

Cherwell District Council

Audit results report

Year ended 31 March 2017

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. Above the 'Y' is a yellow chevron shape pointing to the right. The logo is positioned in the bottom right corner of the page, partially overlapping the background image of an open book and a blurred office setting.

Building a better
working world



Private and Confidential

9 April 2018

Dear Accounts, Audit and Risk Committee Members

Our audit of Cherwell District Council for the year ended 31 March 2017 is now substantially complete. We are finalizing our review of those financial statements, and expect to have completed all of our work prior to the Accounts, Audit and Risk Committee meeting on 12 April 2018. We will provide Members with a verbal update on progress of the items listed as outstanding in this report. However, subject to the satisfactory conclusion of the outstanding matters listed in our report, we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3.

Members of the Accounts, Audit and Risk Committee will be aware from our previous reports to the Committee that we questioned the valuation of a material level of assets leased to a third party providing leisure services on behalf of the Council and the accounting treatment adopted by the Council for these assets.

Over the past two months, the Council has undertaken considerable work to address the points we raised, and provided us with revised financial statements in March 2018. These financial statements resulted in significant amendments to all of the primary financial statements. Given the significant number of amendments to the draft accounts, our audit was undertaken on these revised financial statements, and not the statements reviewed by Members in June 2017. These revised financial statements will be considered by you at your meeting on 12 April 2018.

In terms of the Council's arrangements to secure economy, efficiency and effectiveness in your use of resources, we intend to issue an except for Value for Money conclusion, reflecting weaknesses identified in relation to the Council's arrangements for reliable and timely financial reporting. We have set out in more detail the reasons for this in our report.

This report is intended solely for the use of the Accounts Audit and Risk Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Neil Harris
Executive Director

For and on behalf of Ernst & Young LLP

Contents

01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the 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 (updated February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Accounts, Audit and Risk Committee, other members of the Authority and management of Cherwell District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Accounts, Audit and Risk Committee, other members of the Authority and management of Cherwell District Council, as those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Accounts, Audit and Risk Committee, other members of the Authority and management of Cherwell District Council for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.



01

Executive Summary



Executive Summary

Overview of the audit

Scope and materiality

We presented our Audit Plan to the March 2017 meeting of the Accounts, Audit and Risk Committee. In our plan, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We have carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £1.7 million. We reassessed this using the actual year-end figures, which have increased this amount to £2 million. The threshold for reporting audit differences has increased from £85,000 to £100,000. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits. As these disclosures are considered to be of interest to users of the accounts we have tested the disclosures in sufficient detail to ensure they are correctly disclosed. In particular we have confirmed the figures for senior officer remuneration in full.
- Related party transactions. The accounting standard requires us to consider the disclosure from the point of materiality to either side of the transaction. We have therefore considered the nature of the relationship in applying materiality as well as undertaking additional procedures to gain assurance over the completeness of the disclosures.
- Members' allowances. As these disclosures are considered to be of interest to users of the accounts we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.



Executive Summary

Status of the audit

Our audit of Cherwell District Council's financial statements for the year ended 31 March 2017 is now substantially complete. Members of the Accounts, Audit and Risk Committee will be aware from their meetings of 27 September 2017 and 24 January 2018 that following receipt of the Council's draft financial statements in June 2017, we questioned the valuation of a material level of assets leased to a third party providing leisure services on behalf of the Council, and the accounting treatment adopted by the Council for these assets.

The Council has now completed a detailed assessment of the accounting treatment for each of these assets, having regard to relevant guidance within IFRICs 4 and 12, and IAS 17, and then engaged further work from its valuer to assess the valuation of these assets. As a result of this, the valuation of a number of items of property plant and account has changed significantly those included within the financial statements presented to Members on 28 June 2017. These revised valuation have now been reflected in revised financial statements for 2016/17. Consequential amendments have also been made to the Movement in Reserves Statement, Cash Flow Statement, and Expenditure and Funding Analysis.

We are finalising our work on the revised financial statements prepared by the Council, and completing our testing in a small number of areas. We consider to the following to be the most significant:

- Completion of our testing of journal entries.
- Review of the Council's final adjusted financial statements and Annual Governance Statement.
- Final review procedures of completed audit work.
- Completion of subsequent events review up to the date of the audit report.
- Receipt of the signed management representation letter.

Until this work is complete, further amendments to the financial statements may arise. However, subject to satisfactory completion of this work, we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. We will provide Members of the Accounts, Audit and Risk Committee with a verbal update on the progress of the matters listed above at their meeting on 12 April 2018.

We have also completed the work necessary to give a view on the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources. We have set out our detailed findings in Section 5 below. We have one matter to bring to your attention in relation to this. We consider that the issues around the valuation of property, plant and equipment, and the significant amount of time taken to consider the appropriate accounting treatment for the assets referred to above, obtain revised valuations, and prepare revised financial statements, are indicative of weaknesses in the Council arrangements for reliable and timely financial reporting to support the delivery of strategic priorities in the financial year ended 31 March 2017. We therefore intend to issue an except for Value for Money conclusion. The form of our opinion is included at Section 3 of our report.



Executive Summary

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Cherwell District Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure.

We identified the risk of revenue recognition and management override of controls as significant audit risks and have undertaken specific audit procedures to address these risks. Although not identified in our Audit Plan, we have subsequently identified the valuation of property, plant and equipment, as a significant risk. The basis of this was the significant year on year movements identified in relation to certain assets, and concerns over the accounting treatment adopted by the Council in relation to a small number of assets leased to third parties providing leisure services on behalf of the Council.

An area of audit focus included in our Audit Plan was the introduction of the Expenditure and Funding Analysis (EFA) and restatement of the Comprehensive Income and Expenditure Statement (CIES) and Movement in Reserves Statement (MIRS). As noted elsewhere in this report, our work in relation to this is not yet complete.

We also identified two areas in our Audit Plan where we place reliance on experts; pensions and property valuations. We are in the process of evaluating each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work. As noted above, we have engaged specialists within our Real Estate team to review the valuation work undertaken by the Council's valuer.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- There are no other significant issues to be considered.

There are no other matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Accounts, Audit and Risk Committee.

Value for Money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. As noted above, we intend to issue an except for Value for Money conclusion, reflecting weaknesses identified in relation to the Council's arrangements for reliable and timely financial reporting.



Executive Summary

Other reporting issues

We are required to give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2016/2017 with the audited financial statements. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. Our work in this area is currently in progress.

The Council submitted its pre-audit Whole of Government Accounts (WGA) submission in July. The Council falls below the threshold at which the National Audit Office (NAO) would require us to undertake detailed procedures on the submission. We will confirm this to the NAO alongside the issues of our audit report on the Council's 2016/17 financial statements.

Control observations

We have adopted a fully substantive approach, and so have not tested the operation of controls. We have, however, updated our understanding of key processes and the controls established by the Council to detect or prevent error.

On the basis of the work we have completed to date, we have one matter to bring to your attention. We consider that when we identified the issues in relation to the valuation of property, plant and equipment, the Council lacked sufficient capacity to investigate and resolve these matters in a timely basis. In highlighting this, we recognise the significant challenges the Council's Finance team is dealing with, across both Cherwell District Council and South Northamptonshire Council. However, given the significant challenges ahead, in terms of both the faster close agenda, and with IFRS 9, 15, and 16 becoming relevant to Local Government bodies in the next 2 - 3 years, it is important that the Council invests appropriately in its finance function to meet these challenges. As noted elsewhere within our report, we intend to issue an except for Value for Money conclusion, reflecting weaknesses identified in relation to the Council's arrangements for reliable and timely financial reporting.

Independence

Please refer to Appendix B for our update on Independence. We have no independence issues to bring to your attention.

Audit Fees

We have incurred additional costs in working with the Council to resolve the matters referred to above, the additional procedures we undertook in relation to the Council's group financial statements, and dealing with the matter referred to us by a member of the public. This has involved additional audit work that is not contained within the assumptions made by Public Sector Audit Appointments Limited (PSAA Ltd) in setting the Council's 2016-2017 audit fee. Following the conclusion of our audit, we will discuss with the Deputy Section 151 Officer the quantum of the variation to the scale fee that we will seek from the Council. Any variation to our fee will need to be approved by PSAA Ltd.



02 Areas of Audit Focus



Audit issues and approach: Risk of Fraud in Revenue Recognition

Revenue Recognition

What are our conclusions?

On the basis of the work we have completed to date, we have not

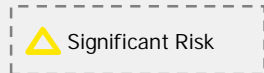
Identified any material misstatements from revenue and expenditure recognition.

Identified any material issues or unusual transactions to indicate any misreporting of the Council's financial position.

What is the risk?

Risk of fraud in revenue recognition
Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In this public sector this requirement is modified by Practice Note 10, issued by the Financial Reporting council, which states that auditors should also consider the risk that material misstatements may occur by manipulating expenditure recognition.

For the Council, we identified the potential for the incorrect classification of revenue spend as capital as a particular area where there is a risk of fraud in revenue recognition.



What did we do?

Our testing of journal entries is substantially complete. On the basis of the testing completed to date, we have:

- Not identified any adjustments which were outside of the normal course of business.
- Confirmed that the journal entries tested have an appropriate business rationale.

We have tested material revenue and expenditure streams, including accounting estimates, and on the basis of the testing completed to date, have not identified any issues or evidence of management bias.

We have tested income and expenditure received around period end to assess whether the recognition or deferral of this income and expenditure was appropriate. Our testing of these transactions has not identified any matters to bring to your attention.

We have tested capital expenditure on property, plant and equipment. This testing has confirmed that this expenditure was appropriate to be capitalised.



Audit issues and approach: Management Override of Controls

Management override

What are our conclusions?

On the basis of the work we have completed to date, we have not identified

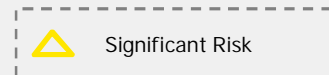
- Any material weaknesses in controls or evidence of material management override of controls.
- Any inappropriate journals.
- Any instances of inappropriate judgements being applied in relation to accounting estimates.
- Any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.

What is the risk?

Risk of management override of controls

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We have assessed journal amendments, accounting estimates and unusual transactions as the area's most open to manipulation.



What did we do?

To address this risk we carried out a range of procedures including:

- Gaining an understanding of the oversight given by those charged with governance of management's processes and controls in respect of fraud;
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We obtained a full list of journals posted to the general ledger during the year and using our data analytics tool confirmed the completeness of the population 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; and
- Undertook testing to identify any significant unusual transactions; no such transactions were identified, this includes our detailed review of the adjustments through the Movement in Reserves Statement.

Our testing of journal entries is substantially complete. Subject to the satisfactory completion of these procedures we have no matters to bring to your attention.



Areas of Audit Focus

Audit issues and approach: Valuation of Property, Plant & Equipment

Valuation of Property, Plant & Equipment

What are our conclusions?

Our work in relation to the valuation of property plant and equipment is currently in progress. At the conclusion of our 2016/17 audit, we will provide the Council with our detailed findings from this testing.

What is the risk?

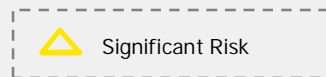
Valuation of Property, Plant & Equipment
Property, Plant and Equipment (PPE) represents the largest value on the Council's balance sheet, and the valuation of these represents a significant estimate in the Council's financial statements.

Although not identified in our Audit Plan, we have subsequently identified the valuation of property, plant and equipment, as a significant risk. The basis of this was the significant year on year movements identified in relation to certain assets, and concerns over the accounting treatment adopted by the Council in relation to a material level of assets leased to third parties providing leisure services on behalf of the Council.

Land and buildings are initially measured at cost and then revalued to fair value. Revaluations are performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period.

Revaluations are generally undertaken by the Council's external valuer.

Annually assets are assessed to identify whether there is any indication of impairment.



What did we do?

To address this risk we:

- Carried out specific work to understand the reasons for the significant year on year movements in the value of certain property plant and equipment assets, and whether this give rise to a need to restate prior periods in accordance with IAS 8;
- Review the terms of reference provided to your valuer, and agree the source data used by your valuer to supporting records;
- Assessed the work of your valuer;
- Engaged specialist support from our own valuation experts to assist us in assessing the valuation of those assets valued on the basis of depreciated replacement cost, and those assets where there has been a significant movement between the current year and prior year value;
- Agreed the outputs to your fixed asset register and financial statements;
- Tested whether impairment and depreciation charges are applied in line with the Council's accounting policies;
- Where the Council had changed valuation bases, we evaluated the rationale; and
- Where assets are not revalued in-year, we have reviewed the Council's impairment assessment and consider whether the carrying value of those assets remains appropriate.



Areas of Audit Focus

Other Financial Statement Risks

CIPFA Code Changes

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with CIPFA's Service Reporting Code of Practice. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Authority's segmental analysis.

This change in the Code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

What did we do?

To address this risk we:

- Reviewed the Expenditure and Funding Analysis, CIES, MiRS and new notes to ensure disclosures are in line with the Code.
- Reviewed the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Authority's structure, and how overheads are apportioned across the service areas reported.
- Agreed the restated comparative figures back to the Authority's segmental analysis and supporting working papers.

Our work in this area is now complete. We made a number of observations to the Council in relation to this note, and the Council updated its financial statements to address the points we raised.



Areas of Audit Focus

Other Financial Statement Risks

Group Accounts

The Council will continue to prepare group accounts in 2016-17, consolidating the balances and transactions of its wholly owned subsidiary company, Graven Hill Village Holdings Limited, as required by the Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice). We will review and test whether the Council has:

- Adopted and correctly applied accounting policies that comply with the requirements of the Code.
- Correctly consolidated the subsidiary accounts.
- Made all appropriate disclosures in accordance with adopted accounting policies and requirements of the Code.

What did we do?

To address this risk we have:

- Tested whether the Council has accounted for its interest in Graven Hill Village Holdings Limited in accordance with the Code.
- Tested whether appropriate disclosure has been given of the Council's interest in Graven Hill Village Holdings Limited, including any related party transactions.
- Engaged with Clark Howes (as the auditors of Graven Hill). Our involvement included:
 - Discussion with Clark Howes on the susceptibility of material misstatement to Graven Hill's financial statements due to fraud or error;
 - Reviewed the working papers prepared by Clark Howes to support their opinion on the financial statements of Graven Hill; and
 - Reviewed outputs from Clark Howes's audit of Graven Hill, including their ISA 260 report.

We consider the Council has accounted for its interest in Graven Hill Village Holdings Limited appropriately, and have no significant matters to report to you.

Silverstone Heritage Experience

In our audit plan, we identified the accounting treatment and the associated disclosures within the Statement of Accounts, of any loan made by the Council to the Silverstone Heritage Experience as an other risk. Subsequent to the preparation of our Audit Plan, the Council took the decision not to invest in the Silverstone Heritage Experience and, as such, we no longer consider this a risk to our opinion on the Council's financial statements.



Areas of Audit Focus

Audit issues and approach: Reliance on experts

Reliance on experts

Reliance on experts highlighted in the Audit Plan

We identified two areas in our Audit Plan where we place reliance on experts; pensions and property valuations.

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We will also consider the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area. As part of this work we have performed the following procedures:

- Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

We set out our findings in relation to the two specialists we have relied on below.

Pension disclosures

We have assessed and are satisfied with the competency and objectivity of the Authority's actuary, Barnett Waddingham. EY's Pensions team and PwC (as Consulting Actuary to the NAO) have also reviewed the work of the actuary. We challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate. However, we noted that the methodology used to derive the discount rate and RPI inflation assumptions are not robust, as they do not take adequate account of the specific duration of the scheme's liabilities. While the RPI assumption of 3.6% are on the prudent side, the assumptions around the discount rate are such that overall, this does not result in an error in the liability recognised by the Council in 2016/17.

Property valuations

In relation to property plant and equipment assets, we:

- Assessed the adequacy of the work undertaken by the Council's own valuers in valuing property, plant and equipment.
- Engaged specialist support from our specialist valuation team to support us in testing the basis of the asset valuations disclosed in the Council's financial statements for a sample of assets.

We have reviewed the approach, methodology and assumptions used by the Council's expert in developing the reported value. We found that in relation to Leisure facilities held by the Council, the valuations obtained by the Council did not reflect relevant information relating to these assets, in particular a service concession granted by a third party operator. The Council has now completed a detailed assessment of the



Audit issues and approach: Reliance on experts

Reliance on experts

Reliance on experts highlighted in the Audit Plan

accounting treatment for each of these assets, having regard to relevant guidance within IFRICs 4 and 12, and IAS 17, and then engaged further work from its valuer to assess the valuation of these assets. As a result of this, the valuation of a number of items of property plant and account has changed significantly those included within the financial statements presented to Members on 28 June 2017. These revised valuation have now been reflected in revised financial statements for 2016/17. Consequential amendments have also been made to the Movement in Reserves Statement, Cash Flow Statement, and Expenditure and Funding Analysis.



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

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 2017 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;
- the Collection Fund; and
- the related notes 1 to 42 of the Authority financial statements, note 1 to the Collection Fund, and the related notes 1 to TBC of the Group financial statements.

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 2016/17.

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 Deputy S151 Officer and auditor

As explained more fully in the Statement of the Deputy S151 Officer's Responsibilities set out on page 19, the Deputy S151 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 2016/17, 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.



Audit Report

Our opinion on the financial statements (cont.)

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 Deputy S151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 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 2017 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 2016/17.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts for the year 2016/17 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.



Audit Report

Our Value for Money Conclusion

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 2016, 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 2017.

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.



Audit Report

Our Value for Money Conclusion (continued)

Basis for Qualified Conclusion

- *Informed decision making*

In the financial year ended 31 March 2017, there were weaknesses in the Council's processes, capacity and ability to produce accurate and reliable financial statements with supporting working papers.

This is evidence of weaknesses in proper arrangements for how the Council uses reliable and timely financial reporting to support the delivery of strategic priorities.

Qualified conclusion on reporting by exception

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2015, with the exception of the matters reported in the basis for qualified conclusion paragraph above, 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 2017.

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 (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Luton
April 2018

The maintenance and integrity of Cherwell District Council's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04

Audit Differences



Audit Differences

Audit differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Members of the Accounts, Audit and Risk Committee will be aware from our previous reports to the Committee that we questioned the valuation of a material level of assets leased to a third party providing leisure services on behalf of the Council and the accounting treatment adopted by the Council for these assets.

Over the past two months, the Council has undertaken considerable work to address the points we raised, and provided us with revised financial statements in March 2018. These financial statements resulted in significant amendments to all of the primary financial statements. Given the significant number of amendments to the draft accounts, our audit was undertaken on these revised financial statements, and not the statements reviewed by Members in June 2017. These revised financial statements will be considered by you at your meeting on 12 April 2018. In terms of these revised financial statements, we have no significant unadjusted misstatements to bring to your attention.

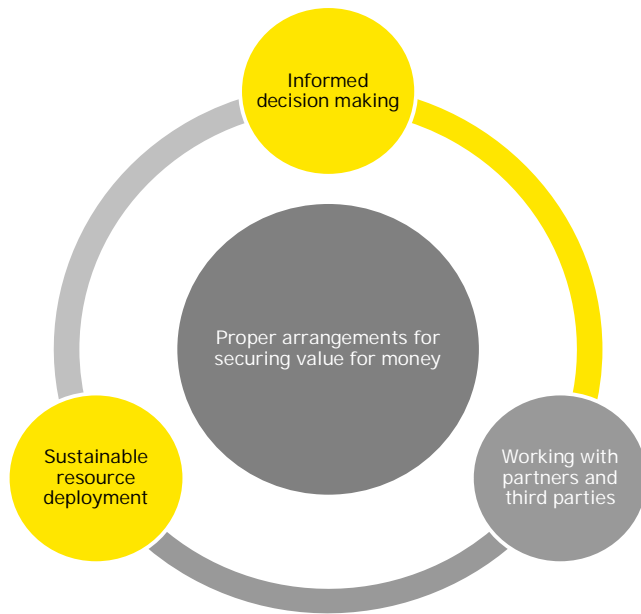


05

Value for Money



Value for Money



Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your 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.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

Overall conclusion

Our Audit Plan identified two significant risks around the Council's arrangements: These related to the Council's decision to:

- Invest in the Silverstone Heritage Experience; and
- The adequacy of the arrangements established by the Council to exercise oversight of its wholly owned subsidiary, Graven Hill Village Holdings Limited; and

Subsequent to the preparation of our Audit Plan, the Council took the decision not to invest in the Silverstone Heritage Experience. Therefore we no longer considered this a risk to our value for money conclusion. The table below presents our findings in relation to the remaining risks identified in our Audit Plan.

During the course of our audit, we responded to a matter raised with us by a member of the public in relation to the legality of the service charges paid the Council to Sanctuary Housing Association. We also identified this as an other risk to our value for money conclusion.

In addition to the risks noted above, we have noted elsewhere within our report our concerns around the Council's capacity to prepare financial statements on a timely basis that are adequately supported by appropriate working papers. We therefore intend to issue an except for Value for Money conclusion, reflecting weaknesses identified in relation to the Council's arrangements for reliable and timely financial reporting.



VFM risks

We are only required to determine whether there is any risk that we consider significant within the Code of Audit Practice, where risk is defined as:
“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”
 Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

What is the significant VFM risk?	What arrangements did this affect?	What are our findings?
<p>Graven Hill Village Holdings Limited</p> <p>The Council has established a wholly owned subsidiary to deliver a self-build housing project at Graven Hill in Bicester. We assessed the effectiveness of the Council’s arrangements to exercise oversight of its subsidiary, including:</p> <ul style="list-style-type: none"> • The progress made by the Council in establishing an effective shareholder agreement. • Processes established by the Council to review and monitor the work of the subsidiary entities. • The processes established by the Council to set the remuneration of councillor directors of its subsidiary entities. • The adequacy of the audit arrangements established in relation to the subsidiary entity. 	<p>Take informed decisions Deploying resources in a sustainable manner Working with partners and other third parties</p>	<p>We consider that the arrangements the Council has in place during 2016/17 were appropriate, given the relatively small nature of Graven Hill.</p> <p>These included the steps taken by the Council to establish a formal shareholder agreement, and the establishment of a Committee to oversee the exercise the Council’s shareholder function, and the remuneration of directors.</p> <p>We found that the audit work undertaken on Graven Hill Village Holdings by the entity’s auditors had been appropriately planned and executed. As in previous years we note that both the accountancy and auditing functions continue to be undertaken by the same organisation, although safeguards have been established to maintain auditor independence.</p> <p>We consider that there is a need to keep the adequacy of these arrangements under review, in particular as the subsidiary is likely to grow considerably in size over the next 2 – 3 years, and other factors, for example, the development of Castle Quay, will stretch capacity within the Council’s finance team.</p> <p>Given these factors, the way in which the Council works with other entities, and in particular the governance and decision making processes established by the Council, will feature as a risk in our future Audit Plans.</p>



Value for Money

What is the significant VFM risk?

Service Charges paid to Sanctuary Housing Association

During the course of our audit we responded to correspondence received from a local elector on the legality and appropriateness of the service charges paid by the Council to Sanctuary Housing Association. In responding to the local elector we

- Considered the evidence obtained by the Council to support the amount of service charges paid.
- Considered the legality of the service charges paid by the Council.
- Considered whether any action is required of us under the Local Audit and Accountability Act 2014.

What arrangements did this affect?

Take informed decisions
Deploying resources in a sustainable manner
Working with partners and other third parties

What are our findings?

In responding to this matter, we raised a number of questions with both the Council and Sanctuary Housing Association, and took legal advice under a framework agreement entered into by the National Audit Office, and which all appointed auditors have access to.

On the basis of the information made available to us, it was not possible to absolutely and definitively conclude the local elector raising this issue with us (and therefore the Council, through the Housing Benefit system) was liable to pay the service charge. We concluded, however, that the Council acted reasonably in exercising its powers to pay service charges through the Housing Benefit system. Therefore we concluded that no further action is required of us under the statutory powers available to us, or in relation to our value for money conclusion.

However, while we received sufficient oral and written explanations from the Council, both we and the Council experienced significant delays in receiving appropriate responses to questions raised with Sanctuary Housing Association.

We also considered that the Council could have been more rigorous and professionally sceptical in requesting and considering information and explanations received from Sanctuary Housing Association; and demonstrated this in a more open and transparent manner to the local elector raising the matter.



Value for Money

What is the significant VFM risk?

What arrangements did this affect?

What are our findings?

Finally, we are aware the Council had not received a response to all of the matters it raised with Sanctuary Housing Association, and that the Council should pursue these to a conclusion.



06

Other reporting issues



Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We are required to give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2016/2017 with the audited financial statements. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

We have agreed with the Council some additional wording for inclusion within the Annual Governance Statement. This additional wording draws attention to the matters that have resulted in our Except for value for money conclusion, and the steps the Council has taken to address these. We have no further matters to draw to your attention.

Whole of Government Accounts

Alongside our work on the Council's 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, is specified by the NAO.

The Council submitted its pre-audit Whole of Government Accounts submission in July. The Council falls below the threshold at which the NAO would require us to undertake detailed procedures on its submission. We will confirm this to the NAO alongside completion of our work on the Council's financial statements.



Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). On the basis of the work we have completed to date, we have not identified any matters which would require us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We have not identified any issues that would require us to make such a recommendation.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

On page 33 of our report, we have commented on the capacity of the Council's finance function. We have no other matters to report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Authority 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 Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

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. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

On the basis of the work we have completed to date, we have one matter to bring to your attention. We consider that when we identified the issues in relation to the valuation of property, plant and equipment, the Council lacked sufficient capacity to investigate and resolve these matters in a timely basis. In highlighting this, we recognise the significant challenges the Council's Finance team is dealing with, across both Cherwell District Council and Cherwell District Council. However, given the significant challenges ahead, in terms of both the faster close agenda, and with IFRS 9, 15, and 16 becoming relevant to Local Government bodies in the next 2 - 3 years, it is important that the Council invests appropriately in its finance function to meet these challenges. As noted elsewhere within our report, we intend to issue an except for Value for Money conclusion, reflecting weaknesses identified in relation to the Council's arrangements for reliable and timely financial reporting.







08 Appendices



Appendix A

Required communications with the Accounts, Audit and Risk Committee

There are certain communications that we must provide to the Accounts, Audit and Risk Committees of UK clients. We have done this by:

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Accounts, Audit and Risk Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	22 March 2017 Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> • Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Any significant difficulties encountered during the audit • Any significant matters arising from the audit that were discussed with management • Written representations we have requested • Expected modifications to the audit report • Any other matters significant to overseeing the financial reporting process • 	12 April 2018 Audit Results Report
Going concern	<p>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 together to raise any doubt about Authority's ability to continue for the 12 months from the date of our report
Misstatements	<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 ▶ Significant corrected misstatements, in writing 	12 April 2018 Audit Results Report







Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> ▶ Asking the Accounts, Audit and Risk Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: <ul style="list-style-type: none"> (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to Accounts, Audit and Risk Committee responsibility. 	We have asked management and those charged with governance about arrangements to prevent or detect fraud. No matters have been brought to our attention.
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, where 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/or regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters to report
Subsequent events	<ul style="list-style-type: none"> ▶ Where appropriate, asking the Accounts, Audit and Risk Committee whether any subsequent events have occurred that might affect the financial statements. 	12 April 2018 Audit Results Report
Other information	<ul style="list-style-type: none"> ▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision. 	We have no matters to report
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ We were unable to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and/or regulations	<ul style="list-style-type: none"> ▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off" ▶ Asking the Accounts, Audit and Risk Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Accounts, Audit and Risk Committee. 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations



Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	12 April 2018 Audit Results Report
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the group audit team's planned involvement in the component auditors' work on the financial information of significant components ▶ Instances where the group audit team's evaluation of a component auditor's work of gave rise to a concern about its quality Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted <p>Fraud or suspected fraud involving group or component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements.</p>	22 March 2017 Audit Plan 12 April 2018 Audit Results Report
Independence	<p>Communication of all significant facts and matters that have a bearing on EY's objectivity and independence.</p> <p>Communicating 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 on the firm's general policies and processes for maintaining objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards.</p>	22 March 2017 Audit Plan 12 April 2018 Audit Results Report
Fee Reporting	<p>Breakdown of fee information when the audit plan is agreed</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work</p>	22 March 2017 Audit Plan 12 April 2018 Audit Results Report



Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report presented to the Accounts, Audit and Risk Committee on 22 March 2017.

We complied with the APB Ethical Standards and the requirements of the 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 consider that our independence in this context is a matter which you should review, as well as us. It is important that you, and your Accounts, Audit and Risk Committee, consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Accounts, Audit and Risk Committee on 12 April 2018.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2016.

Description	Final Fee 2016/17	Planned Fee 2016/17	Scale Fee 2016/17	Final Fee 2015/16
Total Audit Fee - code work	TBC	£52,127	£52,127	£60,275
Certification of grant claims and return	£12,495	£12,495	£12,495	£8,844

We have incurred additional costs in working with the Council to resolve the matters referred to above, in testing the Council's group financial statements, and in responding to the matter raised with us by a member of the public. This has involved additional audit work that is not contained within the assumptions made by Public Sector Audit Appointments Limited (PSAA Ltd) in setting the Council's 2016-2017 audit fee. Following the conclusion of our audit, we will discuss with the Deputy Section 151 the quantum of the variation to the scale fee that we will seek from the Council. Any variation to our fee will need to be approved by PSAA Ltd.




Our work on the certification of grant claims and returns relates to our audit of the Council's housing benefit subsidy claim. This work was completed in November 2017. We do not intend to vary the scale fee.



Appendix C

Outstanding matters

The following items are outstanding at the date of this report:

Item 	Actions to resolve 	Responsibility 
Completion of audit work in relation to the following areas: <ul style="list-style-type: none"> • Our testing of journal entries • Review of final version of the Council's Annual Governance Statement. • Final Director and Manager review of completed audit work. 	EY in process of selecting a sample of journal entries and testing these against supporting documentation Management to provide revised Annual Governance Statement; EY to complete testing.	EY Management and EY EY
The financial statements	Finalisation and review of the final version of the financial statements	Management and EY
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	Management and EY
Management representations	Receipt of the signed management representation letter (see Appendix E).	EY and Management





Appendix D

Accounting and regulatory update

Accounting update

Since the date of our last report to the Accounts, Audit and Risk Committee, new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Cherwell District Council 
IFRS 9 Financial Instruments	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> • How financial assets are classified and measured • How the impairment of financial assets are calculated • Financial hedge accounting • The disclosure requirements for financial assets • Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact. 	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Authority will have to:</p> <ul style="list-style-type: none"> • Reclassify existing financial instrument assets • Remeasure and recalculate potential impairments of those assets; and • Prepare additional disclosure notes for material items <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>



Appendix D



<p>IFRS 15 Revenue from Contracts with Customers</p>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none">• Leases;• Financial instruments; and• Insurance contracts. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <ul style="list-style-type: none">• There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.	<p>As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Authority will have to:</p> <ul style="list-style-type: none">• Disaggregate revenue into appropriate categories• Identify relevant performance obligations and allocate income to each• Summarise significant judgements <p>The Authority is awaiting clarification of the exact requirements before investing time in the above work.</p>
<p>IFRS 16 Leases</p>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Authority will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p> <p>The Authority is yet to commence work in this area due to the timing of implementation.</p>



Appendix D

Progress report on implementation of new standards and regulations

In previous reports to the Accounts, Audit and Risk Committee, we highlighted the issue of new accounting standards and regulatory developments. The following table summarises progress on implementation:

Name	Summary of key measures 	Impact on Cherwell District Council 
Earlier deadline for production and audit of the financial statements from 2017/18	<ul style="list-style-type: none"> The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July. 	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Authority has taken some steps in 2016/17. For example it has started to review and amend the closedown process to achieve earlier draft accounts production. As auditors, nationally we have:</p> <ul style="list-style-type: none"> Issued a thought piece on early closedown As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017 <p>Locally we have had discussions through the year on the Authority's proposals to bring forward the closedown timetable and on potential areas for early work. We all held a faster close in our Luton office on 17 October, and are holding further workshops across our London, Reading and Southampton offices throughout November and December.</p> <p>We have agreed with the Authority to engage early, following the completion of the 2016/17 audit, to facilitate early substantive testing for 2017/18 and also to consider steps the Authority can take, for example:</p> <ul style="list-style-type: none"> Streamlining the Statement of Accounts removing all non-material disclosure notes Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations Providing training to departmental finance staff regarding the requirements and implications of earlier closedown Re-ordering tasks from year-end to monthly/quarterly timing, reducing year-end pressure Establishing and agreeing working materiality amounts with the auditors



Management representation letter

Management Representation Letter

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Cherwell District Council ("the Group and Council") for the year ended 31 March 2017. 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 consolidated and council financial statements give a true and fair view of the Group and Council as of 31 March 2017 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, 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 Group and Council's 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 2016/17.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the Group and Council's financial statements. We believe the Group and Council's 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 Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and are free of material misstatements, including omissions. We have approved the Group and the Council's financial statements.
3. The significant accounting policies adopted in the preparation of the Group and the Council's financial statements are appropriately described in the Group and Council financial statements.



Appendix E

Management Rep Letter

4. As members of management of the Group and Council, we believe that the Group and Council have 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 2016/17 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 Group and Council's 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 Group and 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 Group and Council's 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 Group and Council's financial statements or otherwise affect the financial reporting of the Group and 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 Group and Council's 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 Group and Council's financial statements.



Appendix E

Management Rep Letter

3. We have made available to you all minutes of the meetings of the Council, Executive and Accounts, Audit and Risk Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 3 April 2018.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and 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 year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the Group and Council's 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 Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the Council's 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 Group and Council's 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 the Group and Council's financial statements all guarantees that we have given to third parties.

F. Subsequent Events

1. There have been no events subsequent to year end which require adjustment of or disclosure in the Group and Council's 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 value of the Group and Council's property assets and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the Group and Council's 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.



Appendix E

Management Rep Letter

H. Accounting Estimates

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.
2. We confirm that the significant assumptions used in making the property valuations appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
3. We confirm that the disclosures made in the Group and Council's financial statements with respect to the accounting estimate(s) are complete and made in accordance with the applicable financial reporting framework.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the Group and Council's financial statements due to subsequent events.

I. 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.

J. Going Concern

1. We have made you aware of any issues that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action and the feasibility of those plans.

Yours faithfully,

Deputy S151 Officer

Chair of the Accounts, Audit and Risk Committee

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2017 EYGM Limited.
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com