

Cherwell District Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP



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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.psaa.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 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.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an Annual Audit Letter to Cherwell District Council (the Council) following completion of our audit procedures for the year ended 31 March 2016.

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

Area of Work	Conclusion
Opinion on the Council 's:	
▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council at 31 March 2016 and of its expenditure and income for the year then ended
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Statement of Accounts 2015/16
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Annual Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council
▶ Public interest report	We had no matters to report in the public interest
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 20 September 2016
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 30 September 2016

In January 2017, we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

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

Neil Harris
Executive Director
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

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

We have already reported the findings from our audit work in our 2015/16 Audit Results Report to the 21 September 2016 meeting of the Accounts, Audit and Risk Committee, representing those charged with governance. We do not repeat those detailed findings in this Letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 2 March 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2015/16 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned 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.

A blurred office desk with a laptop, glasses of water, and financial documents. The scene is brightly lit, likely from a window with blinds in the background. A yellow rectangular box is overlaid on the left side of the image, containing the text 'Financial Statement Audit'.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 30 September 2016.

Our detailed findings were reported to the 22 September 2016 meeting of the Accounts, Audit and Risk Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that 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. Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation.</p> <p>We did not identify any material weaknesses in controls or evidence of material management override.</p> <p>We did not identify any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p>
<p>Preparation of Group Accounts</p> <p>In 2015/16, the Council prepared group accounts, consolidating its investment in the two companies (Graven Hill Village Holdings Ltd and Graven Hill Village Development Company) established by the Council to manage and deliver a self-build housing project at Graven Hill in Bicester. We responded to this risk by:</p>	<p>We completed our planned audit procedures and 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 reviewed the audit work undertaken by the external auditors appointed to audit the financial statements prepared by the two subsidiary companies. We concluded that we were able to place reliance on that work.

-
- ▶ 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
-

Valuation of property and property, plant and 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. We responded to this risk by:

- Assessing the reliability of the experts used by management in assessing the value of property assets.
- Testing 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.
- Given its closure in June 2016, testing the judgements and accounting treatment applied by the Council in establishing the valuation of the multi-storey car park at Bolton Road in Banbury.

We completed our planned audit procedures and:

- ▶ Concluded we were able to place reliance on the work undertaken by management's valuation expert.
- ▶ Concluded the information provided to management's expert was relevant and reliable.
- ▶ Concluded that the judgements made by the Council in establishing the valuation of the multi-storey car park at Bolton Road were appropriate, and that the value of this asset was not materially misstated. We agreed additional disclosures with the Council in relation to the future use of this asset.

In responding to matters we raised during the course of our audit, the Council identified a number of errors in the way certain assets were accounted for. We agreed with the Council a number of amendments to the financial statements to correct these.

Non Domestic Rate (NDR) Debtor

In July 2016 the Council received confirmation from the Department of Communities and Local Government (DCLG) that it did not intend to settle a debt of £1.5 million with the Council. The debt related to an overpayment made by the Council in 2011/12 to the business rate national pool. Our approach to this matter focused on:

- ▶ The treatment of this amount in the Council's 2015/16 financial statements.
- ▶ Whether a restatement of the Council's 2014/15 financial statements was required to reflect that the Council had received confirmation that this debt was not recoverable.
- ▶ Assessing the adequacy of the disclosures made in both the narrative statement and financial statements in relation to this matter.
- ▶ A review of the steps taken by the Council to inform partner bodies, in particular Oxfordshire County Council, of this matter.

We completed our planned audit procedures and:

- ▶ Agreed an amendment to the financial statements, with the Council writing-off of the debt in its financial statements.
 - ▶ Concluded that this matter was not so significant as to change our view that the Council's 2014/15 statements presented a true and fair view of its financial position. On this basis, we concluded that no restatement of the Council's prior year financial statements was required.
 - ▶ Agreed additional disclosures with the Council to the Narrative Statement that reflected the write-off of this debt.
 - ▶ Concluded that the Council had taken adequate steps to inform partner bodies of the write-off of this debt.
-

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with the edges of several coins visible. The coins have a textured, ridged edge and some have faint markings or letters on their sides. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

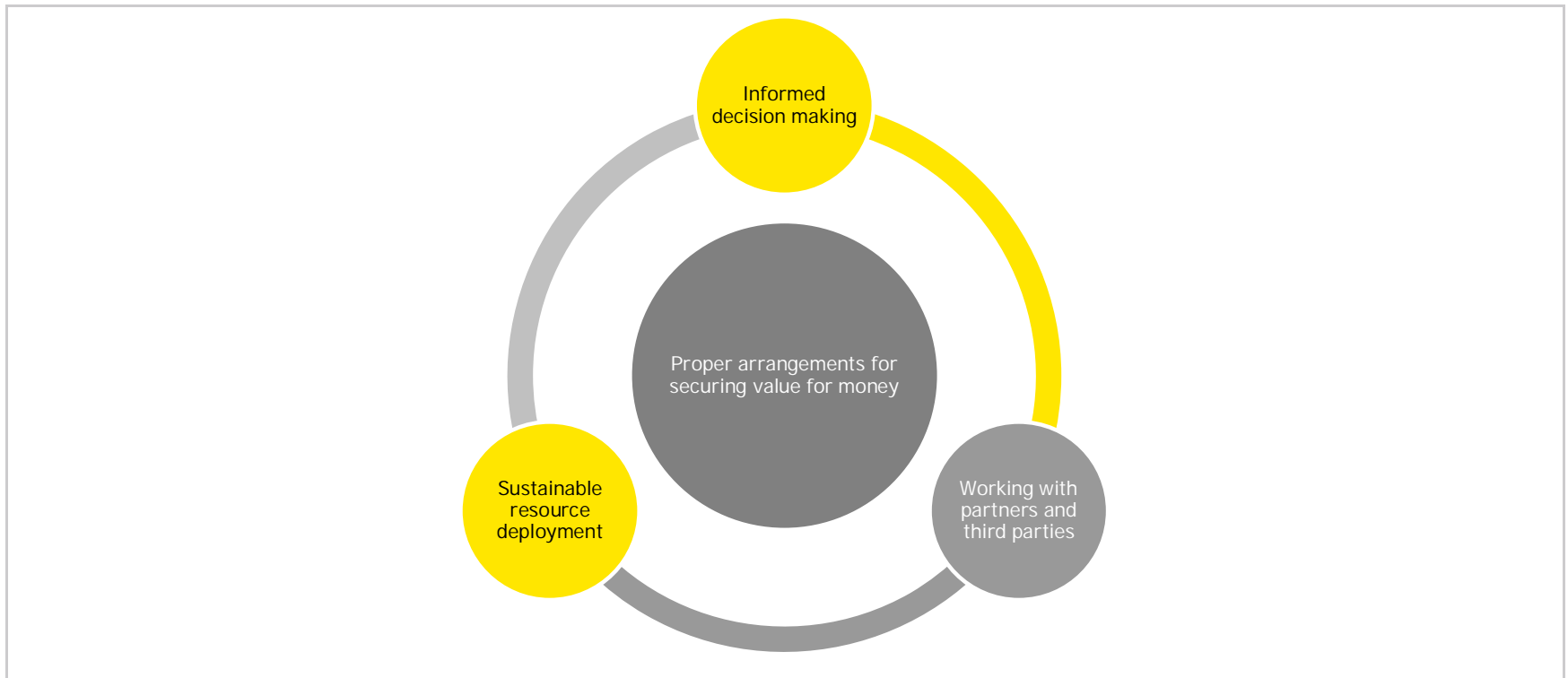
Value for Money

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.



We issued an unqualified value for money conclusion on 30 September 2016.

We identified one significant risk in relation to our value for money conclusion. This related to the governance arrangements established by the Council in relation to its investment in Graven Hill Village Holdings Limited, and Graven Hill Village Development Company Limited.

We performed the procedures outlined in our Audit Plan and concluded that the Council had adequate arrangements in place.

As part of our work we considered the following areas and made the following observations.

Key Findings

Graven Hill Village Holdings Limited and Graven Hill Village Development Company Limited.

Given the relatively small nature of the operations undertaken by these entities in 2015/16, we considered that the arrangements established by the Council were appropriate. The scale of the subsidiary entities operations will increase significantly in 2016/17 and subsequent years, and will present reputational risks to the Council both from a governance perspective. 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) Ensure appropriate member oversight of the decisions taken in relation to the Council's interest in the subsidiary entities.
- c) Consider whether the audit arrangements over the subsidiary entities could be strengthened. Currently, the bookkeeping, financial accounting, and external 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.

Medium term financial plan and key assumptions

The Council's latest Medium Term Revenue Plan (MTRP) identifies a cumulative budget gap in the financial years 2016/17 to 2020/21 of £3.9 million. The assumptions made in the MTRP are reasonable and prudent. 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.

Levels of reserves

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.

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.

Decision making processes and partnership working

The Council has appropriate governance, performance and risk management processes in place. There is evidence of the Council working effectively with partners in key areas. A clear vision for the Council is included in the Council's Business Plan.



Other Reporting
Issues

Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

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 is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2015/16 financial statements from member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Accounts, Audit and Risk Committee on 22 September 2016. 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 regulatory and professional requirements.

Control Themes and Observations

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 in relation to ensuring that the fixed asset register accurately reflects underlying documentation, in particular information received from the Council's valuer.

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are focused on the lenses, and their hands are visible holding the device. The background is a soft, out-of-focus white. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
EU referendum	<p>Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&P, Fitch and Moody's) took action on the UK Sovereign credit rating and, following the rating action on the UK Government. For entities in the public sector, there is likely to be an impact on investment property valuations if confidence in the wider UK property market falls; and the valuation of defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p>	<p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions.</p> <p>We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will engage with you on the concerns and questions you may have, provide our insight at key points along the path, and provide any papers and analysis of the impact of the referendum on the Government and Public Sector market.</p>

Appendix A

Audit Fees



Appendix A Audit Fees

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

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

We anticipate a variation to the scale fee will be required to reflect the additional procedures undertaken in relation to our consideration of the external audit work undertaken on the subsidiary companies within the Council's group boundary. We have estimated that variation at £8,000 but are currently assessing the extent of our costs in this area, and assessing whether, given the ongoing nature of the Council's relationship with its subsidiary companies, a re-basing of the scale fee is required.

We will write to you separately once we have concluded our discussions on this matter with Public Sector Audit Appointments Limited (PSAA Ltd).

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

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ED None

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