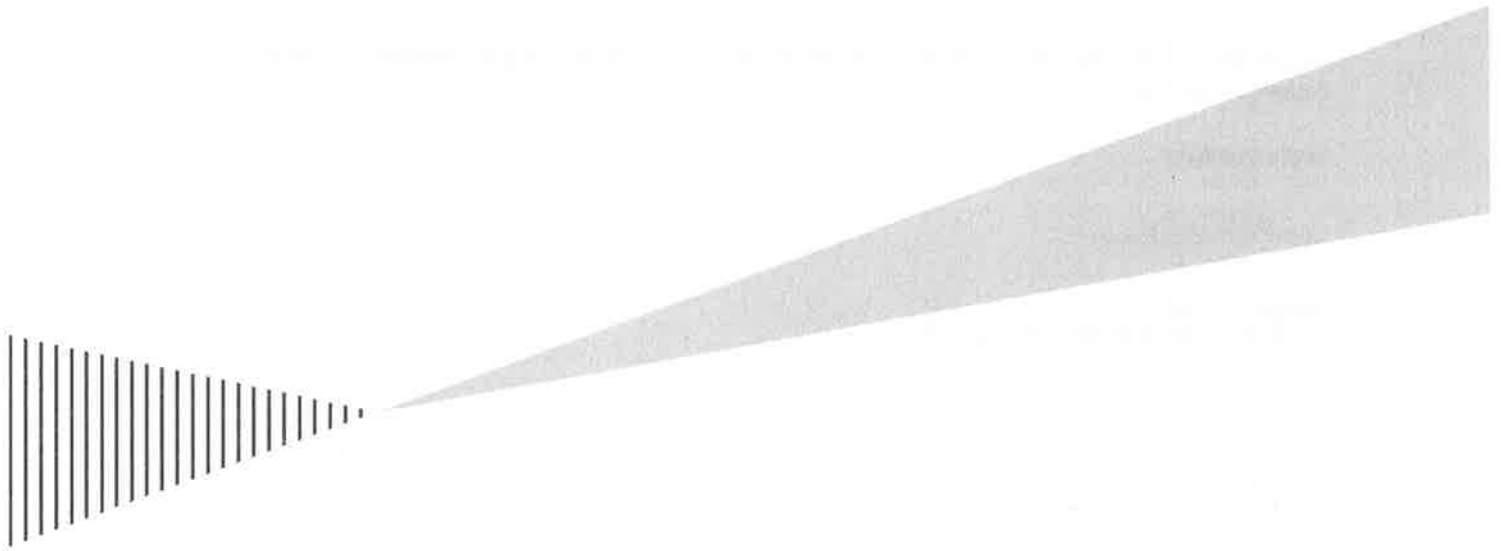


Cherwell District Council Annual Audit Letter

Year ending 31 March 2013

Date: 3 October 2013

Ernst & Young LLP



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3 October 2013

Dear Members,

Annual Audit Letter

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

We have already reported the detailed findings from our audit work to those charged with the governance of the Council in the Audit Results Report dated 18 September 2013.

The matters reported here are the most significant for the Council.

I would like to take this opportunity to thank the officers of the Council for their assistance during the course of our work.

Yours faithfully

Maria Grindley
For and behalf of Ernst & Young LLP
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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' ('Statement of responsibilities'). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 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

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan issued on 12 March 2013 and conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement, in which it reports publicly on the extent to which it complies with its own code of governance. This includes how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period. It is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ reviewing the Annual Governance Statement;
- ▶ forming a conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

| | |
|--|--|
| Audit the financial statements of the Council for the financial year ended 31 March 2013 in accordance with International Standards on Auditing (UK & Ireland) | On 20 th September 2013 we issued an unqualified audit opinion for the Council. |
| Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources. | On 20 th September 2013 we issued an unqualified value for money conclusion. |
| Issue a report to those charged with the governance of the Council (the Accounts, Audit and Risk Committee) communicating significant findings from our audit. | On 18 th September 2013 we issued our Audit Results Report for the Council. |
| Report to the National Audit Office on the accuracy of the consolidation pack the Council is required to prepare for the Whole of Government Accounts. | We reported our findings to the National Audit Office on 20 th September 2013. |
| Consider the completeness of disclosures in the Annual Governance Statement, identify any inconsistencies with other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance. | No issues to report. |

| | |
|--|---|
| Consider whether, in the public interest, we should make a report on any matter coming to our notice during the audit. | No issues to report. |
| Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act. | No issues to report. |
| Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission. | On 20th September 2013 we issued our audit completion certificate. |
| Issue a report to those charged with the governance of the Council summarising our certification (grant claims and returns) work. | We will issue the Annual Certification Report for 2012/13 in December 2013. |

2. Key findings

2.1 Financial statement audit

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 20 September 2013.

In our view, the quality of the process for producing the accounts, including the supporting working papers was good.

The main issues identified as part of our audit were:

Key findings:

Risk of misstatement due to fraud and error:

- ▶ This is a general risk we consider for the public sector bodies we audit.
 - ▶ We obtained assurance that the risk of material misstatement due to fraud and error has been mitigated.
-

Preparation of year end accounts :

- ▶ The Council's closedown plan was fit for purpose and implementation of the plan was effectively managed and co-ordinated across the two workstreams (Cherwell District Council and South Northamptonshire Council) with good results. The Council produced its draft accounts well in advance of the statutory deadline of the 30 June 2013 and without any discernible impact on quality.
 - ▶ Working papers presented to audit were produced on time and to a high standard; good quality working papers coupled with our reliance on management controls over the financial closedown process provided added assurance which assisted the efficient conduct of the audit.
 - ▶ We have obtained adequate assurance over the year end closedown of accounts and there are no issues to report.
-

2.2 Value for money conclusion

We are required to carry out enough work to conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2012/13 our conclusion was based on two criteria:

- ▶ The organisation has proper arrangements for securing financial resilience.
- ▶ It has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 20 September 2013. We noted the following issues as part of our audit.

Key findings :

Joint management and shared service arrangements:

- ▶ Management assessed the outcomes and delivery of its change programme against each of the original business case objectives.
- ▶ The assessment demonstrated clear outcomes to date; an awareness of the opportunities and challenges inherent in the process and the Council's future plans.
- ▶ We were satisfied that the Council is taking forward its change agenda in an effective and measured manner.
- ▶ Our review of comparative performance information produced by the Audit Commission did not raise concerns that the introduction of joint management and shared service arrangements had impacted adversely on service delivery.
- ▶ We also assessed and concluded on the Council's handling of an employment tribunal claim arising as a consequence of its joint management restructure. We determined that the Council's actions were reasonable and that the outcome and associated costs did not impact on the value for money conclusion.
- ▶ In its response the Council has revised relevant personnel policies and procedures to reduce its exposure in the future.

Managing finances:

- ▶ The Council has taken appropriate action to manage the financial challenges it faces over the medium term.
- ▶ It has achieved its financial targets for the year and has adequate plans in place to meet its key financial targets for 2013/14.
- ▶ The Council has a robust process for reviewing and updating its medium term financial plans which includes close collaboration with members.
- ▶ A refreshed five year medium term financial plan has been prepared.

Changes to arrangements for council tax support and business rates:

- ▶ The Council assessed the impact of the changes in preparing its 2013/14 budget and financial plans and has consulted with local residents.
 - ▶ Arrangements for managing the implementation of the Government's welfare reforms are adequate.
-

2.3 Objections received

We have received no objections to the 2012/13 accounts from members of the public.

2.4 Whole of government accounts

The Council is required to prepare a consolidation pack for the whole of government accounts. On 20 September we reported to the National Audit office the results of our work on its accuracy. We did not identify any areas of concern.

2.5 Annual governance statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA/SOLACE guidance. We completed this work and did not identify any areas of concern.

2.6 Certification of grants claims and returns

We will issue the Annual Certification Report for 2012/13 in December 2013.

3. Control themes and observations

As part of our audit of the financial statements, we obtained sufficient understanding of internal control to plan our audit and determine the nature, timing and extent of testing. Although our audit was not designed to express an opinion on the effectiveness of internal control, we communicated significant deficiencies to those charged with governance at the Council as required.

The matters reported are shown below and are limited to those we identified during the audit and that we concluded are important enough to report.

| Description | Impact |
|--|---|
| We carried out work to obtain assurances over the design and operation of the IT general controls within the Council's general ledger system (Agresso). The scope of our work covered change management and logical access controls. | We obtained adequate assurance over the design and operation of the Council's change management controls. We identified opportunities for improvements to logical access controls which would reduce the risk of unauthorised or inappropriate access to data and programmes within Agresso which management have agreed to implement. |

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