and Graven Hill Village Development Company. Their purpose is to deliver a self-build housing project at Graven Hill Bicester.</p> <p>The Council prepared group accounts for the first time in 2014/15. Transactions included in the Council's 2014/15 financial statements were limited to acquisition costs and other incidental expenditure. Our review of the Council's draft 2015/16 statements has identified that transactions included within the group financial statements are significant.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> ▶ Reviewing the consolidation of the subsidiary accounts into the Council's group accounts. ▶ Reviewing the work undertaken by the subsidiary auditors for the subsidiary companies 	<p>We found that</p> <ul style="list-style-type: none"> ▶ The accounts prepared by the subsidiary entity had been correctly consolidated within the Council's financial statements. ▶ We have not yet completed our review of the work undertaken by Clark Howes but currently expect to conclude this work by 21 September 2016. We will update Members on the outcome of this work at the meeting of the accounts, audit & risk committee on 21 September 2016.

Property, Plant & Equipment

The Council undertakes an annual exercise to revalue land and property assets. The valuation of these assets represents a significant accounting estimate. The accounting entries arising from changes in value are complex and will have a significant impact on the Council's financial statements.

IFRS 13: Fair Value Measurement has been introduced into the Local Authority Accounting Code for the first time in 2015/16. This requires investment assets to now be valued at highest and best use based on what someone would pay for the asset. The Council will need to ensure that its investment assets have been appropriately valued in accordance with IFRS 13.

Taken together, we consider these factors present a significant risk to the financial statements, and we will undertake specific testing to address this risk.

Our approach focussed on:

- ▶ Test the accounting treatment relating to Bolton Road Multi-storey car park.
- ▶ Assess the reliability of the experts used by management in assessing the value of land and property assets.
- ▶ Test the reliability of the information provided by the Council to its valuers.
- ▶ Testing the accounting treatment applied to changes in the valuation of property assets and investment properties.

We found that:

- ▶ We exercised professional scepticism in relation to the post balance sheet event recognised by the Council in relation to Bolton Road car park, in particular over whether the survey undertaken by the Council's valuer gave rise to an adjusting post balance sheet event. We were able to gain satisfactory assurance that the balance sheet value of this asset was not materially misstated, within an acceptable range, and have agreed disclosures with the Council in relation to the future use of this asset.
- ▶ We were able to place reliance on the work undertaken by management's valuation expert.
- ▶ The information provided to management's expert was relevant and reliable.
- ▶ In responding to our audit enquiries, the Council identified a number of instances where valuation data had been incorrectly recorded in the fixed asset register. As a result of this, a number of errors were identified in note 8.9, and related notes. We have agreed with the Council a number of amendments to the accounts to correct these.

Non Domestic Rate (NDR) Debtor

Our audit of the 2014/15 accounts identified a £1.5m debtor with the Department of Communities and Local Government (DCLG). The debtor related to an overpayment into the business rate national pool in 2011/12.

During the course of our 2014/15 audit, the Council provided us with evidence to support its treatment of this debtor, including the steps being taken to recover the debt from DCLG, and a rationale to support the Council's assertion that any prospect of non-recovery of the debt would not be material.

In July 2016 the Council received confirmation from DCLG that it does not intend to settle the debt, and that the Council should account for the retrospective loss through the Collection fund.

Our approach focused on:

- ▶ Reviewing and testing the treatment of this amount in the Council's 2015/16 financial statements, including consideration of the need to re-state prior periods.
- ▶ Assessing the adequacy of the disclosures made in both the narrative statement and financial statements in relation to this matter.
- ▶ Reviewing the steps taken by the Council to inform partner bodies, in particular Oxfordshire County Council, of this matter and obtain confirmation on the appropriate accounting and recovery of retrospective losses through the Collection Fund.

We found that

- ▶ Subsequent to the preparation of its financial statements, the Council received confirmation from DCLG that it could not recover the £1.5million debtor balance. We therefore agreed an amendment to the financial statements with regard to this matter, with the Council writing the debt off in 2015/16.
 - ▶ We considered whether the Council should re-state its 2014/15 financial statements to reflect that the Council had received confirmation that this debt was not recoverable. We concluded that no restatement was necessary, on the basis that the decision taken by DCLG did not fundamentally change our view that the Council's 2014/15 statements presented a true and fair view of the Council's accounts.
 - ▶ We reviewed the disclosures made by the Council in relation to this debt, and agreed additional disclosures with the Council to the Narrative Statement. These gave a full explanation of the write-off of this amount and the impact on the Council's medium financial position and Collection Fund balances.
 - ▶ We confirmed that the Council had taken adequate steps to inform partner bodies of the write-off of this debt and the appropriate steps to account for and recover retrospective losses through the Collection Fund.
-

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest

We have no matters we wish to report.

Control themes and observations

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have adopted a fully substantive approach and have therefore not tested the operation of controls. However, as noted above, in responding to our audit enquiries, the Council identified that its fixed asset register did not accurately reflect information on the valuation of certain assets. Going forwards, we consider that there is a need for the Council to strengthen its processes for ensuring that the fixed asset register accurately reflects valuation information.

We have reviewed the Annual Governance Statement and can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix E. In addition to the standard representations, we have requested the following specific representations, for areas where cannot otherwise gain audit assurance:

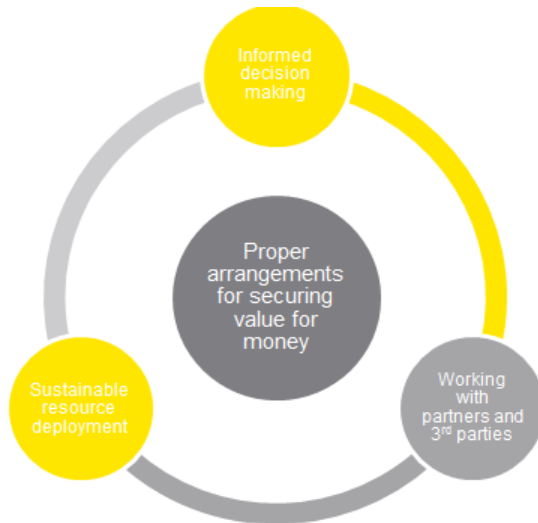
- Use of a specialist
 - We have requested representation that Members and management did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and that Members and management are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists;
- Estimates
 - For the estimates for property, plant and equipment, investment properties, pension liabilities and business rate appeals we have requested representation from Members and management that the estimates appropriately reflect their intent and ability to make judgments, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenue and expenses during the year on behalf of the entity; and
- Retirement benefits
 - We have requested representation from Members and management that the actuarial assumptions underlying the scheme liabilities are consistent with the knowledge Members and management of the business and that all significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Whole of Government Accounts

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

The Council is below the threshold of £350 million set by the National Audit Office (NAO) for any of: assets (excluding PPE); liabilities (excluding pension liabilities); income or expenditure. Therefore we are not required to undertake further work on the Council's return.

4. Value for money



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

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

Overall conclusion

We identified one significant risk in relation to these criteria. This related to the Governance arrangements established by the Council in relation to Graven Hill Village Holdings Limited, and Graven Hill Village Development Company Limited.

Given the relatively small nature of the operations undertaken by those entities in 2015/16, we consider that the arrangement the Council had in place were appropriate at that point. These included regular meetings between the Directors of the subsidiary entities and Council officers.

The scale of the subsidiary entities operations will increase significantly in 2016/17 and subsequent years, and we consider there is a need for the Council to:

- a) Formally record the nature of the roles and responsibilities in relation to the governance of those entities through the establishment of a formal shareholder agreement.
- b) Consider whether the audit arrangements over the subsidiary entities could be strengthened. Currently, the bookkeeping, financial accounting, and audit functions are all undertaken by a local accountancy firm. We consider that there is scope to enhance the governance arrangements through separation of the accounting and auditing functions.
- c) Ensure that its governance arrangements, strategic and financial plans appropriately consider the risks the Council is exposed to from the subsidiaries operations and plans.

We have performed the procedures outlined in our audit plan. As part of our work we considered the following areas and made the following observations:

- **We reviewed the medium term revenue plan and the assumptions included within it:** The Council's latest Medium Term Financial Strategy identifies a cumulative budget gap in the financial years 2016/17 to 2020/21 of £3.9 million and was updated in January 2016. The assumptions made in the MTRP are reasonable and prudent. For example, the Council does not rely on as yet uncertain funding streams to balance its base budget. For example, a proportion of the funding from the New Homes Bonus is transferred to reserves and is therefore not included as part of funding for the base budget. Work is ongoing to address the budget gaps in future years in order to

address the budget gap going forward and maintain its reserves. As part of this process, the Council needs to formalise the savings plans it is developing.

- **We assessed the level of reserves that the Council has at the 31 March 2016:** The level of useable general fund reserves held by the Council at 31 March 2016 is £21.7 million. The majority of these are currently earmarked for specific purposes, leaving general fund working balances of £3.5 million. These are above the minimum level of reserves recommended by the Director of Finance. We have therefore concluded that the Council has adequate levels of reserves.
- **We considered the Council's budget setting and monitoring processes:** The Council set a balanced budget for 2016/17, with no unmet budget gap to be addressed. The assumptions made by the Council in determining its budget are appropriate and we are satisfied that the Council's has established appropriate budgetary control procedures.

Other matters to bring to your attention

We have no other matters to bring to your attention.

Appendix A – Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report

Item	Actions to resolve	Responsibility
Management representation letter	Receipt of signed letter of representation	Management and accounts, audit & risk committee
Annual accounts	<ul style="list-style-type: none"> • Correction of errors misstatements identified by EY. • Approval of accounts by accounts, audit & risk committee 	EY, management and accounts, audit & risk committee.
Subsequent events review	Completion of the subsequent events procedures to the date of signing the audit report	EY and management
Other outstanding work	Management and EY to work together to complete any outstanding work on: <ul style="list-style-type: none"> • completion of income and expenditure testing • complete our review of the work undertaken by Clark Howes on Graven Hill Village Holdings Limited, and Graven Hill Village Development Company Limited • receipt of letter of assurance from the auditor of Oxfordshire pension fund • final Director and Manager review of the audit work • review of the final version of the financial statements 	EY and management

Appendix B – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 2 March 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the accounts, audit & risk committee on 21 September 2016.

We confirm that we have met the reporting requirements to the Accounts, Audit & Risk, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 2 March 2016.

Appendix C – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £
Total Audit Fee – Code work	60,127	52,127
Certification of claims and returns	8,844	8,844

We anticipate a variation to the scale fee will be required to reflect the additional procedures undertaken in relation to the audit work undertaken on the subsidiary companies by Clark Howes. We have estimated that variation at £8,000 but, as noted above, are currently concluding our work in this area. We will notify you of our final proposed fee in our Annual Audit Letter. Any variation to our scale fee needs to be approved by Public Sector Audit Appointments Limited (PSAA Ltd).

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

Appendix D – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHERWELL DISTRICT COUNCIL

Opinion on the Authority's financial statements

We have audited the financial statements of Cherwell District Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- Collection Fund; and
- Related notes 8.1 to 8.39.1 and 11.0 to 12.26 for the core statements, 10.1 to 10.3 for the Collection Fund, and 13.5.1 to 13.5.7 for the Group Accounts.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of Cherwell District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities set out on page 12, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Financial Report 2015-16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Cherwell District Council and Group as at 31 March 2016 and of its expenditure and income for the year then ended; and

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Annual Financial Report 2015-16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on Cherwell District Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether Cherwell District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Cherwell District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Cherwell District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, Cherwell District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of Cherwell District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Neil Harris (Executive Director)

for and on behalf of Ernst & Young LLP, Appointed Auditor

Luton

29 September 2016

Appendix E – Management representation letter

Neil Harris
Executive Director
Ernst & Young
400 Capability Green
Luton LU1 3LU

Dear Neil,

Cherwell District Council - Letter of Representations

This letter of representations is provided in connection with your audit of the financial statements of Cherwell District Council (“the Council”) for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Cherwell District Council as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16].
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of Council, Executive, and accounts, audit & risk committee, or summaries of actions of recent meetings for which minutes have not yet been prepared held through the to the most recent meeting on the following date: 29 September 2016.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 8.39 to the financial statements all guarantees that we have given to third parties.

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the Property, Plant and Equipment, Investment Properties, and Pension Liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

H. Estimates for Property, Plant and Equipment, Investment Properties, Pension Liabilities and Business Rate Appeals, and bad debt provisions.

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We confirm that the significant assumptions used in making these estimates appropriately reflect our intent and ability to make judgments, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenue and expenses during the year on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements due to subsequent events.

Retirement Benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours sincerely,

Chief Finance Officer

I confirm that this letter has been discussed and agreed at the accounts, audit and risk committee on 21 September 2016

Chair of accounts, audit and risk committee

Appendix G – Required communications with the accounts, audit & risk committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
<p>Planning and audit approach Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report
<p>Going concern 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"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about Cherwell District Council 's ability to continue as a going concern for the 12 months from the date of our report.
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit Results Report.
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the accounts, audit & risk committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	We have made enquiries of management and those charged with governance. We have not become aware of any fraud or illegal acts during our audit.
<p>Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters we wish to report.

Required communication	Reference
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	We have received all requested confirmations.
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the accounts, audit & risk committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the accounts, audit & risk committee may be aware of 	We have not identified any material instances of non-compliance with laws and regulations.
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Plan and Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	Audit Plan Audit Results Report
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	We will report the findings from our certification work to the accounts, audit and risk committee on 25 January 2017.

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