

# Annual Audit Letter

Cherwell District Council

24 October 2014



Building a better  
working world

The Members  
Cherwell District Council  
Bodicote House  
Bodicote, Banbury  
Oxfordshire  
OX15 4AA

24 October 2014

Dear Members,

## **Annual Audit Letter**

The purpose of this Annual Audit Letter is to communicate to the Members of Cherwell District (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 governance (the Accounts, Audit and Risk Committee) of the Council in our Audit Results Report dated 11 September 2014.

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

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

Yours faithfully

Mick West  
For and behalf of Ernst & Young LLP  
Enc

# Contents

<b>Executive summary.....</b>	<b>1</b>
<b>Key findings.....</b>	<b>3</b>
<b>Control themes and observations .....</b>	<b>7</b>

# Executive summary

Our 2013-14 audit work has been undertaken in accordance with the Audit Plan we issued on the 8 January 2014 and is 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 the Annual Governance Statement, the Council reports publicly on an annual basis 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.

As auditors we are responsible for:

- ▶ Forming an opinion on the financial statements
- ▶ Reviewing the Annual Governance Statement
- ▶ Forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources
- ▶ 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 Cherwell District Council for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)	On 25 September 2014 we issued an unqualified audit opinion in respect of the Council.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 25 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Council (the Accounts, Audit and Risk Committee) communicating significant findings resulting from our audit.	On 11 September 2014 we issued our report in respect of 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 26 September 2014.
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.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of 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 25 September 2014 we issued our audit completion certificate.

---

Issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work that we have undertaken.

On 13 January 2014 we issued our annual certification report to the Accounts, Audit and Risk Committee

---

# Key findings

## 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 auditor's report on 25 September 2014.

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:

### Significant risk: Risk of management override

---

As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We:

- ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- ▶ Reviewed accounting estimates for evidence of management bias
- ▶ Evaluated the business rationale for any significant unusual transactions; for example material movements on reserves and revaluation adjustments

We found that journal entry controls were in place and operating effectively and adequate explanations were provided by management for material adjustments made in preparation of the financial statement. Our review of accounting estimates did not reveal evidence of management bias and business rationales were provided in support of significant transactions.

### Other key findings:

---

#### Implementation of new payroll system

The Council transferred its payroll system from Chris 21 to Resource Link as from 1 October 2013. We sought assurance that as part of the implementation process the Council managed the migration of data effectively to prevent errors and the material misstatement of payroll costs.

We found the Council had put in place adequate controls over the migration of data. Payroll costs were not materially misstated.

Partly because of issues associated with the new payroll implementation, management did not carry out year-end establishment checks (introduced in 2012-13 for the first time) to confirm existence and payroll details of Council employees. We were unable to rely on management controls to provide assurances over completeness of the payroll and the accuracy of payroll data which required us to carry out additional substantive procedures.

Our audit testing was satisfactory and did not identify any errors or matters that we need to draw to your attention

#### NDR Appeals provision

The Business Rates Retention Scheme came into force on 1 April 2013. Where local businesses believe the current rateable value for business properties is wrong they can appeal. Where rating appeals are successful, monies to settle appeals will come out of the Council's collection fund reducing the rate income shared by the Council with the CLG and

---

County Council. This includes both claims from 1 April 2013 and claims that relate to periods before the introduction of the scheme. As appeals are to the Valuation Office Agency (VOA), authorities may not be aware of the level of claims. Appeals can be speculative in nature and multiple appeals can be made against the same property and valuation on different grounds.

The potential cost of successful rateable value appeals is significant to the Council. There is also a high level of estimation uncertainty in determining an accurate provision for the cost in the financial statements.

We assessed the reasonableness of the Council's methodology in estimating the provision in respect of rateable value appeals at the balance sheet date.

This involved consideration of both the completeness and accuracy of the data on the number of appeals and the basis for the assumptions made by the Council on the likelihood of success.

We were satisfied that the Council applied reasonable estimation techniques in determining the amount of provision it included in its accounts.

---

## Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2013-14 our conclusion was based on two criteria:

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

We issued an unqualified value for money conclusion on 25 September 2014. We noted the following issues as part of our audit.

### Key findings:

---

#### Management of the capital programme

The Council's capital programme is substantial involving a range of different developers and stakeholders. Regeneration for Bicester represents a significant element of the capital programme.

The Council has adequate arrangements to ensure that bids for capital resources are evaluated prior to approval. Evaluation uses a scoring matrix and the fact that the Council has unallocated capital resources means that decisions on capital spending are determined by need and are not as a rule subject to the imposition of financial limits or quotas.

This will change with Graven Hill and the related Bicester developments as available capital resources are utilised and the Council becomes reliant on borrowing to fund its future capital programme. The Council is aware of the implication for capital resource allocation decisions in the future.

There is close member involvement in the approval and challenge of the capital programme. More recently the effectiveness of member challenge and scrutiny of delivery of capital schemes has been enhanced through greater member focus and better quality information. This is positive, given the changing financial landscape with greater dependence on borrowing in the future and the need to ensure that scarce capital resources are utilised effectively.

The Council's acquisition of Graven Hill is a key part of the Bicester regeneration programme and represents a significant investment opportunity. As regards the Graven Hill development the Council will act as strategic developer through a 100% owned Company Limited by Share. The Council has sought independent legal advice and is using Localism Act powers

---

---

for this purpose.

In terms of the wider Bicester regeneration programme the Council has put in place adequate arrangements to provide strategic oversight and management of the related projects. The Council has a dedicated in-house team but where skills or capacity have been lacking, external consultancy support has been purchased, including legal, financial and procurement expertise. The capacity of its Regeneration and Housing Development Team is to be increased by additional recruitment

---

### **Management of finances**

The Council overspent against its original budget by £250,000 due largely to the higher costs of waste and recycling resulting from unforeseen changes to the terms of the existing waste management contract. Otherwise, the Council's performance was largely in line with budget projections.

The net budget shortfall was after transfers to reserves and was funded from general fund balances.

The Council set a prudent budget for 2014-15 but has a widening budget gap over the medium term. Its financial forecast shows that its general fund balance and available reserves will be exhausted by 2017-18 if no corrective action is taken. This is a serious and worrying position that the Council has recognised it must address.

The Council's medium term financial strategy presented to the Executive in July 2014 recognises the challenges ahead but does not identify how this gap is to be closed. The view of your Chief Financial Officer is that the Council's budget strategy needs to change fundamentally and to feed into the detailed budget process for 2015-16 and beyond.

The medium term financial strategy does not yet detail exactly how this will be done but we agree that there needs to be a change in the Council's budget plans if the significant forecast deficit is to be avoided.

We understand that in part that management is planning a series of member-focused workshops over the autumn to consider options for closing the forecast budget gap.

Identifying new income streams through for example the phased release of the New Homes Bonus and additional NDR income is likely to be a central component although there are likely to be savings as a result of further transformational change for which the Council has yet to budget.

The problem is that at present there are no firm costed plans that set out the financial direction of the Council.

There is much that needs to be done on the part of management and Members to further develop the Council's financial plans and there may be many tough decisions facing Members still to be made.

The Council should ensure that medium term financial plans to address the budget gap are developed and agreed as a priority.

---

### **Transformational plans**

Although the Council's transformational plans are progressing rapidly, the Council and its prospective partners are proceeding in a measured and methodical way. Preparations are in line with good practice. The option appraisal is being undertaken with the support of external advisors and members are engaged in the process.

It is premature to comment on due diligence checks and governance proposals but we have received officer assurance that proper checks and balances will be applied at each critical stage of the process; involving external and independent appraisal.

Project resources are in place and communications between the three Councils (South Northamptonshire, Cherwell and Stratford upon Avon) have been established which management consider are working effectively

---



## **Whole of Government Accounts**

We reported to the National Audit office on the 26 September 2014 the results of our work performed in relation the accuracy of the consolidation pack the Council is required to prepare for the Whole of Government Accounts.

## **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.

## **Certification of grants claims and returns**

We presented our Annual Certification Report for 2012-13 to the 22 January 2014 Accounts, Audit and Risk Committee. We certified one claim and one return worth £108m. We issued qualification letters reporting errors in the claim and return. We will issue the Annual Certification Report for 2013-14 in December 2014.

## Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we were required to communicate to those charged with governance (the Accounts, Audit and Risk Committee) significant deficiencies in internal control.

We found no deficiencies during the audit that were of sufficient importance to merit being reported.



**EY** | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

[ey.com](https://www.ey.com)