

Annual Audit Letter

Oxford City Council

Audit 2010/11



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Traffic light explanation
Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

I have included only significant recommendations in this report. The Council has accepted these recommendations.

| Key audit risk | Our findings |
|---|--------------|
| Unqualified audit opinion | ● |
| Proper arrangements to secure value for money | ● |

Value for money

I issued an unqualified VFM conclusion. I concluded the Council has proper arrangements to secure, economy, efficiency and effectiveness in its use of resources. Maintaining effective management arrangements including financial resilience are essential for the Council as it continues to receive less funding from central government.

Audit opinion and financial statements

I issued an unqualified opinion on the Council's 2010/11 financial statements on 30 September 2011.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

I issued an unqualified opinion on the Council's 2010/11 financial statements on 30 September 2011.

Financial statements

It has been a challenging year for the Council with the introduction of IFRS and staffing changes during the year but against this backdrop it was pleasing to have good cooperation from the finance team. Performance has improved on the previous year with fewer errors identified this year.

Key issues arising from the audit are:

- The need to review of the Council's treatment of the provision for bad debts on investments with Icelandic banks;
- An adjustment required for £78 million in the lease note;
- Classification adjustment required of £5.788m income from investment properties in the Comprehensive Income and Expenditure Statement;
- Delays in providing restated IFRS compliant financial statements;
- Financial statements and notes needing extra work and explanation to gain assurance on them.

While there has been an improvement on last year there is more to do to ensure the accounts and working papers are prepared to the standard required and remove the need for extra audit work and resulting additional fee. I had to do more work on the IFRS restated accounts. I have also had to do extra work on agreeing the financial statements to the trial balance and ledger and supporting working papers.

Annual Governance Statement

I have reviewed the Council's Annual Governance Statement. My review focused on:

- considering the completeness of the disclosures in the governance statement and whether it complies with proper practice as specified by CIPFA; and
- identifying any inconsistencies between the disclosures and the information that I am aware of from my work on the financial statements and other work.

In my view the statement is compliant and complete. I did not identify any inconsistencies between the disclosures and the information that I am aware of from my work on the financial statements and other work.

Internal control

I did not identify any significant weaknesses in your internal control arrangements. I did identify some areas for improvement from my review of the Council's material financial systems and from my audit of the financial statements. I identified control weaknesses around the monthly reconciliations. This meant that I could not place reliance on them and I had to complete more substantive testing at the year end.

→ I will review progress in implementing my recommendation as part of my audit for 2011/12.

Significant matters discussed with the Council

I have discussed with the Council the impact of IAS39 and LAAP Bulletin 82 update 4 issued by CIPFA in May 2011 about the treatment of Icelandic bank deposits. This requires Councils to come to a 'best estimate' based on information available to them and LAAP Bulletin 82 provided advice on estimating the impairments to be recognised.

I reviewed the Council's response to the LAAP Bulletin and I am comfortable that the explanation provided supports the Council's best estimate of the liability and this is in line with IAS 39.

Another significant matter discussed with officers was a property, Ramsey House with a value of £2.2million, which was included in assets held for sale. Following my discussions the asset was reclassified as a surplus asset.

Questions and objections

I received some questions from local residents. None of the questions I received met the criteria for an objection as they did not contain details of any item in the accounts which broke the law. I therefore did not accept the questions as an objection. Where appropriate I have followed up questions with the Council to ensure that they are considering these and what action they may need to consider as a result.

Audit fees

I reduced the audit fee in 2010/11 on the expectation there would be further efficiency savings and improvements to the financial statements, supporting notes and working papers. While there have been improvements on last year there is more to do to get the supporting notes and working papers to the standard expected therefore I have had to undertake extra work.

On top of the original fee of £200,000 a fee of £8,000 has been charged for the extra work I undertook on IFRS restatements and £15,000 for the extra final accounts work, resulting from the issues with notes, supporting documentation and also additional work needed in specific areas to gain assurance required. Audit fees in previous years have been higher, the fee for 2009/10 was £227,000 and in 2008/09 was £273,032.

Recommendation

Recommendation

R1 The Council must monitor and ensure the timely implementation of recommendations I have made in the following reports to achieve the required improvements:

- 16 ■ Annual Governance Report
 - Final accounts memo
 - Interim memo.
-

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

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Value for money criteria and key messages

| Criterion | Key messages |
|---|--|
| 1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. | The Council has put in place systems for monitoring and managing financial performance including a sound project and programme methodology for delivering its transformation savings. I found that the Council had responded well to the decrease in funding from central government by developing financial plans that reflected reduced grant income. The indications are, for example a balanced budget was set for 2010/11 and kept to, that the Council has a stable financial position for 2011/12 at half year and should be able to achieve its plans provided financial control remains effective. |

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Council has put in place arrangements for budget setting involving both Members and budgetholders to ensure there is a focus on priority areas and that cost reductions are deliverable.

The Council has a cost reduction target of £10 million in its 4 year Medium Term Financial Plan and aims to achieve them through a combination of efficiency savings £6 million, service reductions £1.8 million and fees and charges of £2.2 million. The Council's efficiency savings are front loaded (£3.2 million in 2011/12) will be delivered in part through its officer rationalisation programme and its customer contact services review.

Current and future challenges

Economic downturn and pressure on the public sector

The economic climate and the constraints on public finances will require the Council to meet cost pressures more through increasing efficiency and looking at new income generating activities.

The Council has reduced its workforce by voluntary redundancy and has developed new ways of working such as the new call centre. It is also on target to meet its savings targets in 2011/12.

Financial pressures remain. Cuts in the spending of other public sector bodies and changes in the benefits regime put pressure on the Council to maintain or increase spending. The key challenge will be in maintaining sound financial control through effective integrated performance reporting.

Operational performance

The Council reported improved performance against the National and retained Best Value Performance Indicators. Of the 79 performance figures measured 65 (82%) were at or above target. The Council also reported good performance against targets in the Corporate Plan with 78% of these being achieved. Only eight were not achieved. Of particular note is that the Council for the first time was able to report a lower number of average days lost to sickness than the target.

This is good performance given the economic backdrop and financial pressures and the Council needs to maintain this going forward. The Council have invested in the development of its management information system, Corvu to facilitate integrated performance reporting. The Council has also received IIP accreditation and is continuing to invest in staff development through Action Learning and coaching.

Financial statements and IFRS

The Council met the challenge of implementing IFRS. There is the need to embed processes to make them routine and less time-consuming for the finance team. Some aspects, such as assets held for sale, need to be considered on a routine basis to ensure that they are picked up accurately and in a timely manner.

The Finance team are keen to build on the success achieved in 2010/11 and are working on improving the quality of working papers.

Following a health check of the Council's financial ledger, a project is underway to streamline the coding structure, better integrate the system and enable the automatic generation of key reports thus providing productivity gains.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit and Governance Committee on 28 November 2011.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

| Report | Date issued |
|--|--|
| Audit plan | January 2011 and reported to January 2011 Audit and Governance Committee |
| Interim memo | May 2011 and reported to June 2011 Audit and Governance Committee |
| Final accounts memo | October and reported to November 2011 Audit and Governance Committee |
| Annual governance report | September 2011 and reported to September 2011 Audit and Governance Committee |
| Auditor's opinion on the financial statements and vfm conclusion | 30 September 2011 |
| Audit completion certificate | 30 September 2011 |
| Annual Audit Letter | 28 November 2011 and reported to November Audit and Governance Committee |

I can confirm the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence. The Council has taken a positive and constructive approach to our audit. The final audit fees for the Council for 2010/11 are set out in Appendix 1.

I wish to thank the Council staff for their support and co-operation during the audit.

Maria Grindley

District Auditor

November 2011

Appendix 1 - Fees

| | Actual | Proposed | Variance |
|----------------|----------------|----------------|---------------|
| Scale fee | 223,000 | 200,000 | 23,000 |
| Non-audit work | 0 | 0 | 0 |
| Total | 223,000 | 200,000 | 23,000 |

The Audit Commission paid a rebate of £10,673 to the Council in April 2010 to reduce the 2010/11 audit fee.

My proposed fees for grant claim work is £82,000. My work on grant claims is in progress and I will report the final fee once my work is complete.

Appendix 2 - Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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