

# Annual Governance Report

Oxford City Council

Audit 2007/08

September 2008

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

# Summary

## Purpose

- 1 This report summarises the findings from our 2007/08 audit. It identifies the key issues that you should consider before we issue our opinion, conclusion and certificate.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

## Financial statements

- 3 Our work is substantially complete although there are still outstanding issues to be resolved:
  - Inconsistencies within the cash flow statement
  - Production of a revised Annual Governance Statement
  - Treatment of prior year adjustments in respect of council house disposal and accumulated depreciation
  - Treatment of developer contributions in respect of non-depreciating assets (£3.1 million) which had been incorrectly shown in the Government Grants Deferred Account instead of the Capital Financing Account.
  - Responses to queries in respect of the Housing Revenue Account.
- 4 Subject to satisfactory resolution of the outstanding issues we propose issuing an unqualified audit opinion by 30 September 2008.
- 5 We will present this report to the Audit and Governance Committee on 23 September 2008 along with an update on progress made since drafting this report. Should any further matters arise after the meeting in concluding the outstanding work that need to be reported we will raise them with the Chair of the Audit and Governance Committee.

## Value for Money

- 6 Our work on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources is ongoing and we will update Members of the Audit and Governance Committee at its meeting on 23 September 2008.

## Next steps

- 7 We ask the Audit and Governance Committee to:
  - consider the matters raised in the report before approving the financial statements;
  - agree to adjust the financial statements as set out in our recommendations;
  - approve the representation letter on behalf of the Council before we issue our opinion, conclusion and certificate; and
  - agree the proposed action plan.

# Financial statements and Annual Governance Statement

- 8 The Council's financial statements and Annual Governance Statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 9 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 10 In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you to sign;
  - our views about the Council's accounting practices and financial reporting;
  - errors in the financial statements;
  - any expected modification to our report;
  - weaknesses in internal control; and
  - certain other matters.

## Key areas of judgement and audit risk

- 11 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1.

**Table 1 Key areas of judgement and audit risk**

Issue or risk	Finding
Further changes in the SORP requirements including revaluation reserve; financial instruments; capital finance regulations; FRS17	Our work confirmed that the Council has substantially complied with the new requirements.
We have previously found a number of inconsistencies in the financial statements which may indicate a lack of supervisory review;	Our work in 2007/08 has again identified inconsistencies within the accounts particularly in respect of the cash flow statement.
The need to publish an annual report or similar document, which includes summary financial information, designed to be understandable and informative and accessible to members of the public	At the time of writing no annual report had been published.

### Recommendation

- |   |
|---|
| <b>R1</b> Ensure that appropriate supervisory checks are introduced before the statements of account are presented for audit. |
| <b>R2</b> Consider the publication of an Annual Report including summary financial information.                               |

### Draft representation letter

**12** Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:

- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
- you have approved the financial statements;
- you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
- you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
- you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
- you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
- you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
- you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures;
- you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
- you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
- cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.

**13** Appendix 1 contains the draft of the letter of representation we seek from you.

Accounting policies and financial reporting

14 We consider the qualitative aspects of your financial reporting. Table 2 contains the issues we want to raise with you.

**Table 2 Accounting practice and financial reporting**

Issue or risk	Finding
<p>The Committee considered a draft Annual Governance Statement at its meeting on 25 June 2008. We reviewed the statement at an early stage in the audit process and considered whether it complied with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007.</p>	<p>The Council had done much work in providing the appropriate assurance to enable the statement to be 'signed -off'. However, the draft statement was inconsistent with the template in the guidance. Officers agreed to reconsider the statement and present a revised version.</p>
<p>Inadequate working papers to support the HRA and risk of material mis-statement to the financial statements</p>	<p>There is no clear 'audit-trail' from the Housing Revenue Account (HRA) ledger codes to the financial statements resulting in additional audit time in agreeing the entries in the financial statements.</p>
<p>Inconsistencies within the financial statements and risk of material mis-statements to the financial statements.</p>	<p>Our work on the cash flow statement identified a number of inconsistencies with figures in other statements in the accounts. We are in discussion with officers to resolve the issues</p>
<p>The Council identified two significant errors in respect of the prior year which were adjusted in the draft accounts submitted to the Audit and Governance Committee in June 2008:</p> <ul style="list-style-type: none"> <li>• 5 properties amounting to £1,097,550 which were disposed of in 2005/06 were incorrectly processed twice within the Council's fixed asset register</li> <li>• Housing stock had previously been treated as one single asset number in the Council's fixed asset register. On disposal the system writes back all the depreciation for the single asset number and not just the asset(s) being disposed of. This led to a cumulative error of £6,975,201 in respect of accumulated depreciation on note 6.14 which was subsequently reversed.</li> </ul>	<p>It is our view that this does not represent a prior period adjustment as defined in the SORP and should be shown as an in-year adjustment. Officers are currently working through the adjustments and revised statements will be prepared.</p> <p>This should not re-occur in future as the Council's housing stock is now separately tagged in the fixed asset register</p>

## Financial statements and Annual Governance Statement

Issue or risk	Finding
<p>Since the draft accounts were prepared the Council identified that £3.1m of the Government Grants Deferred Account relates to developer contributions for non-depreciating assets which had been incorrectly treated and should be transferred to the Capital Financing Account.</p>	<p>We are working with officers and our technical unit to ensure the correct accounting treatment through the Income and Expenditure account.</p>
<p>The Council holds investment properties amounting to £107 million however, it is not clear from the accounts how much income and expenditure is received or incurred for these properties.</p>	<p>The Council should consider additional disclosure (including a trading account if appropriate) to enable the reader of the accounts to ascertain the benefit to the Council of holding investment properties</p>

### Recommendation

- R3** Produce an Annual Governance Statement that is consistent with the guidance: 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007.
- R4** Provide detailed working papers to support the figures in the HRA.
- R5** Ensure that the figures in the cash flow statement are consistent with other statements in the annual accounts.
- R6** Reverse the prior period adjustments for the two significant errors in respect of Housing stock and process the amendments in-year.
- R7** Undertake amendments between the Government Grants deferred Accounts and the Capital Financing Account
- R8** Ensure adequate disclosure of income and expenditure from investment properties

### Errors in the financial statements

- 15** Attached at Appendix 3 is a list of errors and uncertainties.

### The audit report

- 16** We plan to issue an unmodified report including an unqualified opinion on the financial statements, subject to satisfactory resolution of the outstanding issues identified in this report. Appendix 2 contains a copy of our draft report.

**Material weaknesses in internal control**

- 17 We have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.
- 18 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

**Other matters**

- 19 There are no other matters that auditing standards require me to report to you.

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# Value for money

- 20 We are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against twelve criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 21 Last year the value for money conclusion was qualified on the basis that the Council did not put in place:
- arrangements to manage and improve value for money; and
  - arrangements to manage its significant business risks.
- 22 Whilst the Council's arrangements to manage its significant business risks have been assessed as adequate for the financial year 2007/08 our work on the Council's arrangements to manage and improve value for money is continuing and we will update Members of the Audit and Governance Committee and its meeting on 23 September 2008.
- 23 Our draft report at Appendix 2 includes an unqualified conclusion for illustrative purposes only and is dependent on the finalisation of our work on the Council's arrangements to manage and improve value for money.

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# Formal audit powers

24 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Council's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Council to meet and consider the notice before:
  - making a decision that might give rise to unlawful expenditure; or
  - taking an unlawful course of action that would give rise to a loss; or
  - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Council.

25 We have not and do not propose to exercise these powers.

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# Independence

- 26 The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 27 We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 28 We communicate to you:
  - any relationships between us and the Council, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
  - total fees charged to you for audit and non-audit services; and
  - our arrangements to ensure independence and objectivity.

## Relationships with the Council

- 29 We have identified no relationships that might affect objectivity and independence.

## Audit fees

- 30 We reported our fee proposals as part of the Audit Plan for 2007/08 (see table below).

**Table 3      Audit fees**

	<b>Plan 2007/08</b>
Financial statements and Annual Governance Statement	£143,300
Value for Money	£ 75,000
National Fraud Initiative	£ 625
<b>Total Audit Fees</b>	<b>£218,925</b>
Other work	Nil

- 31 We are currently bringing the audit to a conclusion and will finalise the actual fee once this is completed. We will agree any adjustments with the Heads of Finance
- 32 The outturn, including our inspection fees, will be reported in the annual audit and inspection letter.
- 33 Under the Audit Commission's advice and assistance power it may provide non-audit services to the Council. We have provided no work to the Council under this power in 2007/08.

**Our arrangements to ensure independence and objectivity**

34 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 8.

**Table 4 Arrangements to ensure independence and objectivity**

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> <li>● do not hold a financial interest in any of our audit clients;</li> <li>● may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and</li> <li>● may not enter into business relationships with UK audit clients or their affiliates.</li> </ul> <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> <li>● the general requirement to carry out work independently and objectively;</li> <li>● safeguarding against potential conflicts of interest;</li> <li>● acceptance of additional (non-audit) work;</li> <li>● rotation of key staff;</li> <li>● other links with audited bodies;</li> <li>● secondments;</li> <li>● membership of audited bodies;</li> <li>● employment by audited bodies;</li> <li>● political activity; and</li> <li>● gifts and hospitality.</li> </ul>
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

# Appendix 1 – Draft management representation letter

Maria Grindley  
District Auditor  
Unit 5, Isis Business Centre  
Horspath Road  
Cowley  
Oxford OX4 2RD

## Oxford City Council - Audit for the year ended 31 March 2008

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of Oxford City Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2008.

### Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

### Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

### Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

### Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements.

### Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

### Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note X to the financial statements we have no other lines of credit arrangements.

### Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

### Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

## Appendix 1 – Draft management representation letter

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

### Post balance sheet events

Since the date of approval of the financial statements by Oxford City Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

If adoption of the financial statements and the representation are on the same day this paragraph is not required.

Signed on behalf of Oxford City Council

I confirm that the this letter has been discussed and agreed by the Council on [date]

Signed

Name

Position

Date

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# Appendix 2 – Independent auditor's report to the Members of Oxford City Council

## Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Oxford City Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Oxford City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

## Respective responsibilities of the Heads of Service for Finance and auditor

The Heads of Service for Finance's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures



## Appendix 2 – Independent auditor's report to the Members of Oxford City Council

I read other information published with the Authority accounting statements, and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements. My responsibilities do not extend to any other information.

### Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority accounting statements and related notes.

### Opinion

In my opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

### Conclusion on 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 regularly to review the adequacy and effectiveness of these arrangements.

#### Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention

## Appendix 2 – Independent auditor's report to the Members of Oxford City Council

which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Oxford City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

### Best Value Performance Plan

I have issued our statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 on 19 December 2007. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

### Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Maria Grindley  
District Auditor  
Audit Commission  
Unit 5, Isis Business Centre  
Horspath Road  
Cowley  
Oxford OX4 2RD

September 2008

# Appendix 3 – Errors and uncertainties

Text

**Table 5 Errors and Uncertainties**

The following is list of errors and uncertainties as at 10 Sept 2008

Issue	£000s	Amended	Commentary
Income and Expenditure account Revenue Support Grant	(1,303)	✓	Compensating error in the Non - Domestic Rate Distribution - Officers to review impact on the Collection Fund and NNDR claim
Statement of Total Recognised Gains & Losses	64	✗	
Statement of Total Recognised Gains & Losses (exceptional item in respect of the write-off of duplicate assets)	337	✗	Not adjusted - our technical team's view is that this should go through the I&E account as an impairment rather than an exceptional item on the STRGL
Capital Financing	126	✓	additional capital receipts not previously included in note 6.15
Debtors	105	✓	Year-end debtor with Department of Works and pensions incorrectly stated

Audit Commission

# Appendix 4 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<Recommendation Title>					
5	R1 Ensure that appropriate supervisory checks are introduced before the statements of account are presented for audit.					
5	R2 Consider the publication of an Annual Report including summary financial information.					
7	R3 Produce an Annual Governance Statement that is consistent with the guidance: 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007.					
7	R4 Provide detailed working papers to support the figures in the HRA.					
7	R5 Ensure that the figures in the cash flow statement are consistent with other statements in the annual accounts.					
7	R6 Reverse the prior period adjustments for the two significant errors in respect of Housing stock and process the amendments in-year.					

## Appendix 4 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R7 Undertake amendments between the Government Grants deferred Accounts and the Capital Financing Account					
7	R8 Ensure adequate disclosure of income and expenditure from investment properties					