

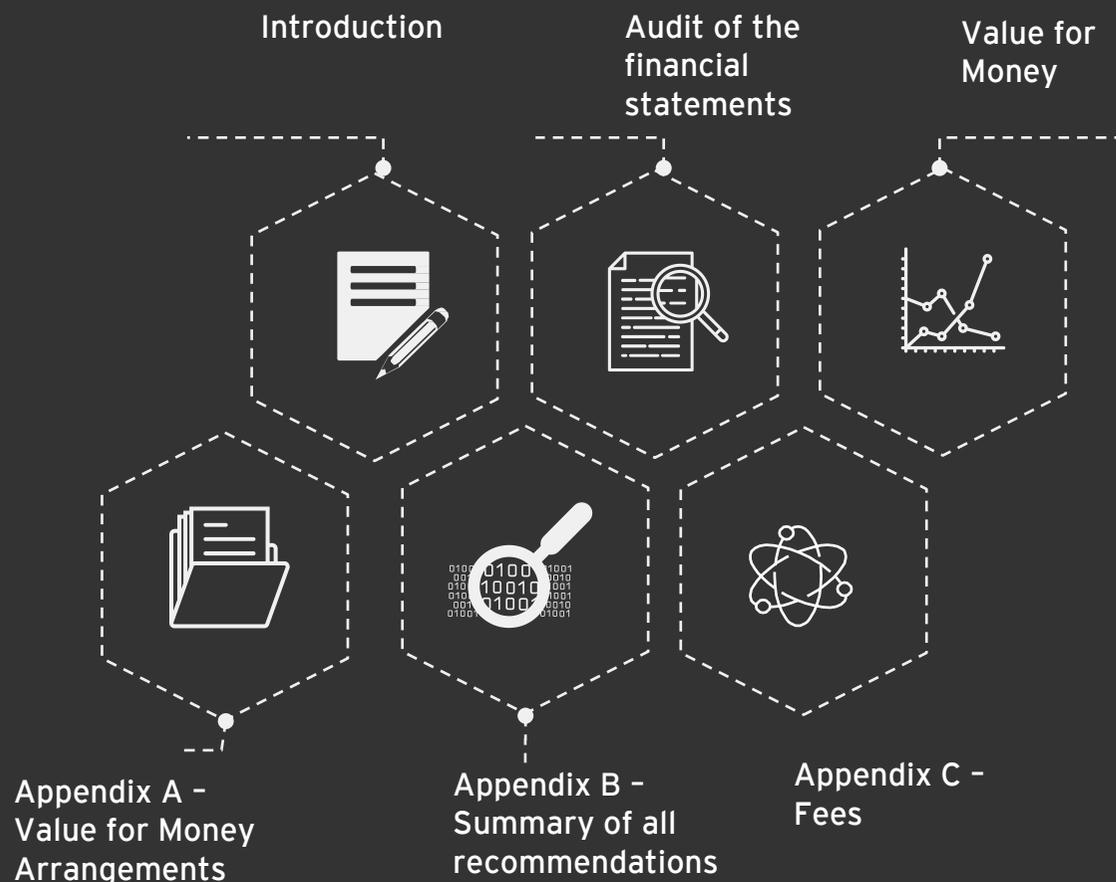


**Cherwell District  
Council  
Auditor's Annual  
Report**

Year ended 31 March 2022

March 2024

# Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). 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 and further guidance (updated July 2021)" 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 and management of Cherwell District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to Accounts, Audit and Risk Committee and management of Cherwell District Council 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 Accounts, Audit and Risk Committee 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 our prior written consent.



# Introduction

## **Purpose**

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on value for money (VFM) arrangements, which aims to draw to the attention of the Council, or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

## **Responsibilities of the appointed auditor**

We have undertaken our 2021/22 audit work in accordance with the Audit Plan that we issued on 15 September 2022. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

## **Responsibilities of the Council**

The Council is responsible for preparing and publishing its financial statements, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



## Introduction (continued)

<b>2012/22 Conclusions</b>	
<b>Financial statements</b>	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2022 and of its expenditure and income for the year then ended. We issued our auditor’s report on 7 <sup>th</sup> March 2024
<b>Going concern</b>	We have concluded that the Assistant Director of Finance’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
<b>Consistency of the other information published with the financial statement</b>	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
<b>Value for money (VFM)</b>	We had no matters to report by exception on the Council’s VFM arrangements. We have included our VFM commentary in this report.
<b>Consistency of the annual governance statement</b>	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
<b>Public interest report and other auditor powers</b>	We had no reason to use our auditor powers.
<b>Whole of government accounts</b>	We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. The NAO have stated Nationally that they may require further procedures completing for 2021/22 audits and therefore whilst we have completed all required work to date we cannot close this area until we have confirmation that no more will be required.
<b>Certificate</b>	We will issue our certificate once we have concluded our Whole of Government Accounts procedures. As set out above, we cannot currently conclude on the WGA work until the NAO confirms if they would like any additional procedures performed.



# Audit of the financial statements

## Key findings

The Narrative Statement and 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.

On 7<sup>th</sup> March 2024, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 17 January 2024 Accounts, Audit and Risk Committee meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan. In the final audit results report, we reported two areas for improvement in the control environment in the Audit Results Report.

## Significant risk

## Conclusion

### Risk of fraud in revenue and expenditure recognition

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the 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 the manipulation of expenditure recognition.

We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied or management bias. We did not identify any other transactions during our audit which appeared unusual or outside the normal course of business.

### Misstatements due to fraud or error - Inappropriate capitalisation of revenue expenditure

Our work did not identify any material weaknesses in the design and/or operation of controls or evidence of material misstatements, whether due to fraud or error, related to the inappropriate capitalisation of revenue expenditure. Our work did not identify any instances of inappropriate judgements being applied.

Our work did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

### Misstatements due to fraud or error - Inappropriate recognition of Other Income - rental income

Our work did not identify any material weaknesses in the design and/or operation of controls or evidence of material misstatements, whether due to fraud or error, related to the inappropriate revenue recognition of other income for rental income. Our work did not identify any instances of inappropriate judgements being applied.

Our work did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

### Significant risk - Valuation of Land and Buildings and Investment Property

There were some reclassification misstatements where properties had been incorrectly classified as investment properties when they should have been classified as property, plant and equipment. There were two instances where the Fixed Asset Register, and the general ledger, had not been updated per the valuation reports in error. The financial statements have been amended to reflect these errors. We are now satisfied that the valuation of PPE and IP is materially fairly stated.

### Significant risk - Valuation of Infrastructure Assets

We have not identified any material misstatements

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2021/22.

Our VFM commentary highlights relevant issues for the Council and the wider public.

We have no matters to report by exception in the audit report.

## Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the 17 January 2024 Accounts, Audit and Risk Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, meetings with officers and evaluation of associated documentation through our regular engagement with Council management and the finance team.

## Reporting

We completed our risk assessment procedures in December 2023 and did not identify any significant weaknesses in the Council's VFM arrangements. We have also not identified any significant risks during the course of our audit. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our commentary for 2021/22 is set out over pages 7 to 9. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2021/22. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Annual Auditors Report and have been updated for 2021/22.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
<b>Financial sustainability:</b> How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weaknesses identified
<b>Governance:</b> How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weaknesses identified
<b>Improving economy, efficiency and effectiveness:</b> How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weaknesses identified



## Value for Money (continued)

### Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

The budget process for 2021/22 took place in a very different scenario to recent budget processes for the Council for two key reasons:

- The country was in the grip of the Covid-19 pandemic, causing in-year budget pressures, which resulted in a revised 2020/21 budget being developed and approved by the Council; and
- The Council was required to identify significant levels of savings in order to set a balanced budget.

Despite these challenges, the Council was able to operate a budget process that included £4.4m savings in 2021/22 in order to set a balanced budget. The Council's website is transparent in demonstrating how the Council intended to use its resources over the medium-term planning period.

The process for the development of the budget for 2021/22 began in February 2020 when the Medium-Term Financial Strategy (MTFS) identified significant level of savings would be required in 2021/22. Further in year savings were also identified as a result of the Districts Council's response to and support for the communities during the Covid-19 pandemic. The process was further challenged by being delivered with covid restrictions in place.

Primarily due to the financial impacts of the Covid-19 pandemic and the anticipated business rates reset, the Council was in a situation of having to identify savings in order to balance its budget. Due to its success in growing its business rates income in recent years, the Council has not had to identify significant savings proposals, so this became a new element to the process for the 2021/22 budget.

The Council also recognised that there was considerable financial uncertainty and so understanding the reserves available was essential to be able to react to financial shocks.

Overall the 2021/22 Budget and Business Planning process was able to identify sufficient savings proposals to balance its budget for 2021/22.

**Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.**



## Value for Money (continued)

### Governance: How the Council ensures that it makes informed decisions and properly manages its risks

We have seen through our attendance at Accounts, Audit and Risk Committee meetings and our review of the minutes that key decisions made are backed up by the appropriate supporting evidence. In addition, the relevant officers attend the Committees to present their papers and to answer any questions the Committee may have.

The Council has an Internal Audit and Counter Fraud Team. There is an approved annual internal audit plan, reports are produced from individual assignments which conclude on the operation of internal controls. Internal Audit provide an overall annual opinion on the effectiveness of governance, risk management and internal control. The Council has a Counter Fraud Strategy which guides the Council's approach to its fraud response. The Council's Counter Fraud Team are responsible for investigating instances of fraud, applying appropriate sanctions, and undertaking proactive and preventative work to prevent and detect.

During 2021/22, Internal Audit completed nine audits, using the RAG ratings, the results were one green, seven amber and one red.

The 'red' conclusion was for Payment Card Industry Data Security Standard (PCI-DSS). This is because they found there is currently a weak control framework over PCI compliance, resulting in a number of key risks, including potential fines, penalties and reputational damage as a result of cardholder data being compromised. The report raised nine recommendations of which six had been implemented when internal audit wrote their annual report in May 2022 and the other three were not due to be implemented yet.

The Council has a Risk and Opportunities Management Strategy, the objectives of which are to:

- maintain a register that identifies, assesses and scores all Leadership risks and opportunities facing the council, which will assist the council in achieving their strategic priorities through pro-active risk management
- rate all significant risks in terms of likelihood of occurrence and potential impact upon the council and ensure effective controls are in place to mitigate significant risks
- allocate clear ownership, roles, responsibilities and accountability for risk management
- facilitate compliance with best practice in corporate governance, which will support the Annual Governance Statements (issued with the annual statement of accounts)
- raise awareness of the principles and benefits involved in the risk management process, and to obtain staff and Member commitment to the principles of risk management and control
- ensure that good quality risk information is provided to the Chief Executive Direct Reports (CEDR) and Members, providing a framework for assurance that the controls identified to mitigate a risk are operating effectively
- ensure there is a link to the business plan.

**Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage its risks.**



## Value for Money (continued)

### **Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services**

Monthly performance monitoring and reporting on all corporate objectives within the business plan. The joint performance, risk and finance report brings three core areas together linking any areas of concern/development. Financial performance is monitored each month and is revisited as necessary.

The performance management framework includes a robust RAG (Red, Amber and Green) performance monitoring process.

Tolerances and targets are agreed with services as part of the business and service planning process. Monthly performance gathering and reporting is reported to Chief Executive Direct Reports (CEDR) and any areas of concern challenged with services as to next steps.

**Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to use information about its costs and performance to improve the way it manages and delivers services.**

# Appendices

## Appendix A - Summary of arrangements

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### Financial Sustainability

#### Reporting Sub-Criteria

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

#### Findings

The Council has introduced an updated and more transparent Medium Term Financial Strategy as part of developing the 2021/22 budget. This captures the Council's expectations for inflation, budgetary pressures, savings proposals, planned uses of reserves, interest costs and income from business rates, government grants and council tax. This provides the foundation for the Council's financial planning.

The Council automatically incorporates corporate inflation factors for the main cost drivers of the Council - pay and contract - as part of the MTFS so these addressed each year.

The Council is a member of the Society of District Council Treasurers and is kept informed of major Government funding decisions. The Council's finance team (along with other functions of the Council) also monitor major Government announcements, e.g. the Spending Review and Budget to help forecast levels of Government support that will be announced as part of the LG Finance Settlement.

The Finance Team also works closely with its revenues and benefits and Planning teams to forecast the level of resources that will be available to it from business rates and council tax in the coming years.

The Council's budget process also asks services to identify any pressures their service may be facing over the medium term as part of the annual budget process. This allows the Council to incorporate anticipated service changes at the earliest opportunity and plan appropriately.



## Appendix A - Summary of arrangements (continued)

### Financial Sustainability

#### Reporting Sub-Criteria

How the body plans to bridge its funding gaps and identifies achievable savings

#### Findings

The Council ran the 2021/22 budget process to consider the additional costs of Covid facing the Council and identified savings proposals to address this.

In the 2021/22 budget, savings of £4.4m was proposed, of which £0.2m were previously planned and £4.2m are new savings proposals. In December 2020, the Council consulted on £4.3m new savings proposals. After receiving consultation responses and considering the level of resources available to it following the Local Government Finance Settlement, the Council has amended its savings proposals.

The focus of the savings proposals developed was to ensure a balanced budget could be achieved for 2021/22, but this left a funding gap of £7m for 2022/23. The Council developed a clear MTFs approach for how the Council would address this gap:

- Continue its partnering arrangements in the future including:

a) alignment with Oxfordshire County Council services where this will benefit our residents and businesses and make financial sense to do so

b) joint contracting and commissioning arrangements

c) continuing our journey to transform the way in which we deliver with other partners

- Overarching review of the Council's priorities for 2022/23 and beyond and alignment of the Council's resources in order to maximise delivery against these. This will require savings proposals to be identified that focus on those areas that are of a lower priority to the Council.

- Begin a fundamental review of the services provided by CDC, taking into account the changing needs of the residents of Cherwell. Ensure future service provision is focussed on the delivery of the Council's priorities.

- Considering further approaches to maximise the levels of income the Council can generate to support frontline services.

- "Growing our way" out of trouble by identifying opportunities with the right business cases

- Continuing to lobby policy makers, highlighting where we have been delivering growth and driving benefits to others

Whilst the Council has reserves that could be used to address the Gap in the Short-Term, the Council recognises that this would not be sustainable and so has set out a strategy to identify the savings that it requires over the medium-term.

## Appendix A – Summary of arrangements (continued)

### Financial Sustainability

Reporting Sub-Criteria	Findings
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	Savings proposals are developed by the Assistant Directors within the services. Each AD is fully aware of the statutory duties of the service that they provide and how these link with the priorities of the Council. These are considered by the ADs when preparing savings proposals. However, ADs are encouraged to put forward all proposals that could be applied to their service as Members must ultimately make the decision on what is the most appropriate saving to make in the context of the overall budget and minimises any impact on the delivery of priorities.
How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system	<p>The Council coordinates its budget process via the Budget and Business Planning Group. This is a team that incorporates Finance, Legal, Policy, Performance and HR.</p> <p>Finance, HR and Legal sign off of savings proposals, pressures is required for all forms submitted as part of the process.</p> <p>The Budget Report approved by Council includes the Business Plan as its first appendix stating clearly what the priorities of the Council are and what the budget is intended to deliver. The Financial Plan and Capital and Investment Strategies are all produced by Finance and form part of the overall suite of budget papers approved by the Council.</p>
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	<p>On setting the 2022/23 budget, the Director of Finance carried out a risk assessment on the minimum level of general balances the Council needs to hold. This was carried out on a financial risk basis considering the likelihood of the risk materialising. This identified that general balances should be increased to a minimum of £6m, which was incorporated into the 2022/23 budget.</p> <p>In addition, the Council carried out a fundamental review of its reserves in 2021/22 to remove small specific reserves and combine these into more strategic reserves that could be available for unforeseen costs and projects the Council needs to undertake.</p>

## Appendix A - Summary of arrangements (continued)

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### Governance

#### Reporting Sub-Criteria

#### Findings

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council has an Internal Audit and Counter Fraud Team. There is an approved annual internal audit plan, reports are produced from individual assignments which conclude on the operation of internal controls. Internal Audit provide an overall annual opinion on the effectiveness of governance, risk management and internal control. The Council has a Counter Fraud Strategy which guides the Council's approach to its fraud response. The Council's Counter Fraud Team are responsible for investigating instances of fraud, applying appropriate sanctions, and undertaking proactive and preventative work to prevent and detect.

How the body approaches and carries out its annual budget setting process

The Council coordinates its budget process via the Budget and Business Planning Group. This is a team that incorporates Finance, Legal, Policy, Performance and HR.

The Council's MTFS spans 5 years and identifies significant pressures and changes in funding anticipated by the Council.

The MTFS is updated in June/July with the latest funding estimates (e.g. business rates and council tax). This allows the Council to update the Gap it anticipates having to address. Savings, unavoidable pressures and capital bids are required to be identified over the summer. These are considered and reviewed by Senior Management in early autumn and then considered informally by the Executive to determine what the Council may proceed with.

A public consultation on the savings proposals takes place over December/early January before the Exec determines what it will propose to Council as its budget. The Budget Planning Committee considers the Budget Proposals and its comments are also taken into consideration as the Exec determines its budget proposal.

Accounts Audit and Risk Committee scrutinise the Capital, Investment and Treasury Management Strategies and recommend these to the Executive.

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## Appendix A - Summary of arrangements (continued)

### Governance

#### Reporting Sub-Criteria

#### Findings

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

The MTFS is the main control document when developing the budget for the coming year. This is reconciled to the ledger to ensure that both balance.

Throughout the year, monthly budget monitoring takes place. This communicates the Council's forecast outturn position for the year and explains the material reasons for any variances between the forecast and the budget. The monthly budget monitoring report is part of the Council's overall Performance Report which ensures that the Council is able to consider the performance of its services, the financial position and risks associated with the authority in one place each month.

The monthly budget monitoring reports allow the Council to get an early indication of any budgetary challenges that may be faced in year. The Council introduced a Budget Oversight Group in 2022/23 to monitor the budget variances and provide challenge about what can be done to mitigate the in-year forecast overspends. This has resulted in some service areas being able to reduce their forecast overspend.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

All reports to members are written by the Directorate that is expert in the area of the decision. Each report must also be checked and signed off by Finance, Legal and Risk teams. This ensures that all reports have appropriate information so that members can be assured that they are making an informed choice with all of the implications of the decision they are recommended to take available. Additionally, reports require alternative options to have been identified and reasons for them to have been discounted. This allows members to understand why the recommendation before them has been arrived at.

The budget and business planning process require all new proposals to be completed by the service in conjunction with the relevant finance, HR and legal support officers. Therefore, when senior officers and members are considering which savings proposals to agree they can be confident that they have all of the relevant information. The Budget Planning Committee also considers the revenue and capital budget proposals and makes recommendations to Executive for what should be incorporated in the budget recommended to Council.

Treasury management investment decisions are taken in line with the Treasury Strategy approved each year by Council. The Treasury Strategy is also considered by AARC and recommended to Council as part of AARC's risk remit. The Council employed Link as its Treasury Advisors in 2021/22 to ensure that it had expert advice on how it should implement its borrowing strategy and split borrowing between long term and short term.

## Appendix A - Summary of arrangements (continued)

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### Governance

#### Reporting Sub-Criteria

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

#### Findings

The Council provides governance training to officers and Member Code of Conduct issues are a key part of Councillor Induction. The Monitoring Officer role provides advice to members on an ongoing basis and specific guidance issued at key times (e.g. pre-election periods, budget setting). A standard item on agendas reminds members to declare interests.

## Appendix A - Summary of arrangements (continued)

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### Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement	<p>Monthly performance monitoring and reporting on all corporate objectives within the business plan enables CEDR and Members to identify any areas of concern and implement improvement plans to address concerns. These reports are monthly and available to residents to ensure progress is being communicated and areas of development in being identified and managed accordingly. The joint performance, risk and finance report brings three core areas together linking any areas of concern/development.</p> <p>Financial performance is monitored each month and is revisited as necessary e.g. impact of COVID and address the additional costs/lost income faced by the Council and not funded by the Government.</p>
How the body evaluates the services it provides to assess performance and identify areas for improvement	<p>The performance management framework includes a robust RAG (Red, Amber and Green) performance monitoring process.</p> <p>Tolerances and targets are agreed with services as part of the business and service planning process. Monthly performance gathering and reporting is reported to CEDR and any areas of concern challenged with services as to next steps etc.</p>

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## Appendix A - Summary of arrangements (continued)

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### Improving economy, efficiency and effectiveness

#### Reporting Sub-Criteria

#### Findings

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council has subsidiary companies in 2021/22 of Graven Hill, Crown House and CSN Resources. Each of these companies must report quarterly into the Shareholder Committee so that Members are aware of the performance of the companies against their agreed performance objectives and business plan. There are also officer led shareholder liaison meetings that take place in advance of the member meetings to understand the current situation, identify any issues and how they can be addressed ready to report to committee. For Crown House and Graven Hill, there were revised plans because of COVID impact and associated delays.

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

Contract Procedure Rules and Financial Procedure Rules dictate how procurements are run; legal services and procurement oversee all procurement activity to ensure compliance with the law and procedure rules. Procurement officers use the Procurement Handbook which details all processes and templates to support them in their work, to ensure that standards are met. These are updated to ensure compliance with relevant policies and legislation. Officers are encouraged to have MCIPS qualification (professional procurement qualification) as a means of an external professional standard. Significant contracts are actively managed by Procurement to ensure that benefits are realised and that any issues with delivery are addressed promptly and resolved.

## Appendix B – Summary of all recommendations

### Recommendations

The table below sets out all the recommendations arising from the financial statements and value for money audits in 2021/22. All recommendations have been agreed by management.

Issue	Recommendation	Management Response
<p><b>Financial statements: Lack of supporting evidence</b></p> <p>Within our sample for verification of debtors, there were three items that related to Montagu Evans payovers which could not be supported to suitable evidence. Montagu Evans manage the Castle Quay complex and receive income and make payments in relation to the rentals etc on behalf of the Council.</p>	<p>Evidence needs to be kept to support the figures in the general ledger to ensure the accuracy of the general ledger.</p>	<p>Time has been spent working with Montagu Evans to improve both the quality and our interpretation of the evidence trail supporting the transactions.</p> <p>We now receive PDF versions and excel versions which we use to reconcile the payovers.</p>
<p><b>Head Office Collection Account</b></p> <p>When income is received in the bank the following entries are made: Dr bank and Cr 82706. There is a system called AIM which provides a detailed analysis of card transactions etc and the reports from this system are used to identify transactions in code 82706 and reallocate the item across to the relevant income code.</p> <p>So if there were no timing differences the balance on 82706 would be zero, but in reality there are always timing differences.</p> <p>During the audit we were unable to agree the balance to supporting evidence.</p>	<p>There is currently no reconciliation of the Head Office Collection account balance and so it cannot easily be agreed to supporting evidence.</p>	<p>We have now implemented an automated reconciliation process. This has been up and running for most of 23/24 financial year and was used to reconcile 22/23 as well.</p>
<p><b>Minimum Revenue Provision (MRP) Policy</b></p> <p>The decision to charge nil MRP on capital loans is a divergence from paragraphs 46 and 47 of the Statutory Guidance on Minimum Revenue Provision issued by the Secretary of State under section 21(1A) of the Local Government Act 2003 (the Guidance). We recognise that there has been consultation and updates to the guidance.</p>	<p>We recommend that the MRP policy is reviewed and updated as necessary to reflect changes to the guidance and that Members are updated on any changes deemed appropriate.</p>	<p>The council along with the vast majority of other local authorities has adopted an MRP policy which does not charge MRP on capital loans to wholly owned companies that are supporting the delivery of the council's priorities. This policy was adopted for the 2015/16 year when the council first had a non-zero Capital Financing Requirement and has not changed. The Government has recently consulted on clarifying the statutory guidance and making it clear that MRP does not need to be charge MRP in these situations. The council will ensure that it's policy remains in line with statutory guidance following the outcome of the consultation and will ensure that it's MRP policy is compliant.</p>

## Appendix B – Summary of all recommendations (continued)

Issue	Recommendation	Management Response
<p><b>Minimum Revenue Provision (MRP) Policy</b></p> <p>Management did not calculate and account for MRP appropriately which has led to an under provision of MRP in the period from 2018-19 to 2021-22 of £7.8m.</p>	<p>We recommend that the Council ensures it has a system of checks and balances to identify and remediate deviations from the Council's policies in complex and technical areas of the financial statements.</p>	<p>The Council asked for Link to carry out a review in late 2022 into its approach to MRP as it wanted to ensure that it was operating correctly. Link identified that the council had not been providing for MRP appropriately in relation to share capital (charging 2% rather than 5%). As the 2021/22 accounts were still open, the Council has updated the 2021/22 accounts and made the appropriate prior year adjustments that go with this. As part of this work the council has now also produced a detailed breakdown of the CFR balance to ensure that MRP is calculated and charged on an asset-by-asset basis to ensure that the period over which MRP is charged is appropriate for all items.</p>
<p><b>Investment Property Classification</b></p> <p>We identified several properties that had been classified as land and buildings under PPE, but had been classified as investment properties in error. Management had not considered whether or not the buildings that it rents out had operational purpose and its classification as PPE or investment properties under the CIPFA code.</p>	<p>We recommend the CIPFA guidance is used to classify land and buildings to see if they meet the criteria of investment properties before they are classified as such.</p>	<p>The council has carried out a significant review of all of its assets in 2023 to ensure they were all classified appropriately. The council identified a significant number of properties that were historically identified as investment property, but should have been classified as PPE per the guidance. As such, the council has looked to reclassify all of these assets in the latest set of accounts that were still open - 2021/22.</p>
<p><b>Payables classification</b></p> <p>It was identified there had been errors in splitting out a creditors general ledger code between trade payables and other payables.</p>	<p>We recommend a more robust system is put in place to clarify which items should be trade payables and which items should be other payables.</p>	<p>The council identified this error when preparing the draft statements due to introducing a more robust system for classifying between trade payables and other payables. Therefore we are satisfied that this is already in place.</p>
<p><b>Financial Instruments</b></p> <p>Financial instruments were not being disclosed correctly. Management have not considered definitions and disclosure requirements from the CIPFA Code when preparing the financial instruments note.</p>	<p>The Council need to be compliant with IFRS 9 and CIPFA guidance details the definitions and disclosure requirements regarding financial instruments, and this needs to be adhered to.</p>	<p>The majority of the changes to the financial instruments notes were identified when preparing the draft statements as management took a fresh look at whether the disclosures were appropriate. The council has now built into its closedown procedures a more detailed review of debtors and creditors to ensure all financial instruments are correctly identified and disclosed.</p>
<p><b>Overall Quality Review</b></p> <p>There were five prior period adjustments identified and the number of control findings and recommendations for improvement are higher than we would expect to see. We recognise the challenges that the Council's finance team have faced during this period but it is important that there is a quality check in place for future statements before they are submitted for audit.</p>	<p>We recommend that management performs a thorough review of the accounts and completes the CIPFA disclosure checklist and uses the CIPFA guidance notes when preparing the accounts and before they are submitted for audit</p>	<p>The council has undertaken a significant review to improve the quality of its accounts. As the 2021/22 accounts were still open the council has looked to include the outcomes of these reviews into this set of accounts. The expectation is that following this prior year adjustments would become less frequent. For the draft 2022/23 accounts the council has increased the level of checks that are done before publishing draft accounts, including increased consistency checks, an analytical review of the primary statements, completing CIPFA's disclosure checklist and a review of individually material transactions.</p>

## Appendix C - Fees

### Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in relation to the risk of misstatements due to fraud or error - Management override, inappropriate capitalisation of revenue expenditure and inappropriate revenue recognition of other income - revenue recognition, the valuation of land and buildings and investment property, and the valuation of infrastructure. We have discussed an associated additional fee with the Assistant Director of Finance, we have set this out below.

Our fee for 2021/22 Core work is in line with the audit fee reported in our 2021/22 Audit Results Report, and we have updated this below to take into account of the extra work required to complete the audit.

We confirm we have not undertaken any non-audit work.

Description	Final Proposed Fee		
	2021/22	Planned Fee 2021/22	Final Fee 2020/21
	£	£	£
<b>Total Audit Fee - Code work</b>	<b>40,138</b>	<b>40,138</b>	<b>40,138</b>
Group consideration	9,500*	TBC	5,533
Impact of Covid-19	-	TBC	10,035
PPE significant risk work	15,000*	TBC	7,500
Impact of new ISA540	2,750*	TBC	2,489
Change to VFM reporting	8,450*	TBC	6,513
Quality and preparation	10,250*	TBC	13,006
Pension valuation	4,250*	TBC	2,625
Increased FRC challenge	12,000*	TBC	6,000
Technical accounting issues	24,750*	TBC	-
Work of an internal expert	6,500*	TBC	6,350
Other	3,500*	TBC	2,113
<b>Total audit fees</b>	<b>137,088*</b>	<b>TBC</b>	<b>102,302</b>
Review of Grants - Housing Benefit	TBC	TBC	29,070
<b>Total fees</b>	<b>TBC</b>	<b>TBC</b>	<b>131,372</b>

\*NB - this fee remains subject to determination and approval by PSAA Ltd.

## Appendix C - Fees Relationships, services and related threats and safeguards

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The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

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