



Chiltern District Council Audit results report

Year ended 31 March 2019

October 2019

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y'.

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October 2019



Dear Audit and Standards Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit and Standards Committee. This report summarises our preliminary audit conclusion in relation to the audit of Chiltern District Council for 2018/19.

We have substantially completed our audit of Chiltern District Council for the year ended 31 March 2019.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

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

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

We welcome the opportunity to discuss the contents of this report with you at the Audit and Standards Committee meeting on 16 October 2019.

Yours sincerely

Andrew Brittain

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This 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 April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.



01 Executive Summary

Executive Summary

Status of the audit

We have substantially completed our audit of Chiltern District Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items set out in appendix B we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3.

Scope update

In our audit planning report tabled at the 10 April 2019 Audit and Standards Committee meeting, we provided you with an overview of our audit scope and approach for the audits of the financial statements. We planned our procedures using a materiality of £1.136 million. We reassessed this using the year-end figures submitted for audit and these amounts changed slightly to £1.371 million and. The threshold for reporting unadjusted audit differences has also changed from £56,804 to £68,504.

The basis of our assessment of materiality has remained consistent with prior years at 2% of gross revenue expenditure, which is the industry 'norm' for a district council with a similar risk profile to Chiltern District Council.

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 are:

- Remuneration disclosures including any severance payments, exit packages and termination benefits;
- Related party transactions; and
- Members' allowances.

These areas were audited using a nil materiality value and we report all errors and findings to you.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Chiltern District Council's financial statements This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report. We have not identified any new audit risks since the issue of the Audit Planning 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 Audit and Standards Committee.

Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. However, our audit testing is performed within the wider context of the Council's financial control environment; our audit testing did not identify any issues that may indicate deficiencies in this control environment.

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 Planning Report we identified no significant risks.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Other reporting issues

We have no other matters to report.

Independence

Please refer to Section 08 for our update on Independence. In summary, we have no matters to report.

Audit differences

At the date of this report, there are no unadjusted or adjusted audit differences arising from our audit above our reporting thresholds.

However, the Council is currently awaiting for an external revaluation of Amersham Multi-Storey Car Park, Station Road, Amersham. The current net book value of this asset is £6.4 million, with an accompanying impairment charge of £7.8 million reflected in the 2018/19 draft financial statements. At the time of writing, we do not have the final revaluation but we expect both figures above to be subject to material movement. We will update the Committee on 16 October 2019.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Risk of misstatements due to fraud or error

What is the risk?

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

We identify and respond to this fraud risk on every audit engagement.

What judgements were we focused on?

We specifically focused on those judgements applied by management, for example:

- Compilation of accounting estimates for any indication of management bias;
- The basis of unusual transactions; and
- The rationale for any unusual journals matching identified criteria.

What did we do?

We undertook our procedures to address fraud risks, which included:

- Inquiring of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Considering the effectiveness of management's controls designed to address the risk of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including:
 - Testing of journal entries and other adjustments in the preparation of the financial statements.
 - Evaluating accounting estimates for any evidence of management bias
 - Evaluating the business rationale for significant unusual transactions

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 Authority's normal course of business



Areas of Audit Focus

Significant risk

Risk of fraud in revenue & expenditure recognition - Incorrect classification of capital spend

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition.

We have considered this presumed risk in relation to those significant income streams and areas of expenditure which could be subject to manipulation, and identified the following area of risk:

- inappropriate capitalisation of revenue expenditure

What judgements were we focused on?

We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through the following judgements:

- Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger.
- Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year.

If this were to happen it would have the impact of understating revenue expenditure and overstating PPE additions and REFCUS in the financial statements.

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 Authorities' financial positions.

What did we do?

We:

- Reviewed and tested revenue and expenditure recognition policies;
- Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias;
- Tested material revenue and expenditure streams and reviewed and tested material revenue cut-off at the period end date;
- Reviewed in-year financial capital projections and compared them to the year-end position; and
- Reviewed capital expenditure on property, plant and equipment at the lower testing threshold to ensure it meets the relevant accounting requirements to be capitalised.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

Risk/area of focus	Audit response and conclusions
<p><u>Pension Liability Valuation</u></p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council.</p> <p>The Council's pension fund liability is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary Barnett Waddingham.</p> <p>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.</p>	<p>We:</p> <ul style="list-style-type: none"> • Liaised with the auditors of the Buckinghamshire Pension Fund (Grant Thornton) to obtain assurances over the information supplied to the actuary in relation to the Council; • Assessed the work of the pension fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and • Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. <p>After the balance sheet date, the Government were denied leave to appeal to the Supreme Court against a judgement that changes made in public sector pension schemes in 2015 were age discriminatory. Generally known as the McCloud judgement, in our view this created an obligation requiring consideration and disclosure within the accounts. The adjustments at Chiltern District Council were not material (£602,000) but the Council adjusted for the effect of the judgement regardless, and we were content that these adjustments were correct and reflected the information provided by the actuary.</p> <p>An additional consideration is that the courts have ruled that all pension schemes must equalise Guaranteed Minimum Pensions ('GMP') between males and females. The actuary (Barnett Waddingham) conformed that it was not including any impact of GMP in its actuarial valuation because it was considered immaterial. PWC has estimated that the pre-2021 value of this equalisation is approximately 0.1% of the liability. Once the Authority's share of this has been considered we calculated an impact of c. £53,000 on Chiltern District Council, which is below our minimum reporting level for unadjusted errors, and for which the Authority is not expected to adjust. For this issue to become material at the Authority, the error would have to be over 2.5%. This is far in excess of the current predicted error therefore, the risk of material misstatement to the financial statements is considered negligible, based upon current information.</p> <p>We found no issues with any of the accounting IAS 19 balances as reported by the actuary.</p>

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

Risk/area of focus	Audit response and conclusions
<p><u>Valuation of Land and Buildings</u></p> <p>The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represents significant balances in the Council's accounts and is subject to valuation changes and impairment reviews. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>	<p>We:</p> <ul style="list-style-type: none"> • Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample tested key asset information used by the valuers in performing its valuation (e.g. floor plans to support valuations based on price per square metre) and challenged the key assumptions used; • Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Property; • Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base was not materially misstated; and • Ensured accounting entries had been correctly processed in the financial statements. <p>Prior to the year end audit Council made us aware that they were reviewing the valuation of the Amersham multi-storey car park contained within the draft 2018/19 financial statements due to concerns with the valuation assumptions, highlighted through the management review process. We have engaged our EY Real Estate valuers to undertake an expert review of the original valuation and indicated a number of areas where there were potential for differences with the valuation. Following further discussion with officers, in September 2019, the Council sought a new external revaluation, the result of which is not yet complete. We do expect the new valuation to materially change both the carrying value of the asset and the impairment charge currently accounted for through the Comprehensive Income and Expenditure Statement (CIES). We will require our valuers to review the subsequent valuation, and the underlying assumptions, to be able to conclude on any changes to the draft statements previously presented to Audit & Standards Committee.</p>

Other areas of audit focus (continued)

Risk/area of focus	Audit response and conclusions
<p><u>IFRS 9 Financial instruments</u></p> <p>This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> • How financial assets are classified and measured; • How the impairment of financial assets are calculated; and • The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.</p>	<p>We:</p> <ul style="list-style-type: none"> • assessed the Council's implementation arrangements, which included an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19; • considered the classification and valuation of financial instruments and their adherence to the Code of Practice; and • reviewed the implementation of the new expected credit loss model impairment calculations for assets. <p>Our work found that the Council had correctly implemented the requirements of the new standard, as per the requirements of the Code of Practice.</p>
<p><u>IFRS 15 Revenue from contracts with customers</u></p> <p>This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. 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> <p>The 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised.</p> <p>The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue may change and new disclosure requirements introduced.</p> <p>The Council are yet to undertake and document their assessment of the impact of IFRS15.</p>	<p>We:</p> <ul style="list-style-type: none"> • Assessed the Councils' implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. • Considered application to the authority's revenue streams, and where the standard is relevant tested to ensure revenue is recognised when (or as) it satisfies a performance obligation; and • Checked additional disclosure requirements. <p>Once we had reviewed the impact assessment we agreed with the Council in that the impact of this standard can be considered immaterial.</p>



03 Audit Report



Audit Report

Draft audit report

Chiltern District Council

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHILTERN DISTRICT COUNCIL

Opinion

We have audited the financial statements of Chiltern District Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement,
- Movement in Reserves Statement,
- Balance Sheet,
- Cash Flow Statement,
- Financial statements notes **1 to 28**; and
- Collection Fund and the related notes **1 and 2**.

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 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Chiltern District Council as at 31 March 2019 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 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



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Our opinion on the financial statements

Other information

The other information comprises the information included in the narrative statement set out on pages 3 to 10, other than the financial statements and our auditor's report thereon. The Director of Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, Chiltern District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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



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Our opinion on the financial statements

Responsibility of the Director of Resources

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on **page 10**, the Director of Resources 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 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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 for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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 2017, as to whether Chiltern District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Chiltern District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.



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Our opinion on the financial statements

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 Chiltern District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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.

Certificate

We certify that we have completed the audit of the accounts of Chiltern 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.

Use of our report

This report is made solely to the members of Chiltern 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 Chiltern District Council and the Chiltern District Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Brittain (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Reading
(Date)

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

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



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the 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

We highlight the following misstatements greater than £1,027,560 which have been corrected by management that were identified during the course of our audit (

The Council is currently awaiting for an external revaluation of Amersham Multi-Storey Car Park, Station Road, Amersham. The current net book value of this asset is £6.4 million, with an accompanying impairment charge of £7.8 million reflected in the 2018/19 draft financial statements. At the date of this report, we do not have the final revaluation but we expect both figures above to be subject to material movement. We will update the Committee on 16 October 2019.

There were no uncorrected misstatements.

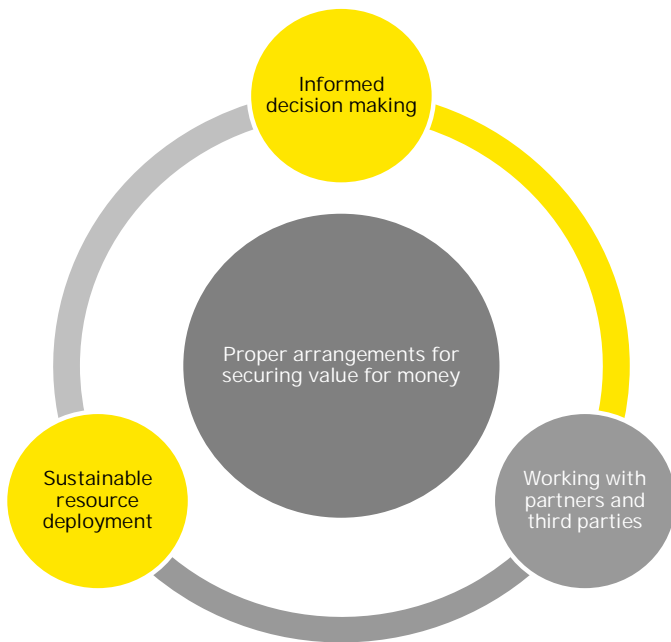


05

Value for Money Risks



Value for Money



Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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 will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We did not identify any significant risks around these criteria in our Audit Planning Report however, at that date, we reported the following consideration:

"We have identified one potential significant risk. As a result of the 1 November 2018 announcement by MHCLG that a unitary authority for Buckinghamshire will be instituted from 1 April 2020, there may be an impact on the Council's capacity to manage its operations as well as planning a smooth transition; also on managing strategic risks and medium-term financial planning".

As the audit year progressed, through regular monitoring and update of our VFM planning procedures, it became apparent that:

- The Council has a smooth transition plan leading up to its dissolution which includes a gradual movement of staff and function to the shadow unitary;
- The Council continues to monitor its in-year budget through the retention of its finance staff and budget monitoring processes;
- Strategic risks continue to be monitored at governance levels and remedial action taken as required;
- There were no significant going concern considerations in the context of the Code definition because the nature of service provision will remain unchanged;
- Medium term financial plans are being incorporated into the financial plans and 2020/21 budget setting of the full unitary council; and
- The shadow unitary exercises Executive and Scrutiny functions over the final year service and financial activities of the four district councils to ensure a strong level of accountability and financial propriety.

We therefore concluded that there was no significant risk in this (or any other) context and have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



06 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 for the year ended 31 March 2018/19 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 for the year ended 31 March 2018/19 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 and we have no other matters to report.

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 are currently concluding our work in this area and will report any matters arising to the Audit and Standards Committee.

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 [Authority]’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

We have no other matters to report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

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


Our audit found no deficiencies in the control environment.



08

Independence

Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report tabled at the 10 April 2019 Audit and Standards Committee.

We complied with the FRC 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 Audit and Standards Committee 16 October 2019.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements. We plan to undertake the role as reporting accountant for both authority's housing benefit subsidy return.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have undertaken non-audit work outside the NAO Code requirements.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work	31,792***	31,792	31,792	41,288
Housing Benefit certification work on Form MPF720A**	9,915*	9,915	9,915	9,240
Non-audit work	n/a	n/a	n/a	n/a
Total of all audit work	41,707	41,707	41,707	50,528

All fees exclude VAT

* The indicative fee for certification work in 2018/19 does not include any extended testing that may be required and which is included in the comparative figures.

**This work was under the remit of PSAA in 2017/18 but locally negotiated from 2018/19

*** This is an indicative fee; any extra fees are subject to management discussion, approval from those charged with governance, and final approval from PSAA. We have performed extra work in the following areas:

- Assessment of the impact and audit of the revised IAS 19 balances after the McCloud judgement and GMP consideration.
- The engagement of an internal expert to review the valuation bases of Amersham multi-story car park.







09

Appendices

Appendix A

Required communications with the Audit and Standards Committee

There are certain communications that we must provide to the Audit and Standards Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit and Standards 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
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report. This document will be reported to the Audit and Standards Committee scheduled for 23 January 2020, which is the next meeting after 16 October 2019.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report





Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	Audit results report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit results report
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Audit and Standards Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit results report
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit and Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit and Standards Committee responsibility. 	Audit results report

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority 	Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit planning report and Audit results report
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit. 	Audit results report




Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. 	Audit results report but all external confirmations have been received.
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the Audit and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Standards Committee may be aware of 	Audit results report
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> • Written representations we are requesting from management and/or those charged with governance 	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> • Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report
Auditors report	<ul style="list-style-type: none"> • Any circumstances identified that affect the form and content of our auditor's report 	Audit results report
Fee Reporting	<ul style="list-style-type: none"> • Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work 	Audit Planning Report Audit Results Report

Appendix B

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
PPE - Amersham multi-storey car park valuation	Awaiting external valuation. The Authority will then need to account for any amended valuation, and its impact on the CIES, Balance Sheet and Movement in Reserves Statement (MiRS). As auditors, we will then need to verify the accounting and valuation assumptions	EY and management
Review of narrative statement and annual governance statement	Completion of reviews and accounts consistency tests	EY
Management representation letter	Receipt of signed management representation letter	Management and Audit and Standards Committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management
Items substantially complete and subject to completion and/or review	Cash cut-off; cashflow statement; review of PPE valuation work; grants credited to CIES; housing benefits substantive analytical review; analytical review of other income and expenditure; adjusting between accounting and funding basis; and update of Value for Money (VFM) template.	EY and management

Management representation letter

Chiltern District Council

Management Representation Letter

[To be prepared on the entity's letterhead]
[Date]

Andrew Brittain
Associate Partner

Ernst & Young LLP
Apex Plaza
Forbury Road
Reading
RG1 1YE

Dear Andrew,

This letter of representations is provided in connection with your audit of the financial statements of Chiltern District Council ("the Council") for the year ended 31 March 2019. 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 financial position of Chiltern District Council as of 31 March 2019 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 2018/19.

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), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the 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 2018/19.

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 2018/19, and are free of material misstatements, including omissions. 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 2018/19, that are free from material misstatement, whether due to fraud or error.

Management representation letter

Management Representation Letter

5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. 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.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;

- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;

- involving management, or employees who have significant roles in internal controls, or others; or

- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C 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.

Management representation letter

Management Representation Letter

3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year 2018/19 to the most recent meeting on the following date: [list date].

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 year 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.

D 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, and have disclosed in Note 25 to the financial statements all guarantees that we have given to third parties.

E Subsequent Events

1. Other than those described in Note 31 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement; the Statement of Responsibilities for the Statement of Accounts; the Glossary of Terms; and the Annual Governance Statement.

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Reserves

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

H. 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, actuarial valuation 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.

Management representation letter

Management Representation Letter

I. 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 estimate(s) 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 financial statements with respect to the accounting estimate(s) are complete and made in accordance 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 estimate(s) and disclosures in the financial statements due to subsequent events.

J. 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.

Yours faithfully,

(Director of Resources)

(Chairman of the Audit and Standards Committee)

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ED None

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