

# **Annual**

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# **Governance**

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# **Report**

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Oxford City Council

Audit 2008/09

**September 2009**

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## Status of our reports

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.
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Ladies and Gentlemen

**2008/09 Annual Governance Report**

I am pleased to present this draft version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Chief Executive and Heads of Finance on 10 September 2009 and has been updated since as issues have been resolved. The audit work is still underway and we will update the Audit Committee with progress.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- take note of the vfm conclusion;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan resulting from the problems experienced during the audit and my qualified opinion (Appendix 6).

Yours faithfully

Maria Grindley  
District Auditor  
18 September 2009

# Key messages

This report summarises the findings from our 2008/09 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

<b>Financial Statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	No	7
Financial statements free from error	No	7
Adequate internal control environment	No	8
<b>Value for money</b>	<b>Results</b>	<b>Page</b>
Use of resources judgements	Included	
Adequate arrangements to secure value for money	Yes	11

## Overall review of the year

- 1 The Council has achieved a great deal this year with improvements coming through on our Use of Resources judgements. The transformational change programme is delivering outcomes. The leadership and commitment to continuing to deliver this change is ensuring that the pace of change is impressive. Unfortunately the Council has once again struggled with the production of the financial statements and this is now detracting from the good achievements in other areas.

## Financial statements

- 2 The financial statements and supporting notes submitted for audit contained material errors, inconsistencies and some presentational issues. Eight different versions of the accounts have been produced throughout the audit which is unacceptable as we should have a version for audit on 30 June which requires few amendments if any. As a consequence the audit has been protracted and time consuming for both Council staff and our audit team.
- 3 The errors within the statements and the number of versions received for audit have resulted in additional work needed. As a result additional audit fee will be charged.
- 4 The errors in the main relate to fixed assets and are of concern. I intend to issue a qualification to the accounts in respect of the uncertainty in relation to the accounting treatment of fixed assets highlighted in this report.
- 5 The project management and checking of the statements has been poor which is reflected in the slow process to get to the stage where we have a set of statements to audit and the continuous occurrence of errors within the various versions of the statements. The Council has started to respond more quickly towards the end of the process but this is too late.

## Key messages

- 6 There were similar issues last year and we qualified the statements and the opinion was late. However we were given assurances that this year the problems would all be addressed. We met regularly during the months before the audit to get an update on progress and were not made aware of the issues that have arisen during the audit.
- 7 There remains significant scope to strengthen arrangements for the preparation of the financial statements and the internal quality assurance processes. It is pleasing to note that the Council has appointed an experienced Interim Director of Finance to oversee the improvement process and provide assurance. He will undertake a review of the accounts closure process, including the process leading up to the current position and this work is due to be completed by the middle of October 2009.

## Internal control processes

- 8 The lack of controls over recording of assets has resulted in uncertainty over the figures in the statements.
- 9 Controls over car park income were not in place during the year and there has been retrospective testing undertaken for the last nine months of the year. This retrospective work has provided assurance for the amounts within the financial statements, however the internal controls were not in place during the year.
- 10 There were two payroll files out of a sample of twenty three that could not be found. These have since been reconstructed. However, the Council could not provide evidence to support the pay points for these two employees which reduces the reliance we can place on these records.

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## Value for money

- 11 We have identified weaknesses in your arrangements to maintain a sound system of internal control as set out in this report. However these relate to specific areas as set out above and in the body of this report and are not substantial enough to impact on my value for money conclusion.
- 12 I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.
- 13 Appendix 1 contains the wording of my draft report.

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## Audit Fees

- 14 Our fee proposals were communicated to you in our Audit Plan for 2008/09. During the audit of the financial statements several versions of the accounts were produced and there were a number of errors identified which together resulted in additional audit effort. We have notified the Heads of Finance that an additional fee is appropriate to reflect this extra work. We will quantify and inform you of the amount of additional fee needed once our work is complete.

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# Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

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**15** I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- take note of the VFM Conclusion;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan resulting from the problems experienced during the audit and my qualified opinion (Appendix 6).

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# Financial statements

**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 these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

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## Opinion on the financial statements

- 16 I intend to issue an audit report including a qualified opinion on the financial statements in respect of the concerns over reliance that can be placed on fixed asset figures. Appendix 1 contains a copy of my draft audit report.
- 17 The Council's draft accounts were approved by the Audit and Governance Committee on 30 June 2009. Subsequently seven further different versions were produced to allow the correction of errors, some of which were material, inconsistencies and presentational issues. The more significant errors related to fixed assets and the cash flow statement. Management has agreed to adjust the financial statements for the errors identified in Appendix 2. We believe it is appropriate to report these to you because of the significant nature and extent of the errors.

## Errors identified during the audit to date

- 18 At the beginning of the audit the initial set of accounts were amended for a £900k error identified by Council officers due to the identification of a duplicated asset disposal.
- 19 A further £3.1 million error in fixed assets was identified and amended in relation to missed addition and impairment, and also some double counted capital expenditure.
- 20 We tested Beacon valuations from the valuer's report and of the one hundred property valuations twenty five were incorrect. The Council corrected these errors and produced a revised spreadsheet for audit on the 14 August, however this contained a further three errors. A further spreadsheet came through with one minor error in. This reduced the assurance we could place on the Council's ability to make the required changes accurately.
- 21 Our cut off testing took a sample of income and expenditure items to see whether they were included in the right years. Of the items tested one out of ten expenditure items and three out of ten income items were found to be incorrect. This extrapolates to a total of £122,000 expenditure and £338,000 income incorrectly classified in the wrong year.
- 22 We reviewed the expenditure on decent homes and tested twenty items to ensure that they had been correctly classified as capital. Of these three were revenue items. Extrapolation of the amount incorrectly classified totalled £1.34million.
- 23 The Council has a policy of capitalisation of decent homes expenditure and writing off any amounts where spend is less than fifteen percent of the council house value to revenue. This treatment is not in line with the Statement of Recommended Practice, (SORP). The Council has disclosed this departure from the SORP but we are uncertain as to why the Council do this. It appears to be custom and practice. This treatment and the results of our testing in this area does not help us to place reliance on the £11million impairment figure relating to decent homes.

- 24 The Statement of Total Recognised Gains and Losses (STRGL) review identified a balancing figure of £140,000. The STRGL should not have a balancing figure in it and whilst it is immaterial it raises questions around the compilation of the statements.
- 25 The cash flow was qualified last year as the Council could not provide the note of reconciliation for the figures within it. We were given assurances that this would be resolved in the current year. Our review of the cash flow in version seven of the statements showed a balancing figure of £678,000. We asked for this to be reviewed and received version eight of the statements with an improvement to a balancing figure of £78,000. The difference was due to £600k of capital creditors in the revenue creditor balance for 2007/08. Whilst this is not material, the cash flow statement should reconcile without balancing figures needed.

### Work being completed

- 26 The audit work is currently being completed and we may have further items to include in this report as a result. In addition we have identified more minor issues so far on financial instrument impairment and disclosure issues. We will include these in the appendix to this report when we are able to complete the last of our testing. We have testing underway on payroll, capital disclosure, depreciation, checking of additions and cross references in version eight, housing benefit reconciliation, statement of movement of general fund balance and annual report review.
- 27 As part of the normal audit process, work is reviewed by the audit manager and appointed auditor. This usually happens as the audit is undertaken and once we have a final set of statements. Unfortunately as the audit process has been drawn out and we received version eight of the accounts at the end of our audit we have had to do much of this review in the last few days of the audit. The results of these reviews is to flag up areas where we need further assurance or evidence. Given the issues raised above and also under internal control we are looking to gain further assurance through additional assurance testing in the following areas: car park income; housing rents; journals; council tax and payroll.

### Final accounts processes

- 28 There were problems with the availability of staff to resolve queries and timely response to audit which hindered the smooth running of the audit. In addition whilst we ensured a team was on site early on as agreed, key staff from the Council were not available at key times due to leave. This impacted on the issues log not being cleared in a timely way. The nature and number of errors is disappointing and has led to additional work and additional costs.

Recommendations The Council must...	
R1	Take action to ensure the accounts presented for audit are robust and free from material error and inconsistencies prior to the audit.
R2	Produce and implement a project plan that is achievable and includes appropriate review of the draft statements. The project plan should include time to address concerns raised in this year's audit and other current issues to ensure the accounts and supporting working papers are at an acceptable standard by the deadline set. The plan should include early work to reduce time pressures and enable quality assurance to be undertaken in all high risk areas.
R3	Demonstrate a strong corporate commitment and culture to producing good quality accounts and supporting documentation.

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| <b>R4</b> Prioritise the production of the financial statements and the timely and appropriate response to audit. |
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#### Governance arrangements

- 29** We have previously raised the completeness of Members disclosures identifying material related party transactions. Despite reminders from officers there remain two Councillors who have not responded. In these circumstances the Council needs to consider whether it is appropriate to identify those Councillors who have not responded in the relevant notes in the Statement of Accounts.

<b>Recommendation</b>
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<b>The Council must...</b>
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- |   |
|---|
| <b>R5</b> Include the names of those Councillors who have not responded in the Related Party Transactions within the Statement of Accounts. |
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#### Material weaknesses in internal control

##### Car park income

- 30** During 2008/09 the Council's budgeted income from car parks was £6.3m. The collection of income from the City's car parks is currently outsourced. For 2008/09 there was a breakdown in controls over the collection of car parking income. In particular, the cash banked by the outsourced contractor was not supported by audit tickets. The Council therefore could not prove that the income banked was correct.
- 31** Following our review the Council subsequently obtained the audit tickets and was able to demonstrate that sufficient evidence was available to support the income banked for the nine months July 2008 - March 2009, however no audit tickets were available to support income banked April 2008 - June 2008 amounting to £1.6m. We were able to gain assurance of the amount of income for the first three months as this was in line with that for the remainder of the year.
- 32** This represents a serious breakdown in the Council's internal control processes and as such should be disclosed in the Council's Annual Governance Statement.

##### Fixed assets

- 33** Following problems with the balance on the re-valuation reserve the Council abandoned their fixed asset system and instead used spreadsheets to complete the 2008/09 accounts. It is good practice to maintain an up-date fixed asset register and is a pre requisite for proper fixed asset accounting and sound asset management.
- 34** The use of spreadsheets increased the risk of manual errors in a number of areas, for example the input of valuations on Beacon properties. As a result of this there were significant issues with the fixed asset statements resulting in material errors and amendments to the accounts. This has resulted in reduced audit assurance in this area of the financial statements.
- 35** Our usual approach to financial audit is to map out systems controls and test these to ensure that the systems are working as intended and that we can place reliance on the figures they are producing for the financial statements. Due to the problems with the fixed asset system we were not able to do this work prior to the financial statement audit. In addition we were not able

to start our fixed asset review at the start of the audit due to the errors being worked through and as such working papers were not available until later in the audit.

### Payroll

- 36** As part of our work we looked at payroll controls. As establishment checks were not being evidenced as undertaken we concluded we needed to do additional testing. Therefore we took a sample of 23 payroll files in order to gain assurance on accuracy of the payroll figures including deductions, completeness, accuracy, classification and occurrence. Initially the Council were unable to locate three of the twenty three files sampled, subsequently one file was found and the Council has reconstructed the other two files for us. However, the Council was unable to provide evidence to support the pay point for these two employees and this reduces the reliance we can place on these records. Prime records should be maintained and securely held particularly payroll files which contain personal information.
- 37** We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which need to be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.
- 38** The above weaknesses impact on our opinion, use of resources review and value for money conclusion.

Recommendations The Council must....	
<b>R6</b>	Ensure weaknesses relating to car parking income controls for 2008/09 are properly disclosed in the Council's Annual Governance statement.
<b>R7</b>	Ensure that going forward the Council's asset base is properly managed and an appropriate system is in place for maintaining a comprehensive asset register.
<b>R8</b>	Ensure that the asset register is maintained throughout the year and regularly reconciled with the Council's financial ledger.
<b>R9</b>	Undertake detailed work on the Council's asset register to validate information and ensure information is robust and accurate.
<b>R10</b>	Take action to address the weaknesses identified in payroll controls and ensure payroll files are maintained properly and securely held.

### Letter of representation

- 39** Before we issue our opinion, auditing standards require us to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 2 contains the draft letter of representation we seek to obtain from you. As we complete and conclude our work we may ask for specific assurances in areas where we need additional representations from you. At this stage we have asked for specific representations in relation to the balancing figures on the cash flow statement, the statement of total recognised gains and losses, the basis of the Beacon property valuations and capitalisation of specific items of decent home expenditure.

## Key areas of judgement and audit risk

40 In planning our audit we identified specific risks and areas of judgement that we have considered as part of our audit. These were notified to you before we started our audit and they mostly stemmed from the audit issues from the previous year. Our findings are set out in Table 1.

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

Issue or risk	Finding
Lack of capacity within finance department following loss of key personnel.	There were problems with the availability of staff to resolve queries which hindered the smooth running of the audit. In addition whilst we ensured a team was on site early on as agreed key staff from the Council were not available at key times due to leave which impacted on the issues log not being cleared in a timely way. This led to a protracted audit.
Inconsistencies in statements indicating a lack of robust review. Year end and qualitative processes for producing the financial statements need to be improved to ensure the accounts presented for approval are free from significant errors.	The level of errors and inconsistencies within the statements indicated a lack of robust qualitative process.
Issues with reconciliation of cash flow statement resulting in a qualification to the 2007/08 accounts.	The Council adopted the 'indirect' method for compiling the cash flow statement and there were still errors within the accounts that hadn't been addressed. The Council has reconciled this to within £78k.
Economic climate and impact of impairments on financial statements.	Material impairment in 2008/09 accounts in respect of Council's fixed assets.

## Accounting practice and financial reporting

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

**Table 2** Qualitative aspects of financial reporting

Issue or risk	Finding
Joint working arrangements	Officers established regular dialogue with us before and during the preparation of the accounts. However, we were not made aware of officers' annual leave commitments which would have helped us plan the audit better. We had agreed when we would be in and assumed that, as we were responding to a request for an early audit over a shorter time period than in previous years, officers would also be available during that period.
Working papers and responses	Working papers were not available at the start of the audit and when received were not robust and responses to audit queries were slow, in part due to the availability of officers and the volume of queries raised.
Quality assurance (QA)	The level of errors found indicate that there needs to be more effective QA targeted more to the areas of high risk.

## Recommendations

## The Council must...

**R11** Strengthen the joint working arrangements by agreeing a plan up front which takes account of annual leave arrangements and any issues with timings for individual audit tasks.

**R12** Improve the quality of working papers and use examples from other district councils to learn from and ensure a full and comprehensive set of working papers is available at the commencement of the audit.

**R13** Strengthen the internal quality assurance arrangement, targeting areas of high risk.

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# Use of resources

**I am required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.**

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## Use of resources judgements

- 42** In forming my scored use of resources judgements, I have used the methodology set out in the use of resources framework. Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 43** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 44** The Council's use of resources theme scores are shown in Table 3 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 4.

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**Table 3      Use of resources theme scores**

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	2
Managing resources	2

## Managing finances

- 45** The Council has undergone radical change in the last two years - historically a high cost Council which has worked hard to turn things around, including opening up the Council to market testing services and vfm reviews. Outcomes include 25% reduction in cost base (one of the top 5 authorities nationally) and £750k saving on leisure services with improved service and user satisfaction after market testing the service. It has therefore more than met the government targets on cash releasing efficiency gains leading to the release of monies to support strategic priorities.
- 46** Its medium term strategy is integrated with corporate planning and sets out how the corporate plan can be delivered within a balanced financial position. It has consulted widely on its budget using a number of different consultation methods which has enabled the Council to demonstrate the importance it gives to local views.
- 47** It has consistently managed its spending within available resources and has in place a financial strategy covering the period 2008/09 to 2011/12. The corporate management team exercise collective responsibility for financial matters.

- 48 The Council has embarked on a programme of service reviews to improve value for money as its costs remain high when compared to other authorities. The development of Performance Matters brings together financial and performance information and is available on the Council's web site. Its financial monitoring systems are flexible allowing managers to develop their own locally tailored reports.
- 49 Weaknesses in the Council's arrangements for the preparation of its accounts have been covered in detail elsewhere in this report. Whilst this is a failure to meet minimum requirements, the Council has achieved a lot in other areas of financial reporting and therefore the overall picture on the financial reporting sub-KLOE area is that the Council has met the requirements.

### Governing the business

- 50 Current evidence indicates that the Council is performing well and can demonstrate a strong track record in efficiencies and a proactive procurement approach. It has a 3 year rolling procurement plan linked to a market testing programme which demonstrates a strong vfm drive. The Council is leading the procurement hub across Oxfordshire and has achieved strong outcomes for the partners involved.
- 51 The Council has in place a corporate data quality policy. It is not yet live with Government Connect so is not yet fully compliant with a strict code of connection. The performance management framework is underdeveloped in terms of Council-wide priorities.
- 52 The Council has a framework in place that demonstrates the principles and value of good governance which is supported by chief officers and the Standards Committee. The Council's corporate plan sets out its strategic objectives which are translated into targets, it has shown a robust and focused approach to improvement over the last year, in line with its priorities.
- 53 The Council has made significant improvements in the last year. In particular risk management systems have continued to develop both corporately and throughout the organisation. Its fraud and corruption arrangements are sound. It generally has sound systems of internal control however there are issues identified in the financial statements work that need to be addressed. The Council has an effective and established audit committee in place which pursues reported key internal control weaknesses.

### Managing resources

- 54 Overall there is clear intent from the Council to integrate and implement comprehensive workforce and HR strategies and plans in 2009/10 and much of the groundwork has already been completed. We found examples of good practice in organisational change particularly staff engagement. There is more to do on equality and diversity and the Council is taking action to achieve improvements in this area. The Council is taking a more coherent and comprehensive approach to people management, much is based on new and revised policies so we should see improved outcomes as these embed.

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### Value for money conclusion

- 55 We assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. Our conclusions on each of the areas are set out in Appendix 5.

## Use of resources

- 56 I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

# Appendix 1 – Independent auditor's report to the Members of Oxford City Council

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## 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 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of 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 Statement of Movement on 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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

## Respective responsibilities of the Heads of Finance and auditor

The Heads of Finance responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 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 accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 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.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword and the content of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the 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 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 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 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 accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion

However, with respect to fixed assets having a carrying amount of £759,760,000 the evidence available to me was limited because the Council withdrew its system for recording fixed asset information and calculating fixed asset accountancy entries prior to the year end. As a result I could not place reliance on the system feeding the figures in the financial statements. Further to this our audit identified errors which reduced the assurance we could place on the figures within the accounts.

The following errors were identified which undermined the reliance that could be placed on the fixed asset figures:

- a £900k error identified by Council officers due to a duplicated asset disposal;
- A £3.1million error in fixed assets was identified and amended in relation to a missed addition and a missed impairment, and also some double counting of capital expenditure;
- Testing of Beacon valuations from the valuer's report identified twenty five were incorrect from one hundred property valuations. The Council corrected these errors and produced a revised spreadsheet for audit, however this contained a further three errors. A further spreadsheet came through with one minor error in; and
- Review of expenditure on decent homes identified revenue items incorrectly classified as capital. If the sample taken was representative of the total balance this could indicate the amount incorrectly classified is £1.34million.

Owing to the nature of the council's records, I was unable to obtain sufficient appropriate audit evidence regarding the value of fixed assets by using other audit procedures.

I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

### Qualified Opinion arising from limitation in audit scope

In my opinion except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to satisfy myself as to the figures included in the financial statements for fixed assets the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 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 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 May 2008 and updated in February 2009, and the supporting guidance, 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 2009.

**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  
Unit 5, Isis Business Centre  
Horspath Road  
Cowley  
Oxford OX4 2RD

XX September 2009

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## Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

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Table 4

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s

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# Appendix 3 – Unadjusted misstatements in the accounts

The following misstatements were identified during the course of my audit and the financial statements have not been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 5

Description of error	Accounts affected	Value of error £Million

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# Appendix 4 – Draft letter of representation

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## Letter of representation

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

Dear Maria

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## Oxford City Council - Audit for the year ended 31 March 2009

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other chief 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 2009. All representations cover the Council's accounts included within the financial statements.

### 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 and Executive 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 that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with the financial reporting framework.

The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and appropriately reflect the best estimate of fair value of assets and liabilities required to be disclosed by these standards.

#### 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

The Council has a compensating arrangement between its bank account, including schools bank accounts. There are no other compensating balancing arrangements with any of our cash or investment accounts.

#### Contingent liabilities

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

## Appendix 4 – Draft letter of representation

- 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.

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 the Audit and Governance Committee, 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.

Signed on behalf of Oxford City Council

I confirm that this letter has been discussed and agreed by the Audit and Governance Committee on 24 September 2009.

### Specific representations

In relation to the balancing items in the Cash Flow and the Statement of Recognised Gains and Losses, we confirm that these do not reflect a net of larger material items.

We can confirm that the methodology used to select a sample of one hundred Beacon properties is representative of the whole population of the Council houses both in terms of property types and their geographical location.

We confirm that when we review specific items of expenditure in relation to decent homes we capitalise them in line with the guidance set out in the local authority Statement of Recommended Practice (SORP) and Financial Reporting Standard (FRS) 15.

Signed

Name

Position

Date

# Appendix 5 – Value for money conclusion

The following tables summarise the key findings and conclusions for each of the three use of resources themes.

## Managing finances

<b>KLOE 1.1 (financial planning)</b>	<b>3</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
<p>The Council's arrangements for financial planning are effective. Its medium term strategy is integrated with corporate planning and sets out how the corporate plan can be delivered within a balanced financial position. It has consulted widely on its budget using a number of different consultation methods which has enabled the council to demonstrate the importance it gives to local views. It has consistently operated within budget.</p> <p>The Board and the corporate management team exercise collective responsibility for financial matters. The Medium Term Financial Strategy states how the Executive Directors are responsible for delivery of the budget in their own areas of control and how they are responsible for advising Members on options for delivering their budgets.</p>	
<b>KLOE 1.2 (understanding costs and achieving efficiencies)</b>	<b>3</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
<p>The Council has exceeded the government targets on cash releasing efficiency gains leading to the release of monies to support strategic priorities. It has embarked on a programme of service reviews to improve value for money and has successfully reduced its operating costs by 25% (£7.1m) by market testing and partnership working without detriment to services.</p>	
<b>KLOE 1.3 (financial reporting)</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
<p>The quality of the council's 2008/09 accounts and supporting working papers were disappointing and it has much to do in strengthening its arrangements for the preparation of its accounts. The Council's draft accounts were approved by the Audit and Governance Committee on 30 June 2009. Subsequently a number of different versions were produced correcting errors, (some of which were material and principally related to fixed assets), inconsistencies and presentational issues. Despite these amendments further errors were identified leading to a lack of confidence in the fixed asset balances. As a consequence I am intending to qualify the 2008/09 accounts</p>	

### Governing the business

<b>KLOE 2.1 (commissioning and procurement)</b>	<b>3</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
Current evidence indicates that the Council is performing well and can demonstrate a strong track record in efficiencies and a proactive procurement approach. It has a 3 year rolling procurement plan linked to a market testing programme which demonstrates a strong vfm drive. The Council is leading the procurement hub across Oxfordshire and has achieved strong outcomes for the partners involved.	
<b>KLOE 2.2 (data quality and use of information)</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
The Council has in place a corporate data quality policy. Performance Matters provides clear and accessible information on key performance indicators and further work is planned in 2009/10 to ensure accurate transfer of data. It is not yet live with Government Connect so is not yet fully compliant with a strict code of connection. The performance management framework is underdeveloped in terms of Council-wide priorities.	
<b>KLOE 2.3 (good governance)</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
The Council has a framework in place that demonstrates the principles and value of good governance which is supported by chief officers and the Standards Committee. The Council's corporate plan sets out its strategic objectives which are translated into targets, it has shown a robust and focused approach to improvement over the last year, in line with its priorities.	
<b>KLOE 2.4 (risk management and internal control)</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
Risk management systems have continued to develop both corporately and throughout the organisation. Its fraud and corruption arrangements are sound particularly for welfare benefits. Weaknesses were identified in its systems of internal control in 2008/09 particularly the control over car parking income and its fixed assets systems. The Council has recognised this and is taking action to address the position.	

Managing resources

<b>KLOE 3.3 (workforce)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>Key findings and conclusions</b>	
Overall there is clear intent from the Council to integrate and implement comprehensive workforce and HR strategies & plans in 2009/10 and much of the groundwork has already been completed. We found examples of good practice in organisational change particularly staff engagement. However, Equality and diversity is underdeveloped. The Council is taking a more coherent and comprehensive approach to people management, but much is based on new and / or revised policies which are not yet embedded.	

# Appendix 6 – Action plan

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Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R1 Take action to ensure the accounts presented for audit are robust and free from material error and inconsistencies prior to the audit.	3	Heads of Finance	Yes	This requires a detailed response. That response is on an action plan in the Review of the Accounts report	Ongoing
8	R2 Produce and implement a project plan that is achievable and includes appropriate review of the draft statements. The project plan should include time to address concerns raised in this year's audit and other current issues to ensure the accounts and supporting working papers are at an acceptable standard by the deadline set. The plan should include early work to reduce time pressures and enable quality assurance to be undertaken in all high risk areas.	3	Financial Accounting Manager	Yes	We will develop the current project plan to include additional time for review and quality assurance. Early work on key issues such as IFRS and assets has been programmed in during the period to Dec 09.	October 2009
8	R3 Demonstrate a strong corporate commitment and culture to producing good quality accounts and supporting documentation.	3	Heads of Finance	Yes	Project plan and progress against plan to be monitored at	Ongoing

## Appendix 6 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R4 Prioritise the production of the financial statements and the timely and appropriate response to audit.	3	Heads of Finance	Yes	Performance Board  Finance staff training arranged for September 18th. We will introduce enhanced communication across the Council so that Service Heads have a greater awareness of their involvement in close of accounts issues.	Ongoing
9	R5 Include the names of those Councillors who have not responded in the Related Party Transactions within the Statement of Accounts.	3	Financial Accounting Manager	Yes	Complete 2008/09 accounts changed to reflect this	September 2009
10	R6 Ensure weaknesses relating to car parking income controls for 2008/09 are properly disclosed in the Council's Annual Governance statement.	3	Heads of Finance	Yes	Complete Annual governance statement changed.	September 2009
10	R7 Ensure that going forward the Council's asset base is properly managed and an appropriate system is in place for maintaining a comprehensive asset register.	3	Heads of Finance Property and Oxford City Homes	Yes	Heads of Finance have agreed a secondment from PwC for 4 months to verify asset register entries and to	November 2009

## Appendix 6 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					develop new procedures for changes to the register. These procedures will ensure that the corporate Asset Register & HRA register run in parallel. Review use of Logotech and consider other options.	
10	R8 Ensure that the asset register is maintained throughout the year and regularly reconciled with the Council's financial ledger.	3	Heads of Finance	Yes	Ditto	November 2009
10	R9 Undertake detailed work on the Council's asset register to validate information and ensure information is robust and accurate.	3	Heads of Finance Property and Oxford City Homes	Yes	Ditto	November 2009
10	R10 Take action to address the weaknesses identified in payroll controls and ensure payroll files are maintained properly and securely held.	3	Head of Human Resources	Yes	Head of HR bidding for funding to review this area, weed all employee files, with the eventual aim of having all electronic employee files.	March 2010

## Appendix 6 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
12	R11 Strengthen the joint working arrangements by agreeing a plan up front which takes account of annual leave arrangements and any issues with timings for individual audit tasks.	3	Financial Accounting Manager	Yes		Ongoing
12	R12 Improve the quality of working papers and use examples from other district councils to learn from and ensure a full and comprehensive set of working papers is available at the commencement of the audit.	3	Financial Accounting Manager	Yes	The Council will ensure that the review of working papers includes all working papers for all areas of the statement. Training of Finance staff on working papers September 18th.	Ongoing
12	R13 Strengthen the internal quality assurance arrangement, targeting areas of high risk.	3	Financial Accounting Manager	Yes	The Council will further develop the quality assurance processes introduced in 2008/9 to all areas.	Ongoing

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