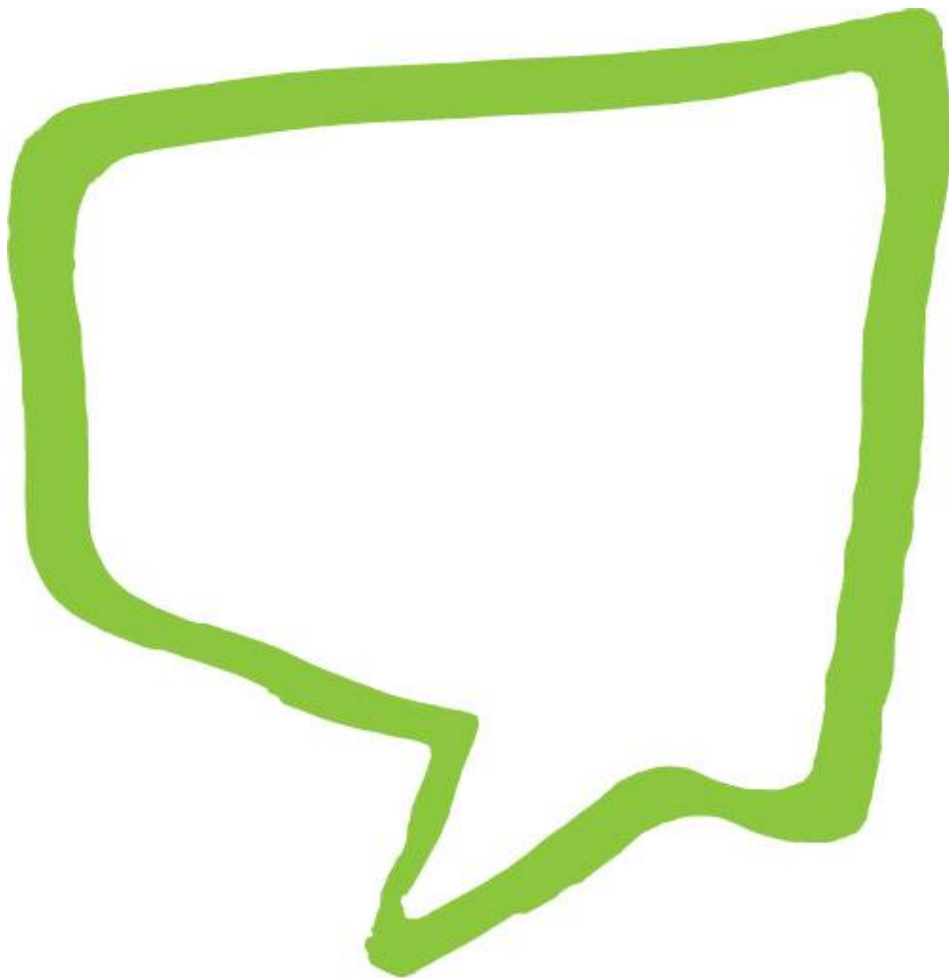


Audit Opinion Memorandum

Oxford City Council

Audit 2008/09

February 2010



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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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Introduction

- 1 Oxford City Council (the Council) is required to publish audited accounts. The Director of Finance is responsible for the preparation of the accounts and supporting statements for audit, which must be prepared in accordance with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2008, A Statement of Recommended Practice.
- 2 As the appointed auditors, we are required to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Our main objective is to give an opinion on the Council's financial statements.
- 3 The purpose of this report is to record the matters arising from the audit of the Council's accounts for the year ended 31 March 2009 and make recommendations to address any issues requiring action on behalf of the Council.
- 4 We would like to thank the Heads of Service - Finance, Financial Accounting Manager and the Council's finance staff for the co-operation and assistance provided during our audit.

Annual accounts

- 5 An initial draft set of accounts was provided for audit on 30 June 2009 in accordance with the timetable. However working papers were not ready. 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.
- 6 The project management and checking of the statements was 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 errors in the main related to fixed assets. The Council started to respond more quickly towards the end of the audit process but that was too late.
- 7 We issued a qualified audit opinion on 29 September 2009. The qualification was in respect of the uncertainty in relation to the accounting treatment of fixed assets.
- 8 The aim of this report is to bring together all matters arising from our final accounts work are brought to the finance team's attention and to help the Council prepare for next years final accounts.

The way forward

- 9 The adjusted amendments to the accounts and unadjusted mis-statements in the accounts have already been reported to you in the Annual Governance Report. This action plan includes recommendations relating to the final version of accounts that was produced. An action plan is included at Appendix 1. We will follow up the progress of implementing these recommendations as part of our 2009/10 interim and opinion audit work.

Appendix 1 – Action Plan

Finding	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Fixed Assets						
1) The fixed asset system was abandoned due to problems with it during the year.	The fixed asset system needs to be reviewed and a decision made to either continue with it or procure another one.	3	Heads of Service - Finance	Yes	Continue with Logotech, update the system by the end of November and roll over into 2009/10. Planned reconciliations as at end of December 2009, and quarterly thereafter.	In progress
2) The Authority had not made proper arrangements for the maintenance of the asset register. Sufficient resources/skills were not available to maintain the register including the implementation of the Revaluation Reserve.	Ensure sufficient resources/skills are in place to maintain the asset register.	3	Heads of service - Finance	Yes	Financial Accountant appointed, starting 2 November. Assistant FA and Trainee working on FA update, reconciliation and processes. Also PWC secondee in place to assist with this.	In progress
3) The Council House impairment disclosed in Note 7.9 did not reconcile to the impairment disclosed in Note 6.15. The difference is £611k	The impairment figure should be reconcilable within the accounts.	2	Financial Accounting Manager	Yes	Currently reconciling the FA system to Agresso for 2008/09, see note 1.	November 2009

Appendix 1 – Action Plan

Finding	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
4) The valuer did not supply useful estimates of the remaining useful life of properties valued (eg for council houses bandings were supplied).	The Council should request useful lives from the valuer.	3	Financial Accounting Manager	Yes	EUL are being assessed as part of the check being carried out to ensure Logotech is accurate. EUL to be provided in house by surveyors. All housing stock Beacon properties valued by Knight Frank in 2009 have now had specific Existing Useful Lives (EULs) allocated in house, and these will be reflected in the 2009/10 accounts. EULs for General Fund operational properties attached were provided by Cluttons in May 2009.	November 2009
5) When the council houses were last revalued five years ago they were relifed to 60 years, they have been revalued again this year and relifed again to 60 years.	Revaluing a property does not extend its useful life.	3	Financial Accounting Manager	Yes	See note 4. All housing stock Beacon properties valued by Knight Frank in 2009 have now had specific Existing Useful Lives (EULs) allocated in house, and these will be reflected in the 2009/10 accounts. EULs for General Fund operational properties attached were provided by Cluttons in May.	Implemented
6) The fixed asset working papers provided for audit had £19,020 added onto the impairment on the covered market which could not be supported.	Ensure any manual amendments to working papers can be supported.	2	Financial Accounting Manager	Yes	Not material. Manual amendments to working papers will be kept to a minimum and notes made within the WP to explain. Impairment Valuations provided for the Covered Market by Cluttons May 2009. Prop and FM have not made any further amendments to this figure.	Implemented

Finding	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7) Asset E411 Templars Square Shopping was included in the fixed asset register and impaired during 08/09 however this asset is leased by the Council not owned.	Ensure that only assets owned by the Council are included in the fixed asset register and impaired.	3	Financial Accounting Manager	Yes	Not material. Review of council owned assets and those leased will be covered in the FA review.	
8) 13 Carpenter close was valued by the valuer at £78,750 but appears on the asset spreadsheet at £78,500. Therefore will have been extrapolated incorrectly. Four of the valuations of the specialised properties do not agree to the fixed asset spreadsheets: <ul style="list-style-type: none"> • 1 HRA - 16 Bernwood Road • 3 General Fund - 81 Cowley Road, 1 Stratford Street and Bullingdon Green Cottage Three of the valuations of General Fund properties do not agree to the fixed assets spreadsheets. <ul style="list-style-type: none"> • East Avenue r/o 62-114 • Giles Rd site CC • George Street 33/35 shops. 	Ensure values provided by the valuer are correctly included in working papers.	3	Financial Accounting Manager	Yes	£1,500 total difference, therefore not material. A more substantial checking process will be carried out in future years to eliminate as many errors as possible. This is a mis-understanding. Asset E284 Templars Square is owned freehold and was impaired in 2009. Asset E411 Templars Sq is owned leasehold but is let at a 'rack rent' therefore has nil value. Clarity is needed on the term 'owned' since this could refer to either freehold or leasehold interests - it is often the case that leasehold interests do have a positive value and therefore should be included in the Fixed Asset Register (and impaired if appropriate).	In progress
9) Decent Homes expenditure was netted off against the impairment of that expenditure in Note 6.15.	The decent homes expenditure should be disclosed in Note 6.15	3	Financial Accounting Manager	Yes	A note was added to note 6.15 to explain how this had been shown.	Complete

Appendix 1 – Action Plan

Finding	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10) Decent Homes expenditure has automatically been impaired £ for £.	Impairment of assets should be calculated and take place after valuation based on the valuers assessment of the assets value.	3	Financial Accounting Manager	Yes	Technically ok and disclosed in accounts. Accept need for champion accounting practice.	March 2010
11) Testing of individual items in the decent homes expenditure total revealed some revenue items were included.	Review decent homes expenditure in future years to ensure items are correctly capitalised/charged to revenue.	2	Financial Accounting Manager	Yes	See note 9.	March 2010
12) The compensatory adjustments from the Revaluation Reserve to convert current value depreciation/ impairment loss debits to historical cost in the capital adjustment account has not been done.	Ensure the historical cost depreciation adjustment is done next year.	2	Financial Accounting Manager	Yes	The historical Cost depreciation adjustment was not done in 2008/09, it has since been calculated and the estimated value is £330k. Logotech can calculate this therefore the adjustment will be made in future.	April 2010
Other Balance Sheet Issues						
13) Rent to mortgage balance - the balance has not been reviewed since the houses were purchased (1 was bought in 1999).	The balance should be reviewed periodically to ensure it is accurate as the per cent due to the Council is based on market price at the time of sale. (This year would have been an ideal time to do it as the housing stock was revalued).	2	Financial Accounting Manager	Yes	Agree – we will review the market values of each RTM property as at 31 March 2010 and annually thereafter. Included in timetable.	April 2010

Finding	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
14) There is one out of date cheque on the Drawings account with a value of £2K (CHQ number 257439, dated 26 September 2008).	Out of date cheques should be cancelled.	2	Financial Accounting Manager	Yes	Out of Date cheques are cancelled on a regular basis. Investigate further Not material	In progress
15) For the Court costs bank account the bank balance was used rather than the cash book balance.	Bank reconciliations should be prepared for all bank accounts.	3	Financial Accounting Manager	Yes	Immaterial – an oversight. This will be reconciled in line with other bank accounts.	April 2010
16) Included within the provisions figure was £80k for Catacombs Youth provision which should have been an earmarked reserve.	Ensure only provisions are included in the provisions figure.	2	Financial Accounting Manager	Yes	This was identified as part of the audit process by our officers, but felt too late to change. Training has already been given to all finance staff on provisions and reserves, to eliminate the risk of the wrong categorisation in future.	April 2010
Income and Expenditure Account						
17) Sample testing found errors in cut off on the income and expenditure sides.	Ensure robust cut off procedures are in place and adhered to.	2	Financial Accounting Manager	Yes	Procedures are being put in place to ensure tighter controls, and training for all finance staff has also been carried out.	April 2010

Appendix 1 – Action Plan

Finding	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
18) Payroll could not supply support for pay points for two employees	Payroll files should contain all records to support paypoints being used.	3	Financial Accounting Manager	Yes	It is understood payroll were unable to provide details for one employee who is paid via the City Council but employed by an external body. However we wish to ensure robust record keeping for all staff. All NJC staff have new contracts of employment issued on 1 October 2009 available for inspection now - they are currently held electronically. These confirm people's new salary, grade, hours; JE points score, etc under single status. There has been a number of validation exercises to ensure the data in the contracts is accurate. The remaining group of employees (Craft Workers -employed under different terms and conditions) are likely to have new contracts produced before calendar year end, although it is expected their current files will be up to date. An exercise will commence in November 2009 to audit all employees files, checking the presence of key documents, undertaking any weeding and prepare them for future electronic.	Implemented
Cashflow						
19) The Cashflow statement included a balancing figure (£78k)	The Cashflow statement should not include any balancing figures	3	Financial Accounting Manager	Yes	Further work will be done on the cashflow for 2009/10 to balance this.	April 2010

Finding	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Statement of Total Recognised Gains and Losses						
20) The Statement of Total Recognised Gains and Losses included a £140k balancing figure.	The STRGL should not contain any balancing figures.	3	Financial Accounting Manager	Yes	Further work will be done on the STRGL for 2009/10 to balance this.	April 2010
Statement of Movement on the General Fund Balance						
21) Statement of movement on the General Fund Balance - net transfers to or from earmarked reserves £2,432k. However in Note 6.44 net transfers are £2,381k, a £51k difference due to the Giro Payments Control Account Reserve	Ensure these figures reconcile next year.	3	Financial Accounting Manager	Yes	The £51k was identified as being a transfer to the Collection Fund reserve. Training has been given to all finance staff on how to deal with movements to and from reserves and provisions	Complete
22) Statement of movement on the General Fund Balance - Capital expenditure charged in year to the General Fund Balance £1,220k - does not agree to capital adjustment account £1,070. £150k difference is due to the adjustment to earmarked reserves.	Ensure these figures reconcile next year.	3	Financial Accounting Manager	Yes	We will ensure that these figures are correct for 2009/10	April 2010

Appendix 1 – Action Plan

Finding	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
SORP						
23) The Council disclosed a departure from the SORP 'The Council departs from SORP in the treatment of some fixed asset expenditure. Where the capital spend on an individual asset is less than 15 per cent of the value of the individual asset, the capital expenditure is impaired.'	Ensure SORP compliance in this area in 2009/10.	3	Financial Accounting Manager	Yes	See note 9	April 2010
24) Various disclosure requirements missing: <ul style="list-style-type: none"> HRA disclosure does not include an explanation that the vacant possession value and the balance sheet value of dwellings within the HRA show the economic cost to government of providing council housing at less than open market rents. Assumed mortality rates included within the actuarial valuation were not included in the Notes to the Accounts. accumulated depreciation in relation to Finance Leases held at Note 6.12 in the Notes to the Accounts. Basis for accounting note a note explaining the basis of estimation for impairments and bad debt provision 	Ensure disclosure in the statements is fully SORP compliant.	2	Financial Accounting Manager	Yes	A fuller SORP disclosure requirements check will be carried out for 2009/10 to ensure all areas are covered. These last two items were included in the SOFA	May 2010

Finding	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Other Notes						
25) Financial Instruments note does not disclose; how fair values are determined or the methods used and assumptions applied in any valuation technique. No sensitivity analysis has been prepared for market risk.	Ensure disclosure in the financial instruments note is fully SORP compliant.	2	Financial Accounting Manager	Yes	Will review this note for closedown.	May 2010
26) The impairment on Icelandic investments was not apportioned to the HRA.	Oxford City Council as a housing authority should have apportioned the impairment between the HRA I&E a/c and the General Fund, and reversed out the HRA element through the Statement of Movement on the HRA Balance and transferred to the General Fund Balance via the SMGFB.	2	Financial Accounting Manager	Yes	The impairment was not apportioned between HRA and GF. Felt not to be material enough to amend the accounts for.	May 2010
27) No evidence was available to support a review of accounting policies.	Take notes of the meeting to review accounting policies	2	Financial Accounting Manager	Yes	We will ensure minutes are kept of all meeting that are held through the Statement of accounts and audit process.	In progress
28) Response to related party disclosures from Councillors was poor.	Emphasise the importance of making this disclosure.	2	Financial Accounting Manager	Yes	There was only one declaration missing. Would it be possible to obtain electronic declarations as this would improve the response rate?	April 2010

Appendix 1 – Action Plan

Finding	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
29) HRA receipts in advance - the reports run from I World did not exactly agree to the figure in the accounts as the system is not able to produce historical data.	Run reports at the time of production of the figures to ensure figure for audit can be substantiated.	2	Financial Accounting Manager	Yes	Suzan Smart will ensure that this report is run on the required date for 2009/10 accounts	March/ April 2010
30) Note 6.5 Commercial Properties Trading Account - This is the first year of this disclosure but needs further refinement eg should be categorised as per note 6.25 and show no of type of assets.	Further refine note 6.5 for 2009/10.	2	Financial Accounting Manager	Yes	The DA and council officers agreed the format of the note for 2008/09, and agreed that it would need to be improved for 2009/10. Work will be done on this in advance of 2009/10 accounts.	April 2010
31) Capital commitments, General Fund and HRA - capital spend in the capital programme had been included in these notes.	This note should only include capital expenditure the council is contractually committed to spend.	2	Financial Accounting Manager	Yes	The capital commitments note was amended, but extra work and checks will be done on this for 2009/10	Complete

The Audit Commission

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