

# Supplementary Papers



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FOR THE MEETING OF

## Joint Audit and Governance Committee

held in the Meeting Room 1, 135 Eastern Avenue, Milton Park, Milton, OX14 4SB

on Monday 25 SEPTEMBER 2017 at 6.30 PM

Open to the public including the press

1 External auditor's audit results report 2016/17 (Pages 3 - 52)

To consider the report of the external auditor (attached).

- a)
- b)

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South Oxfordshire District Council  
Vale of White Horse District Council  
Audit results report

Year ended 31 March 2017

Private and Confidential

25 September 2017

Dear Joint Audit and Governance Committee Members

We have substantially completed our audits of South Oxfordshire District Council and Vale of White Horse District Council for the year ended 31 March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we will issue an unqualified audit report on the financial statements before the statutory deadline of 30 September 2017.

We are reporting a matter about your value for money arrangements to take informed decision making.

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

We would like to thank your staff for their help during the engagement.

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

Yours faithfully

Andrew Brittain  
Executive Director

For and on behalf of Ernst & Young LLP  
United Kingdom

# Contents

01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences



05 Value for Money

06 Other Reporting Issues

07 Assessment of Control Environment

08 Appendices

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](http://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 September 2015)" 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 Joint Audit and Governance Committee, other members of the Authority and management of South Oxfordshire District Council and Vale of White Horse District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Joint Audit and Governance Committee, other members of the Authority and management of the Councils 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 Joint Audit and Governance Committee, other members of the Authority and management of the Councils 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

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

We planned our procedures using a materiality of £1,357,560 and £1,176,360 for South Oxfordshire District Council and Vale of White Horse District Council respectively. We reassessed this using the actual year-end figures, which has increased] these amounts to £1,448,980 and £1,242,380. The threshold for reporting unadjusted audit differences has increased from £67,878 and £58,818 to £72,499 and 62,119. The basis of our assessment of materiality has remained consistent with prior years at 2 % of gross revenue 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;
- Related party transactions; and
- Members' allowances.

#### Status of the audit

We have substantially completed our audit of the Councils' financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Councils' financial statements. However until work is complete, further amendments may arise:

- Review of the final version of the financial statements
- Receipt of the signed management representation letter



# Executive Summary

## Executive summary (continued)

### Status of the audit (continued)

We expect to issue the audit certificate at the same time as the audit opinion.

### Audit differences

For both Councils, our audit identified a number of audit differences which our team have highlighted to management for amendment. The majority of these were all below our reporting threshold and have been corrected during the audit.

For Vale of White Horse District Council, there is one adjusted and one unadjusted misstatement identified which are above our reporting threshold. This is in relation to the Enterprise Zone and has been detailed in Section 4 – Audit Differences.

### Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of the Councils' 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 summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

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
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

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



# Executive Summary

## Executive summary (continued)

### 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. In our Audit Plan we identified the following significant risks:

- Implementation of the Corporate Services Contracts
- Senior Management restructure

As a result of the work performed on these significant risks, we have one matter to report about your arrangements to secure economy efficiency and effectiveness in your use of resources, in particular, the ability to make informed decisions. Further details of the work performed and issues identified can be seen in section 5 of this report

### Other reporting issues

We have reviewed the information presented in the Annual Governance Statements for consistency with our knowledge of the Councils. We have one matter to report as a result of this work.

- The draft Annual Governance Statement was not prepared until August 2017 (the requirement per the Audit and Accounts Regulations 2015 is that the draft Annual Governance Statement is available for public inspection along with the accounts by 30 June 2017).

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.  
We had no issues to report

We have no other matters to report.

### Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

### Independence

Please refer to Appendix B for our update on Independence.



# 02 Areas of Audit Focus



## Audit issues and approach

### Risk of Fraud in Revenue Recognition

#### What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.

#### What is the risk?

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.

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 manipulating expenditure recognition.

#### What did we do?

- We reviewed and tested revenue and expenditure recognition policies;
- We reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias;
- We developed a testing strategy to test material revenue and expenditure streams; and
- We tested revenue cut-off at the period end date.



# Areas of Audit Focus

## Audit issues and approach:

### Risk of Management override

#### What are our conclusions?

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. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business. We did not identify any issues from our testing of the MIRS adjustments note.

#### What is the risk?

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.

In addition to the risk details outlined from our Audit Plan above, we have identified an additional risk that management could use the Movement in Reserves (MIRS) adjustments to add or remove items from the Comprehensive Income and Expenditure Statement (CIES) to alter the reserve position of the Council. Such adjustments would not change the outturn in the CIES but could inflate reserves artificially.

#### What did we do?

- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- We reviewed accounting estimates for evidence of management bias (NNDR provisions, IAS 19 pension transactions, and Property Plant and equipment balances); and
- We evaluated the business rationale for any significant unusual transactions.
- We completed the Disclosure Checklist provided by CIPFA to ensure that the correct items are disclosed in the MIRS adjustments.
- We identified and substantively tested movements on the Note "Adjustment between Accounting Basis and Funding Basis under Regulations" (MIRS adjustments note).



## Areas of Audit Focus

# Other Audit Issues Arising



### Accounting for Property, Plant and Equipment

Property, Plant and Equipment represent a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end fixed assets balances held in the balance sheet.

The Councils engage an external expert valuer who applies a number of complex assumptions. Annually, assets are assessed to identify whether there is any indication of impairment. As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

This risk relates to assets that are revalued.

Our approach has focused on:

- Consideration of the work performed by the Councils' valuer, Bruton Knowles, including the adequacy of the scope of the work performed, professional capabilities and the results of their work.
- Review and sample testing over the key asset information used by Bruton Knowles in performing their valuation;
- Consideration of the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Review of the desktop review and valuations performed by management's internal valuer over assets not subject to external valuation in 2016/17 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation;
- Considered whether asset categories held at cost have been assessed for impairment and are materially correct; and
- Testing that the accounting entries have been correctly processed in the financial statements, including the treatment of impairments.

Overall we have not identified any material issues in the valuations based on our work performed.



## Areas of Audit Focus

# Other Audit Issues Arising (Continued)



### Pension Valuations and Disclosures

The Code and IAS19 require the Councils to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which they are admitted bodies.

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.

The information disclosed is based on the IAS 19 reports issued to the Councils by the actuary to the administering body.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our approach has focused on:

- Liaising with the audit engagement team of the Oxfordshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Councils;
- Assessing the conclusions drawn on the work and assumptions used by Barnett Waddingham (the Pension Fund actuary) by using and reviewing the work of the Consulting Actuary commissioned by Public Sector Auditor Appointments Ltd for all Local Government sector auditors (PwC); and
- Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

At the time of writing this report we have concluded our work with the exception of receipt of the formal IAS 19 protocol reporting from the Oxfordshire Pension Fund. As auditors of the Pension Fund we are aware that there are no issues arising from this.

Assumptions used by the actuary and adopted by the Councils are considered to be generally acceptable. However, our internal pensions specialists did identify that the methodologies 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. In future years, this could lead to unacceptable assumptions.

No other issues have been identified in completing our work.



# 03 Audit Report



# Audit Report

## Vale of White Horse - Our opinion on the financial statements

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VALE OF WHITE HORSE DISTRICT COUNCIL

#### Opinion on the Authority's financial statements

We have audited the financial statements of Vale of White Horse District Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- Collection Fund and the related notes 1 to 3,
- and the related notes 1 to 30

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 Vale of White Horse 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 Head of Finance and Chief Finance Officer and auditor

As explained more fully in the Statement of responsibilities for the statement of accounts set out on page 19, the Head of Finance and Chief Finance 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.

#### 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's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance and Chief Finance 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.



# Audit Report

## Vale of White Horse - Our opinion on the financial statements - Continued

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Vale of White Horse District Council 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 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

Conclusion on Vale of White Horse 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.



# Audit Report

## Vale of White Horse - Our opinion on the financial statements - Continued

### *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 the 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 the 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, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### *Basis for Qualified Conclusion*

- Senior Management Restructure

During 2016/17, as part of the transition to the new corporate services contracts, there have been significant changes to the joint senior management team at the Council. The existing Joint Chief Executive retired and was replaced. In addition two Strategic Directors and a Head of Service left the Council through voluntary redundancy.

A review of the processes followed by the Council confirmed that there was an insufficient set of arrangements in place to allow informed decisions to be made. This included the lack of a formal business case which articulated the restructure required; a clear calculation of the payments and the documented terms of the agreements in all cases, to allow Committee members to make their decision on the redundancies.

This issue is evidence of weaknesses in proper arrangements for informed decision making.

### *Qualified Conclusion*

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Vale of White Horse 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 Vale of White Horse 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.

Andrew Brittain (Executive Director)

for and on behalf of Ernst & Young LLP, Appointed Auditor, Reading

25<sup>th</sup> September 2017



# Audit Report

## South Oxfordshire - Our opinion on the financial statements

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH OXFORDSHIRE DISTRICT COUNCIL

#### Opinion on the Authority's financial statements

We have audited the financial statements of South Oxfordshire District Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- Collection Fund and the related notes 1 to 3,
- and the related notes 1 to 32

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 South Oxfordshire 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 Head of Finance and Chief Finance Officer and auditor

As explained more fully in the Statement of responsibilities for the statement of accounts set out on page 21, the Head of Finance and Chief Finance 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.

#### 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's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance and Chief Finance 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.



# Audit Report

## South Oxfordshire - Our opinion on the financial statements - Continued

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of South Oxfordshire District Council 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 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

Conclusion on South Oxfordshire 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.



# Audit Report

## South Oxfordshire - Our opinion on the financial statements - Continued

### *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 the 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 the 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, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### *Basis for Qualified Conclusion*

- Senior Management Restructure

During 2016/17, as part of the transition to the new corporate services contracts, there have been significant changes to the joint senior management team at the Council. The existing Joint Chief Executive retired and was replaced. In addition two Strategic Directors and a Head of Service left the Council through voluntary redundancy.

A review of the processes followed by the Council confirmed that there was an insufficient set of arrangements in place to allow informed decisions to be made. This included the lack of a formal business case which articulated the restructure required; a clear calculation of the payments and the documented terms of the agreements in all cases, to allow Committee members to make their decision on the redundancies.

This issue is evidence of weaknesses in proper arrangements for informed decision making.

### *Qualified Conclusion*

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, South Oxfordshire 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 South Oxfordshire 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.

Andrew Brittain (Executive Director)  
for and on behalf of Ernst & Young LLP, Appointed Auditor, Reading  
25<sup>th</sup> September 2017



# 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.

### Summary of adjusted differences

For both Councils, our audit identified a number of audit differences which our team have highlighted to management for amendment. These are all below our reporting threshold except for one amendment for Vale of White Horse District Council detailed below. All audit differences have been corrected during the audit except for one uncorrected misstatement for Vale of White Horse District Council detailed below.

Both of the Vale of White Horse adjustments identified below relate to Vale of White Horse District Council's treatment of Enterprise Zones. The adjusted difference reflects where the Council had incorrectly applied a discount to companies that didn't fall within an Enterprise Zone. The unadjusted difference relates to where business rates income had been incorrectly treated as being received from companies within the Enterprise Zone.

#### Adjusted Difference

##### Vale of White Horse District Council

- Reclassification of Creditors from Other Government Bodies (Local Enterprise Partnership) to Central Government Bodies of £1,169k

### Summary of unadjusted differences

We highlight the following misstatements in the financial statements and/or disclosures which were not corrected by management. We ask you to correct these uncorrected misstatements or give a rationale as to why they have not been corrected. This should be considered and approved by the Joint Audit and Governance Committee and included in the Letter of Representation:

Enterprise Zone Error (Judgemental) 31 March 2017 (£'000)	Comprehensive income and expenditure statement Debit/(Credit) Current Period	Assets current Debit/(Credit)	Assets non- current Debit/(Credit)	Liabilities current Debit/(Credit)	Liabilities non- current Debit/(Credit)
As a result of the current information available to the Council, The Council would actually be better off due to being above safety net but below baseline for business rates by £124k. The Council have decided not to amend for this amount due to the amount not being material as well as there being uncertainty over the exact final figure, which will only be determined at the end of 2017/18.	(124)			124	

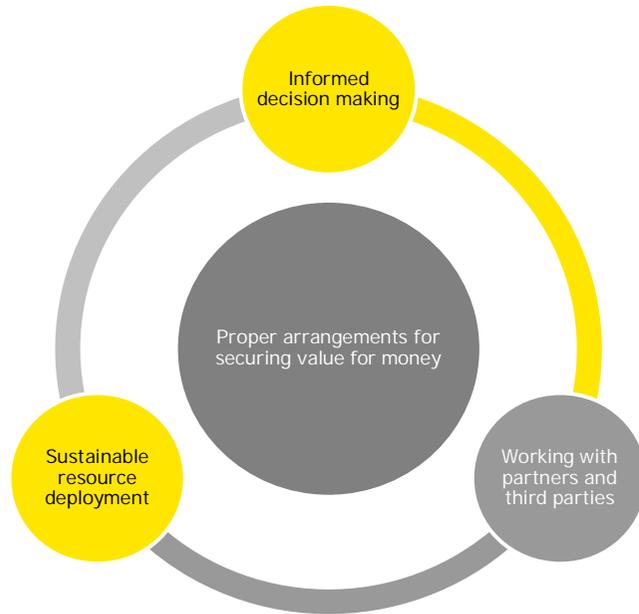


# 05 Value for Money

Agenda Item 9



## 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

We identified 2 significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit and any other significant weaknesses or issues we want to bring to your attention.

We therefore expect having the following matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

During 2016/17, as part of the transition to the new corporate services contracts, there have been significant changes to the joint senior management team at the Councils. The existing Joint Chief Executive retired and was replaced. In addition two Strategic Directors and a Head of Service left the Council through voluntary redundancy.

A review of the processes followed by the Councils confirmed that there was an insufficient set of arrangements in place to allow informed decisions to be made. This included the lack of a formal business case, to allow Committee members to make their decision on the redundancies.

In addition, the remaining senior management structure did not have sufficient capacity to take on the roles of the staff that left. As a result the Councils employed a Joint Interim Chief Operating Officer during the year. However, this in itself was not deemed satisfactory to fill the gap in capacity.



# Value for Money

## VfM – Implementation of the Corporate Services Contract

### What arrangements does this effect?

- Working with partners and other third parties
- Deploy resources in a sustainable manner

### What is the risk?

From the 1 August 2016, the two Councils began the implementation of the Corporate Services Contracts with Capita and Vinci, as part of the five Council Partnership arrangements.

These contracts were designed to generate savings of over £50m across their lifetime of nine years.

Given this is a significant change to the operational running of the Council there is a risk that the performance of the Councils reduces. Additionally there is a risk that the savings identified at the procurement stage aren't being realised in practice.

### What did we do?

- We have reviewed the governance arrangements put in place internally at the Council and overall across the partnership to monitor and enforce the performance of the corporate service contracts.
- We reviewed the implementation progress for key systems for both Capita and Vinci functions.
- We reviewed the latest financial projections for the corporate service contracts to confirm whether they were still delivering desired savings.

### What are our conclusions?

We have seen evidence that the Councils have internal governance arrangements for the Contracts in place throughout the year through a series of dedicated groups to monitor progress and respond to any issues identified.

The Inter Authority Agreement between the five councils plus the contracts with Capita and Vinci set out a number of key boards and committees to provide oversight. We identified the governance arrangements have subsequently been reviewed during the year and some of the governance bodies have not met as regularly as intended. However, we have seen evidence overall that there were regular meetings at an individual council level which addressed the key issues.

These groups have been used to monitor the transition of the key systems, some of which have had significant delays. The main reason for the delays in systems going live is the Councils insistence on there being a strong control environment in place.

During the last year the Councils have identified some issues with the contracts which are being actively discussed and resolved with the suppliers. From review of the latest financial projections, these show a decrease in the overall savings being realised over the lifetime of the contracts. In the case of the Capita contract, the more innovative elements of the contract, including the procurement and innovation hubs, need to be re-thought due to changes in context and the five Councils' strategies since the ideas were originally conceived. Capita is working proactively with the councils to reframe these aspects of the contract. The Councils are also working with Vinci to rectify degradation in projected savings across the term of the contracts.

For the 2016/17 conclusion, we have taken into account that the Councils have not included the savings linked to the innovative areas of the Capital contract within their medium term financial plan. In addition the Five Council Partnership is still budgeted to generate savings for the Councils over the lifetime of the contract.

We have therefore been able to gain assurance over this significant risk.



## VfM – Senior Management Restructure

### What arrangements does this effect?

- Take informed decisions
- Deploy resources in a sustainable manner

### What is the risk?

During 2016/17, as part of the transition to the new corporate services contracts, there have been significant changes to the joint senior management team at the Councils. The existing Joint Chief Executive retired and was replaced by David Hill. In addition two Strategic Directors left the Councils through voluntary redundancy.

Given the background of the new Corporate Services Contract with the accompanying significant organisational change and the seniority of these departures, there is a risk that the Councils have not put in place proper arrangements to ensure they took properly informed decisions and deployed resources to achieve planned and sustainable outcomes.

### What did we do?

- We reviewed the processes undertaken by the Councils for each departure, to confirm that these were in line with local policy and mandatory requirements.
- We reviewed the current senior staffing structure to ensure that there is appropriate expertise in place to deliver the functions of the Councils.

### What are our conclusions?

The Councils engaged an external advisor (Bevan Brittan) to undertake a review of the redundancies that took place in 2016/17. The findings from this review were that the Councils had not followed the statutory requirements, such as not having a voluntary redundancy policy in place (only a compulsory redundancy policy) and not providing an appropriate business case to support the Committee in making its decision.

We have corroborated these findings and can confirm that the Councils had not put in place proper arrangements to allow them to make informed decisions.

Our review of the senior staffing structure in place after the redundancies confirmed that the Councils did not have sufficient depth to enable to Councils to deliver their functions. This was also identified by the Councils themselves as during 2016/17 an Interim Chief Operating Officer was employed to provide support to the existing structure. We note that the Councils have set up a new interim structure in August 2017 with a view to recruiting new heads of service to bring them to 9 positions (up from 6).

Consequently our value for money conclusion will be qualified on an “except for” basis in relation to the Senior Management Restructure.



06

# Other reporting issues



## Other reporting issues

# Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2016/17 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.

Financial information in the Statement of Accounts 2016/17 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements. However, the draft Annual Governance Statement was not prepared until August 2017 (the requirement per the Audit and Accounts Regulations 2015 is that the draft Annual Governance Statement is available for public inspection along with the accounts by 30 June 2017).

### Whole of Government Accounts

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

We have no issues to raise.



## Other reporting issues

# 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"). We did not identify any issues which required 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 did not identify any issues.

### 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 Councils 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;

We have reported our findings on each of these areas within Appendix A.



07

# Assessment of Control Environment



## Assessment of control environment

### Financial controls

It is the responsibility of the Councils 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 Councils have 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.

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.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



# 08 Appendices



## Appendix A

# Required communications with the Joint Audit and Governance Committee

There are certain communications that we must provide to the Joint Audit and Governance Committee 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 Joint Audit and Governance 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.	January 2017 Audit Planning Board Report
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Any significant difficulties encountered during the audit</li> <li>• Any significant matters arising from the audit that were discussed with management</li> <li>• Written representations we have requested</li> <li>• Expected modifications to the audit report</li> <li>• Any other matters significant to overseeing the financial reporting process</li> <li>• Findings and issues around the opening balance on initial audits (delete if not an initial audit)</li> </ul>	September 2017 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"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about the Councils ability to continue for the 12 months from the date of our report



# Appendix A



## Our Reporting to you



## When and where

Required communications	What is reported?	When and where
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Significant corrected misstatements, in writing</li> </ul>	September 2017 Audit Results Report
Fraud	<ul style="list-style-type: none"> <li>▶ Asking the Joint Audit and Governance Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Councils</li> <li>▶ 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"> <li>(a) management;</li> <li>(b) employees with significant roles in internal control; or</li> <li>(c) others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>▶ A discussion of any other matters related to fraud, relevant to the Joint Audit and Governance Committee's responsibility.</li> </ul>	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit
Related parties	<p>Significant matters arising during the audit in connection with the Councils related parties including, where applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and/or regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	<p>We note that a number of Councillors did not make a return to the Council at year end. For South Oxfordshire District Council there were 3 returns not made and for Vale of White Horse District Council there were 7 returns not made.</p> <p>Additional procedures were performed to gain assurance over this including review of the register of interests and Companies House checks. We have no matters to report as a result of this work.</p>
Subsequent events	<ul style="list-style-type: none"> <li>▶ Where appropriate, asking the Joint Audit and Governance Committee whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	We have asked management and those charged with governance. We have no matters to report
Other information	<ul style="list-style-type: none"> <li>▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.</li> </ul>	We have no matters to report



# Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
External confirmations	<ul style="list-style-type: none"> <li>▶ Management’s refusal for us to request confirmations</li> <li>▶ We were unable to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations
Consideration of laws and/or regulations	<ul style="list-style-type: none"> <li>▶ 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”</li> <li>▶ Asking the Joint Audit and Governance 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 Joint Audit and Governance Committee.</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	January 2017 Audit Planning Board Report  September 2017 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"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information on the firm’s general policies and processes for maintaining objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,</p>	January 2017 Audit Planning Board Report  September 2017 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>	January 2017 Audit Planning Board Report  September 2017 Audit Results Report



# Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Certification work	Summary of certification work	Certification Report (expected January 2018)



## Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 11 January 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 Joint Audit and Governance 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 Joint Audit and Governance Committee on 25 September 2017.

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.

Vale of White Horse District Council	Final fee 2016/17 £s	Planned fee 2016/17 £s	Scale fee 2016/17 £s	Final fee 2015/16 £s
Total audit fee - code work	TBC*	47,129	47,129	49,705
Certification of claims and returns	TBC**	12,488	12,488	11,616
Total	TBC	59,617	59,617	61,321

South Oxfordshire District Council	Final fee 2016/17 £s	Planned fee 2016/17 £s	Scale fee 2016/17 £s	Final fee 2015/16 £s
Total audit fee - code work	TBC*	48,186	48,186	51,231
Certification of claims and returns	TBC**	9,623	9,623	10,972
Total	TBC	57,809	57,809	62,203

\* The proposed final fee will include amounts in respect of additional work required to gain assurance over the significant risks in respect of partnerships working and senior management restructure. The final fee is subject to the satisfactory clearance of the outstanding audit work. This is subject to approval by the PSAA.

\*\* The work on certification and claims has yet to be completed



## Accounting and regulatory update

### Accounting update

Since the date of our last report to the Joint Audit and Governance 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 the Councils 
<i>IFRS 9 Financial Instruments</i>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> <li>• How financial assets are classified and measured</li> <li>• How the impairment of financial assets are calculated</li> <li>• Financial hedge accounting</li> <li>• The disclosure requirements for financial assets.</li> </ul> <p>• 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>	<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 Councils will have to:</p> <ul style="list-style-type: none"> <li>• Reclassify existing financial instrument assets</li> <li>• Remeasure and recalculate potential impairments of those assets; and</li> <li>• Prepare additional disclosure notes for material items</li> </ul> <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>



## Appendix C

<p><i>IFRS 15 Revenue from Contracts with Customers</i></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"> <li>• Leases;</li> <li>• Financial instruments;</li> <li>• Insurance contracts; and</li> <li>• for local authorities; Council Tax and NDR income.</li> </ul> <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"> <li>• 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.</li> </ul>	<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 Council will have to:</p> <ul style="list-style-type: none"> <li>• Disaggregate revenue into appropriate categories</li> <li>• Identify relevant performance obligations and allocate income to each</li> <li>• Summarise significant judgements</li> </ul> <p>The Councils are awaiting clarification of the exact requirements before investing time in the above work.</p>
<p><i>IFRS 16 Leases</i></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 Councils 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 Councils are has yet to commence work in this area due to the timing of implementation.</p>



## Accounting and regulatory update (continued)

### Progress report on implementation of new standards and regulations

In previous reports to the Joint Audit and Governance 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 the Councils 
<p><i>Earlier deadline for production and audit of the financial statements from 2017/18</i></p>	<p>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>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Councils have taken a number of steps as outlined below:</p> <ul style="list-style-type: none"> <li>• Undertaking a critical review of the closedown process to achieve draft accounts production by 31 May for 2017/18. Note that the accounts were prepared for the 30 June for 2016/17.</li> <li>• Streamlined the Statement of Accounts removing all non-material disclosure notes</li> <li>• Undertaking a review of tasks performed at year-end only (e.g fixed assets) to see whether work can be completed on a monthly/quarterly basis, reducing year-end pressure</li> </ul> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> <li>• Issued a thought piece on early closedown</li> <li>• As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales</li> <li>• Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017</li> </ul> <p>Locally we have:</p> <ul style="list-style-type: none"> <li>• Had regular discussions through the year on the Councils proposals to bring forward the closedown timetable</li> <li>• Together with the Councils agreed areas for early work which have included testing of major income and expenditure streams at month 9</li> </ul>



## Appendix D

# Management representation letter

### Management Rep Letter – Vale of White Horse District Council

[To be prepared on the entity's letterhead]

*25 September 2017*

#### **Ernst & Young**

Andrew Brittain  
Executive Director  
Ernst & Young LLP  
Apex Plaza,  
Forbury Road  
Reading RG1 1YE

This letter of representations is provided in connection with your audit of the financial statements of Vale of White Horse District Council (“the 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 financial statements give a true and fair view of the Council financial position of Vale of White Horse District Council as of 31 March 2017 and of its income and expenditure 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 financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), 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:



## Appendix D

### Management Rep Letter – Vale of White Horse District Council - continued

#### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the 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 financial statements. We believe the 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 Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has 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. We believe that the effects of the unadjusted audit difference of £124k in relation to Enterprise Zone discounts, pertaining to the latest period presented are immaterial to the financial statements taken as a whole. In addition the amounts are not certain and it would be prudent not to amend until the final position has been determined.

#### 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 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 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 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 financial statements or otherwise affect the financial reporting of the 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 financial statements.



## Appendix D

### Management Rep Letter – Vale of White Horse District Council - continued

#### 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 financial statements.
3. We have made available to you all minutes of the meetings of the Council, Cabinet, Joint Scrutiny Committee and Joint Audit and Governance Committees (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: 25 September 2017.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the 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 period ended, as well as related balances due to or from such parties at the [period] end. These transactions have been appropriately accounted for and disclosed in the 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 Council has complied with, all aspects of contractual agreements that could have a material effect on the 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 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.



## Appendix D

### Management Rep Letter – Vale of White Horse District Council - continued

#### F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### G. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

#### H. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

#### I. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of Property, Plant and Equipment, the valuation, IAS 19 actuarial valuations of pension fund liabilities and the estimation of the provision for NDR appeals and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the 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.

#### J. Pensions Liability, PPE Valuations and NDR Appeals estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We confirm that the significant assumptions used in making the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.



## Appendix D

### Management Rep Letter – Vale of White Horse District Council - continued

#### K. 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.

#### L. Comparative information – corresponding financial information

1. The comparative amounts have been restated within the Leases note of the financial statements to reflect the finance lease debtor figure being calculated on the discounted value of future lease payments. The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's financial statements.

#### M. Expenditure Funding Analysis

1. We have reviewed the new requirements (as set out in the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17), in relation to the preparation of the Expenditure Funding Analysis to replace the previous segmental reporting analysis, and confirm that all required amendments to the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, as well as the requirements to prepare the Expenditure Funding Analysis and related notes have been correctly reflected in the financial statements, including retrospectively reflecting this in the financial statements.
2. We confirm that the financial statements reflect the operating segments reported internally to the Council.

#### N. Ownership of Assets

1. There are no assets capitalised under finance leases. The Council has satisfactory title to all assets appearing in the balance sheets, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheets.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the Council's financial statements.

Yours faithfully,

\_\_\_\_\_  
Head of Finance and Chief Finance Officer

\_\_\_\_\_  
Chair of the Joint Audit and Governance Committee



## Appendix D

### Management Rep Letter – South Oxfordshire District Council

[To be prepared on the entity's letterhead]

*25 September 2017*

#### **Ernst & Young**

Andrew Brittain  
Executive Director  
Ernst & Young LLP  
Apex Plaza,  
Forbury Road  
Reading RG1 1YE

This letter of representations is provided in connection with your audit of the financial statements of South Oxfordshire District Council (“the 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 financial statements give a true and fair view of the Council financial position of South Oxfordshire District Council as of 31 March 2017 and of its income and expenditure 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 financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), 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:



## Appendix D

### Management Rep Letter – South Oxfordshire District Council - continued

#### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the 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 financial statements. We believe the 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 Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has 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 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 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 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 financial statements or otherwise affect the financial reporting of the 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 financial statements.



# Appendix D

## Management Rep Letter – South Oxfordshire District Council - continued

### 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 financial statements.
3. We have made available to you all minutes of the meetings of the Council, Cabinet, Joint Scrutiny Committee and Joint Audit and Governance Committees (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: 25 September 2016.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the 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 period ended, as well as related balances due to or from such parties at the [period] end. These transactions have been appropriately accounted for and disclosed in the 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 Council has complied with, all aspects of contractual agreements that could have a material effect on the 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 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.



# Appendix D

## Management Rep Letter – South Oxfordshire District Council - continued

### F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

### G. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

### H. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

### I. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of Property, Plant and Equipment, the valuation, IAS 19 actuarial valuations of pension fund liabilities and the estimation of the provision for NDR appeals and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the 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.

### J. Pensions Liability, PPE Valuations and NDR Appeals estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We confirm that the significant assumptions used in making the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.



## Appendix D

### Management Rep Letter – South Oxfordshire District Council - continued

#### K. 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.

#### L. Comparative information – corresponding financial information

1. The comparative amounts have been restated within the Balance sheet for a reclassification of an Investment Property to a Long Term Debtor. In addition there has been a restatement of comparative information within the Leases note of the financial statements to reflect the finance lease debtor figure being calculated on the discounted value of future lease payments. The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's financial statements.

#### M. Expenditure Funding Analysis

1. We have reviewed the new requirements (as set out in the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17), in relation to the preparation of the Expenditure Funding Analysis to replace the previous segmental reporting analysis, and confirm that all required amendments to the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, as well as the requirements to prepare the Expenditure Funding Analysis and related notes have been correctly reflected in the financial statements, including retrospectively reflecting this in the financial statements.
2. We confirm that the financial statements reflect the operating segments reported internally to the Council.

#### N. Ownership of Assets

1. There are no assets capitalised under finance leases. The Council has satisfactory title to all assets appearing in the balance sheets, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheets.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the Council's financial statements.

Yours faithfully,

\_\_\_\_\_  
Head of Finance and Chief Finance Officer

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Chair of the Joint Audit and Governance Committee

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