

Annual governance report DRAFT

Cherwell District Council

Audit 2011/12



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Key messages

This report summarises the findings from the 2011/12 audit, which is substantially complete. It includes messages arising from my audit of your financial statements and the results of my work on how you secure value for money in your use of resources.

Financial statements

My audit is substantially complete and as at 19 September I expect to issue an unqualified audit opinion subject to completion of outstanding work and agreeing the final amended version of the financial statements.

- The draft financial statements were approved by the Accounts, Audit and Risk Committee on 27 June and certified by the Director of Resources on 29 June. The Accounts and Audit (England) Regulations 2011 require members to approve the final version of the financial statements by 30 September.
- I have completed the majority of my work and I have not identified any significant issues to date. There are some errors in the draft financial statements submitted for audit that have been identified. I am discussing the final few outstanding issues with Officers.
- I identified no significant weakness in internal controls.

Value for money (VFM)

I am required to conclude whether the Council has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience; and
- challenging how the Council secures economy, efficiency and effectiveness

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Before I give my opinion and conclusion

My report includes only matters of governance interest which came to my attention during my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

Auditing and ethical standards require me to report any relationships that might affect my independence and objectivity or those of my audit team.

During the audit the Audit Manager, Nicola Jackson, applied for and was successful in attaining a position with the Council as the Corporate Finance Manager. In order to safeguard against any issues regarding independence the Audit Manager stopped work on the audit. Alan Witty, an Audit Manager from the Oxford office has taken on the role to complete this year's audit in Nicola's place. In addition Alan has completed a full file review of the work completed by the team during the audit to ensure that the findings in this report have been independently checked.

The Audit Commission's Audit Practice has not undertaken any non-audit work during 2011/12.

I ask the Audit Committee to:

- note the adjustments to the financial statements (appendices 2 and 3). These will be completed following my discussions with your Finance Team;
- approve the letter of representation (appendix 4) on behalf of the Council before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 6).

Financial statements

Your financial statements and annual governance statement are important to show how you account for your stewardship of public funds. As elected Members you have final responsibility for them. It is important for you to consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to my final review and agreement of agreed amendments, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report. I discussed with your finance team an issue concerning the disclosure of a reclassification but we concluded that the adjustment to the Property, Plant and Equipment was not required.

Uncorrected errors

I have identified one uncorrected error of £46,000 relating to the income from Castle Quays. Details are set out in Appendix 2 and management are not proposing to amend due to the size of the error. Revised accounting arrangements will be put in place to ensure the correct amount of income is accounted for in 2012/13.

Corrected errors

The accounts presented for audit contained a number of presentational mistakes. I have not detailed these within this report. There a number of other adjustments I asked to be made which are listed in Appendix 3.

Significant risks and my findings

I reported to you in my Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against each of these risks.

Table 1: **Significant risks -**

Risk	Audit response
<p>Icelandic banks</p> <p>In October 2011, the Council was one of the test cases where the Icelandic Supreme Court upheld the District Court's decision to award preferred creditor status to UK local authorities. Assuming that preferred creditor status is maintained, repayment will be at 100 percent. There is a risk that the recoverable amount could be materially misstated.</p>	<p>The Council needs to ensure that repayment is disclosed in line with accounting standards. I will review the accounting treatment to ensure that it is correctly shown in the 2011/12 accounts.</p>
<p>Cash collection</p> <p>The Council has implemented new cash collection arrangements during the 2011/12 financial year. The existing payment system (PARIS) did not comply with the Payment Card Industry (PCI) data security standards. In July the Council moved to a system hosted by Capita. This ensures that all card details are securely stored offsite by Capita who meet the current PCI standards. The Council has also installed payment kiosks during August 2011 for people to pay by cash and credit/debit card. The Council no longer uses the Paypoint facility to process cash.</p>	<p>I will review both the existing and new systems during the year. I will test the key controls to ensure that the systems are operating effectively.</p>

Significant weaknesses in internal control

It is your responsibility to develop and implement systems of internal financial control and to have proper arrangements to monitor their actual adequacy and effectiveness. My responsibility as your auditor is to consider whether you have adequate arrangements to satisfy yourselves that this is the case.

I have only tested your controls as far as necessary to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information I know about from my audit of the financial statements.

I highlighted three control weaknesses with officers: retaining evidence to support the checking of Capita's work on Council Tax; reconciling Pay and Display car park income from the machines to the bank account; and reconciling the Co-op bank account. Recommendations have been discussed and actions agreed with management.

Other matters

I must communicate significant findings from the audit and other matters significant to your oversight of the financial reporting process including:

- qualitative aspects of your accounting practices, i.e. accounting policies, estimates and disclosures in the financial statements;
- matters specifically required by other auditing standards to be communicated to those charged with governance, e.g. issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- other audit matters of governance interest.

The only issue I wish to bring to your attention is set out below:

Severance packages – governance arrangements

Implementation of the joint working arrangements with South Northamptonshire Council resulted in a number of redundancies in 2011/12. I have reviewed the process and decision making evidence for a sample of four cases, two from each council. I have concluded that the rationale and approval of these cases was generally satisfactory but the Council did not retain robust evidence to support some of the key decisions and considerations. For example:

- there is no evidence that business cases were presented to committee for two of the cases in my sample; and
- there is a lack of evidence to justify some of the payments (e.g. pay in lieu of notice and an ex gratia payment).

Recommendation

R1 All key decisions and considerations in respect of severance cases should be fully documented and evidenced in future (see appendix 6).

Whole of Government Accounts

Alongside my work on the financial statements, I have also reviewed and reported to the National Audit Office (NAO) on your Whole of Government Accounts return. The NAO specifies both the extent of my review and the nature of my report. I have no matters to report.

Value for money

I must conclude whether you have proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. My March 2012 Audit Plan states I had identified no relevant significant risks.

I intend to issue an unqualified conclusion saying you have proper arrangements to secure economy, efficiency and effectiveness in your use of resources. I include my draft conclusion in Appendix 1.

Table 1: **Value for money conclusion criteria and my findings**

Criteria	Findings
<p>1. Financial resilience</p> <p>You have proper arrangements to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>You have robust systems and processes to manage financial risks and opportunities effectively, and to secure stable finances for the foreseeable future.</p>	<p>I found your arrangements to secure financial resilience support your future operation.</p> <p>The plans in place to deliver savings identified within your medium term plan and financial strategy are sound. You have a history of achieving savings and have used joint working to identify future opportunities.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>You have proper arrangements for challenging how you secure economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>You are prioritising your resources within tighter budgets, e.g. by achieving cost reductions and improving efficiency and productivity.</p>	<p>You continue to look for opportunities to improve efficiency to help you meet your priorities. The Council has created a shared senior management team with South Northamptonshire Council. It is continuing to look for further opportunities for shared working.</p>

I must consider your arrangements to secure economy, efficiency and effectiveness.

For 2011/12 the Commission limited the scope of my work on value for money to:

- reviewing the Annual Governance Statement (AGS);
- reviewing the results of the work of other relevant regulatory bodies or inspectorates, to consider whether there is any impact on my responsibilities; and
- other risk-based work as suitable.

As I reported in my March 2012 Audit Plan:

- I am not aware of any relevant work of other relevant regulatory bodies or inspectorates; and
- I have not identified any significant risks requiring specific risk-based work.

I have reviewed your annual governance statement and there are no matters I must report.

Fees

I reported my planned audit fee in the April 2011 Fee Letter

I will complete the audit within the planned fee.

Table 2: **Fees**

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	£114,338	£114,338*
Claims and returns	£31,885	£31,885
Non-audit work	£0	£0
Total	£146,223	£146,223

* The Audit Commission has paid a rebate of £9,147 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £105,191.

Appendix 1 – Draft independent auditor’s report

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

I have audited the financial statements of Cherwell District Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. 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 2011/12.

This report is made solely to the members of Cherwell District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer’s Responsibilities, the Chief Financial 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, and for being satisfied that they give a true and fair view. My 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 me 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’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Cherwell District Council as at 31 March 2012 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 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

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

Respective responsibilities of the Authority and the auditor

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.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself 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 Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I 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

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am 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 2012.

Certificate

I certify that I have completed the audit of the accounts of Cherwell District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Maria Grindley
District Auditor
Unit 5, Isis Business Centre,
Horspath Road
Cowley OX4 2RD

September 2012

Appendix 2 – Uncorrected errors

I identified the following errors which management have not addressed in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Comprehensive Statement of Income and Expenditure General Fund	Rental income for Castle Quay that related to Quarter 4 2010/11 has been included in the statements, and income for Quarter 4 2011/12 has been excluded		46	46	

Appendix 3 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Financing and Investment Income Cost of Services	Impairments on operational assets were incorrectly included as an expenses in relation to investment properties	2332	2332		
(Surplus)/Deficit on Revaluation of Non Current Assets Revaluation Reserve	The downward revaluation on Kidlington & Gosford Sports Centre Land was partly charged to the CIES when there was a balance outstanding on the Revaluation Reserve		202	202	

Appendix 4 – Draft letter of management representation

Cherwell District Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Cherwell District Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;

- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Cherwell District Council

I confirm that the this letter has been discussed and agreed by the Accounts, Audit and Risk Committee on 19 September 2012

Appendix 5 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a

misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 6 – Action plan

Recommendations

Recommendation 1

All key decisions and considerations in respect of severance cases should be fully documented and evidenced in future

Responsibility	Director of Resources
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Priority	High
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Date	On-going
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Comments	A system will be implemented to ensure all supporting documentation is available to evidence all decisions taken in respect of future severance packages.
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- any director/member or officer in their individual capacity; or
- any third party.