



Oxford City Council

Audit and Governance Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

22 September 2014

1



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Agenda Item 3

Contents

- ▶ Executive summary
- ▶ Extent and progress of our work
- ▶ Addressing audit risk
- 2 ▶ Financial statements audit – issues and findings
- ▶ Arrangements to secure economy, efficiency and effectiveness
- ▶ Independence and audit fees
- ▶ Appendices

Executive summary

Key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit and Governance Committee - on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2013-14 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.

Financial statements

- ▶ As of 22 September 2014, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements adequately.

Value for money

- ▶ We have completed our work and expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- ▶ We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

Extent and purpose of our work

The Council's responsibilities

- The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
- The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

- Our audit was designed to:
 - Express an opinion on the 2013-14 financial statements
 - Report on any exception on the governance statement or other information included in the foreword
 - Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion)

In addition, this report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.

As a component auditor, we also follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Addressing audit risks

Significant audit risks 1

We identified the following significant audit risk during the planning phase of our audit, as reported in our Audit Plan. Here, we set out how we have gained audit assurance over the issue. A significant risk is an identified assessed risk of material misstatement that, in an auditor's judgement, requires special audit consideration.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
Management override As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	<ul style="list-style-type: none">• Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements• Reviewed accounting estimates for evidence of management bias• Evaluated the business rationale for any significant unusual transactions	Our general audit work on journals, accounting estimates and significant unusual transactions identified no matters that we need to bring to the Council's attention.

Addressing audit risks

Other audit risks

We identified the following other audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit Risk identified within our Audit Plan	Audit Procedures performed	Assurance gained and issues arising
Other audit risks identified in our Audit Plan		
<p>Transfer of Housing Revenue Account balances and assets to the General Fund</p> <p>This transaction is high value and it is important that it is recorded correctly within the financial statements of the Council</p>	<ul style="list-style-type: none"> Ensured that the criteria to permit the transfer were met Reviewed the accounting for the transfer Considered further Government guidance on such transfers 	<p>We found:</p> <ul style="list-style-type: none"> the criteria to permit the transfer had been met the transfer of balances and assets had been accounted for accurately No further guidance has been issued on the issue. <p>No matters arising</p>
<p>Implementation of Agresso fixed asset module</p> <p>The implementation of the fixed asset module is important</p>	<ul style="list-style-type: none"> Reviewed implementation including work by Internal Audit Tested balances rolled forward from the old system into the new module to ensure completeness and accuracy 	<p>Our review gave us assurance that the transfer did not contain any material errors</p> <p>No matters arising</p>

Addressing audit risks

Other audit risks

We also draw to your attention the following other audit risk identified after the planning phase of our audit. Here, we set out how we have gained audit assurance over the issue.

Audit Risk	Audit Procedures performed	Assurance gained and issues arising
Other audit risk identified after we issued our Audit Plan		
<p>Changes to arrangements for council tax support and business rates</p> <p>The new NDR system introduced full accrual accounting. One of the consequences of this is that billing authorities, such as the Council, will now have to calculate a provision in respect of valuation appeals that have yet to be decided at the year end. Previously, the impact of these appeals was not recognised until the appeal had been settled. Any outstanding appeals at 31 March 2013, not previously provided for, became a liability of the Council's Collection Fund on transition.</p>	<p>We focused on an early discussion of the approach taken to calculating the provision against the criteria set out in IAS 37 and reviewed the supporting evidence to that approach.</p>	<ul style="list-style-type: none">• We found that the provisions on the appeals already made had been calculated appropriately.• No provision has been made for claims not made but based on past experience will be made.

Financial statements audit

Issues and misstatements arising from the audit 1

Progress of our audit

- ▶ The following areas of our work programme remain to be completed at the time of drafting this report. We will provide an update of progress at the Audit and Governance Committee meeting.
 - ▶ Receipt of a letter of representation
 - ▶ Final review of financial statements to include review of amendments to the Comprehensive Income and Expenditure statement and to the Revaluation Reserve and Capital Adjustment Account.
- ∞ ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified auditor's report on the financial statements.

Uncorrected misstatements

- ▶ We have identified one misstatement within the draft financial statements, which management has chosen not to adjust.
- ▶ We request that this uncorrected misstatement be corrected or a rationale as to why it is not corrected be considered and approved by the Audit and Governance Committee and provided within the Letter or Representation
- ▶ Appendix 1 to this report sets out the uncorrected misstatement

Corrected misstatements

- ▶ See the following page

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:

- ▶ Qualitative aspects of your accounting practices; estimates and disclosures
- ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions
- ▶ Any significant difficulties encountered during the audit
- ▶ Other audit matters of governance interest

We have no matters we wish to report.

Financial statements audit

Issues and misstatements arising from the audit 2

Corrected misstatements

Our audit identified a number of misstatements which we highlighted to management for amendment. All of these will be corrected in the revised financial statements presented to the Audit and Governance Committee.

We consider a number of these misstatements to be significant and we set out the context and nature of some of these in Appendix 2 to this report.

Further amendments are being processed and are subject to audit review:

- ▶ **Internal recharges** – service expenditure and income in the Comprehensive Income and Expenditure Statement includes Direct Services costs and recharges which grosses up the reported expenditure income. Amendments are being made to the 2013-14 (£25m) Statement and the 2012-13 (£24m) comparatives to eliminate the internal transactions.
- ▶ There is no impact on the net income and expenditure position from these amendments.
- ▶ The Council needs to establish effecting accounting arrangements that eliminate internal recharges from reported expenditure and income

- ▶ **HRA Dwellings impairments and revaluations** – the Council has been incorrectly accounting for impairments and revaluations of dwellings. Where previous impairments have been charged to the HRA, subsequent upward valuations should be credited to the HRA (until the previous impairments are cleared) but have been credited to the revaluation reserve in error. This understates the impairments in the HRA; understates the capital adjustment account and overstates the revaluation reserve. Amendments are being made to the 2013-14 Statements and the comparative 2012-13 Statements. A prior year adjustment is being made to the opening balances for 2012-13 increasing the capital adjustment account balance by £7m and reducing the revaluation reserve by £7m (to nil for council dwellings). There is uncertainty about the value of the prior year adjustment because the accounting records going back to 2007-08, when the revaluation reserve was introduced at zero value, were inadequate. It is the best estimate available of the correction needed.
- ▶ There is no impact on the net balance sheet position from these amendments.
- ▶ The Council needs to improve its arrangements for documenting and accounting for changes in the value of council dwellings.

Financial statements audit (continued)

Internal Control, Written Representations & Whole of Government Accounts

Internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

10 We have reviewed the Annual Governance Statement and can confirm that:

- ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework
- ▶ It is consistent with other information that we are aware of from our audit of the financial statements

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

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters. We are not requesting any specific representations in addition to the standard representations other than on the uncorrected misstatement.

Whole of Government Accounts

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

We are currently concluding our work in this area and will report any matters that arise to the Audit and Governance Committee.

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Oxford City Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 - Arrangements for securing financial resilience *“Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future”*

Criteria 2 - Arrangements for securing economy, efficiency and effectiveness *“Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity”*

→ We did not identify any significant risks for these two criteria. Significant risks are issues that would require specific risk-based work to ensure we can issue a safe value for money conclusion. However, we did identify in our Audit Plan the following key area that we needed to consider to support our value for money conclusion.

Value for money conclusion risks	Audit Procedures performed
Key area for consideration	
From April 2013, there will be changes to the arrangements for both local council tax support and business rates. These changes represent a significant change for the Council and bring both financial and reputational risks.	We focused on how the Council <ul style="list-style-type: none"> • Managed these changes. • Assessed the likely impact of the changes on its financial position and built these into its future financial projections and budget

We have no matters to report in respect of the two criteria including our work on the key area for consideration

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 27 February 2014.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.
- ▶ If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit and Governance Committee on 22 September 2014.
- ▶ We confirm that we have met the reporting requirements to the Audit and Governance Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of 27 February 2014.

12

Independence and audit fees

Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
	£s	£s	
Total audit fee – Code work	TBC	114,000	
Certification of claims and returns	Work in progress	39,900	The scale fee has been reduced because we are no longer required to carry out certification work for the national non-domestic rates return or council tax benefits in the benefits subsidy claim
Non-audit work	0	0	-

- ▶ Our actual Code work fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Appendix 1 - Uncorrected audit misstatements

- The following misstatements have been identified during the course of our audit and in our professional judgement warrants communicating to you.
- The items have not been corrected by management.

Disclosure	Description of misstatement
14 1. Comprehensive Income and Expenditure Statement	Not amended to reflect the changes to pension disclosure requirements (£1.3m). No impact on Balance Sheet or the bottom line.
2. Provision for Non Domestic Rate Appeals	Not amended to include a provision for appeals not yet made but likely to be made based on past experience.

Appendix 2 - Corrected audit misstatements

- The following corrected misstatements have been identified during the course of our audit and warrant communicating to you.
- These items have been corrected by management within the revised financial statements.

Balance Sheet and Statement of Comprehensive Income and Expenditure

Item of Account	Nature	Type	Balance Sheet	Statement of Comprehensive Income & Expenditure
	Description	F, P, J	Debit/(Credit)	Debit/(Credit)
1. Short Term Debtors 15	The preceptor and CLG debtor balances on council tax and NDR were disclosed as gross rather than net as required by the Code. The debtors balances in relation to these accounts were overstated by £6.8 m. The overall impact is offset by the creditors balances noted below.	F	Credit - £6.8m	
2. Short Term Creditors	The creditor balances on council tax and NDR was disclosed as gross rather than net as required by the Code. The creditors balances in relation to these accounts was overstated by £6.8m.	F	Debit - £6.8m	
Cumulative effect of corrected misstatement	<i>F=Factual, P= Projected J=judgemental</i>		Nil	

Appendix 2 - Corrected audit misstatements

The following misstatements, have been identified during the course of our audit and in our professional judgement warrant communicating to you.

These items have been corrected by management within the revised financial statements.

Disclosures

Disclosure	Description of misstatement
1. Note 33 – Grant Income. Grants Credited to Services Housing Benefits Grant	Grant disclosed understated - £60.6 m amended to £66.2 m
2. Note 42 d and e – Financial Instruments: - Analysis of Financial Liabilities - Analysis of Financial Assets	Disclosures contained some assets and liabilities which were inconsistent with the description of the Note. The Analysis of Financial Assets contained liabilities and Analysis of Financial Liabilities contained assets. This resulted in the transfer of assets of approximately £38 m one way and liabilities of approximately £32 m the other way.

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17

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



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