

# Agenda

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## Audit and Governance Committee

Date: **Thursday 29 September 2011**

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Time: **6.00 pm**

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Place: **St Aldate's Room, Town Hall**

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For any further information please contact:

**Mathew Metcalfe, Democratic Services Officer**

Telephone: 01865 252214

Email: [mmetcalfe@oxford.gov.uk](mailto:mmetcalfe@oxford.gov.uk)

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# Audit and Governance Committee

## Membership

<b>Chair</b>	<b>Councillor Beverley Hazell</b>	Marston;
<b>Vice-Chair</b>	<b>Councillor Clark Brundin</b>	North;
	<b>Councillor Roy Darke</b>	Headington Hill and Northway;
	<b>Councillor Bryan Keen</b>	Cowley;
	<b>Councillor Mark Mills</b>	Holywell;
	<b>Councillor Matt Morton</b>	St. Mary's;
	<b>Councillor Oscar Van Nooijen</b>	Hinksey Park;

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## AGENDA

### Pages

**1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

The Quorum for this Committee is 3 and substitutes are permitted.

**2 DECLARATIONS OF INTEREST**

Councillors serving on the Committee are asked to declare any personal or personal prejudicial interests they may have in any of the following agenda items.

**3 INTERNAL AUDIT SUMMARY REPORT - 2011/12 PLAN - PRICEWATERHOUSECOOPERS (PWC)**

1 - 10

The Head of Finance has submitted a report on behalf of the Council's Internal Auditors, Pricewaterhousecoopers (PWC) which provide an update of the work undertake as part of the audit plan.

The Committee is asked to comment on and note the report.

**4 ANNUAL GOVERNANCE REPORT - 2010/11 AUDIT - AUDIT COMMISSION**

11 - 42

The Head of Finance has submitted a report on behalf of the Audit Commission which details the Annual Governance Report which details the audit work undertaken during the Audit Year 2010/11.

The Committee is asked to comment on and note the report.

**5 STATEMENT OF ACCOUNTS 2010/11**

To Follow

**6 AUDIT RECOMMENDATIONS TRACKER**

To Follow

**7 MINUTES**

43 - 50

Minutes of the meeting held on 30<sup>th</sup> June 2011.

**8 DATES OF FUTURE MEETINGS**

The Committee will meet on the following dates at 6.00 pm in the Town Hall:

Monday 28<sup>th</sup> November 2011

Monday 6<sup>th</sup> February 2012

Monday 16<sup>th</sup> April 2012

## **9 MATTERS EXEMPT FROM PUBLICATION**

If the Committee wishes to exclude the press and the public from the meeting during consideration of any of the items on the exempt from publication part of the agenda, it will be necessary for the Board to pass a resolution in accordance with the provisions of Paragraph 21(1)(b) of the Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2000 of the on the grounds that their presence could involve the likely disclosure of exempt information as described in specific paragraphs of Schedule 12A of the Local Government Act 1972.

## **PART TWO**

### **PART TWO** **MATTERS EXEMPT FROM PUBLICATION**

## **10 ALLEGATIONS OF INTERNAL FRAUD, INVESTIGATIONS AND OUTCOMES**

51 - 56

This item is exempt from publication by virtue of paragraphs 2,3 and 7, Schedule 12A, Local Government Act 1971

- (2) Information which is likely to reveal the identity of an individual
- (3) Information about someone's finances or business
- (7) Information about action to deal with a crime

## **DECLARING INTERESTS**

What is a personal interest?

You have a personal interest in a matter if that matter affects the well-being or financial position of you, your relatives or people with whom you have a close personal association more than it would affect the majority of other people in the ward(s) to which the matter relates.

A personal interest can affect you, your relatives or people with whom you have a close personal association positively or negatively. If you or they would stand to lose by the decision, you should also declare it.

You also have a personal interest in a matter if it relates to any interests, which you must register.

### **What do I need to do if I have a personal interest?**

You must declare it when you get to the item on the agenda headed "Declarations of Interest" or as soon as it becomes apparent to you. You may still speak and vote unless it is a prejudicial interest.

If a matter affects a body to which you have been appointed by the authority, or a body exercising functions of a public nature, you only need declare the interest if you are going to speak on the matter.

### **What is a prejudicial interest?**

You have a prejudicial interest in a matter if;

- a) a member of the public, who knows the relevant facts, would reasonably think your personal interest is so significant that it is likely to prejudice your judgment of the public interest; and
- b) the matter affects your financial interests or relates to a licensing or regulatory matter; and
- c) the interest does not fall within one of the exempt categories at paragraph 10(2)(c) of the Code of Conduct.

### **What do I need to do if I have a prejudicial interest?**

If you have a prejudicial interest you must withdraw from the meeting. However, under paragraph 12(2) of the Code of Conduct, if members of the public are allowed to make representations, give evidence or answer questions about that matter, you may also make representations as if you were a member of the public. However, you must withdraw from the meeting once you have made your representations and before any debate starts.



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# Internal audit summary report for Audit and Governance Committee

*September 2011*



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# *Plan outturn*

## **2011/12 Audit Plan**

We have undertaken work in accordance with the 2011/12 Internal Audit Plan which was approved by the Audit and Governance Committee at its meeting in March 2011.

An outturn statement detailing assignments undertaken and actual activity for the year is shown in Appendix One. At present we have completed **90 days out of a total planned 250 days (36%)**. This is in line with the profile of our Internal Audit plan and can be attributed to the majority of financial systems reviews being performed in Q3 of the year. We commit to completing our plan ahead of the year end.

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# *Reporting Activity and Progress*

## *Final reports issued since the previous meeting*

- **Car Parking** – We have classified our findings in this area as **Medium Risk**. The Car Parking department has made improvements to the controls identified in prior years as well as implementing a series of new controls to enhance effectiveness. The majority of prior year recommendations have been addressed notably around the stewardship of Shopmobility vehicles with the implementation of a new user database, asset register and daily usage records. The operating effectiveness of the cash collection process has improved considerably with only one minor issue being noted around the reconciliation of income collected on a daily basis. The department has carried out a risk assessment on all procedures in year in order to identify those areas susceptible to fraud. In response to this, a number of new controls around cash handling and custody of assets have been introduced. Whilst the operation of some of these processes is being embedded, there are still exceptions from testing in a number of areas.
- **Fraud Awareness** – We conducted fraud awareness workshops with officers in June 2011. We have detailed our findings from these discussions later in our report.

## *Fieldwork and draft reports*

Draft reports have been issued and/or fieldwork has commenced in the following areas: -

- General Ledger
- Cash Collection and Establishment
- Treasury Management
- Homelessness
- Budgetary Control
- Contract Assurance
- Procurement Computer Assisted Audit Techniques

# Fraud Risk

Our Internal Audit Charter states that as Internal Auditors we will “assist in the investigation of significant suspected fraudulent activities within the Council in accordance with its anti fraud and corruption procedures” and carry our anti fraud and corruption work as requested by management and members. Your external auditors (the Audit Commission) are required under the ISA 240 “The auditor’s responsibility to consider fraud in the audit of financial statements”, to explicitly consider fraud as part of their audit procedures.

Three conditions generally are present when fraud occurs:



1. management or other employees have an incentive or are under pressure that provides a reason to commit fraud (e.g. pressure to meet targets or hold position);
2. circumstances exist (e.g. the absence of controls, ineffective controls, or the ability of management to override controls) that provide an opportunity for a fraud to be perpetrated; and
3. those involved are able to rationalise a fraudulent act as being consistent with their personal code of ethics or possess an attitude, character, or set of ethical values that allow them to knowingly and intentionally commit a dishonest act.

From wider discussions with both our corporate and public sector clients, we have noted that as the UK economy goes through recession the pressure increases on employees. In such times the risk of fraud becomes much increased.

The following areas of fraud risk were identified during our workshop with officers. We are aware that the Councils Investigations Manager has identified a number of these issues and is working with officers to implement solutions to prevent and detect fraud in these areas. The Council is also introducing new systems and procedures which will improve transparency and reduce risk in certain of these areas.

The following should therefore read as a listing of **potential** risks to the Council.

- Housing Benefit and Council Tax fraud is on the increase in the current economic climate. There are added incentives to misrepresent personal situations. e.g. Single Persons Discounts;
- Within Housing, it was acknowledged that additional work is required to detect tenancy fraud, most

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notably in the areas around subletting and allocations;

- The pressure of cuts and the need for Value for Money may increase the risk of misrepresentation of financial and performance information within the Council. In addition, the Council should be aware of the potential for increased fraud created by cuts in team sizes. Maintenance of segregation of duties and supervision in this environment should be considered;
- There is a heightened risk of fraud in areas where cash is handled. This may manifest itself in theft and money laundering (e.g. refunds paid by cheque);
- Misappropriation of assets is possible where employees have access to Council stock and assets (e.g. vehicles) Controls such as key logs and equipment registers/stock takes will help to mitigate against this risk;
- The Council is looking to work with Internal Audit on devising reports to identify potential trends and unusual transactions that may indicate fraud within the purchases and sales cycles. A wider acknowledgement of “risky” transactions (e.g. those posted after hours and with round sum amounts) will help to detect fraudulent transactions.

We would be pleased to receive any comments that you have on this area and its views on the risk of fraud. How are you confident that the risks of fraud have been identified and mitigated? We continue to work with the Councils Investigations Manager (Carol Quainton) on both fraud prevention and detection measures.

# Appendix One – Plan Progress

Review	Days	Quarter per plan	Progress
General Ledger	10	2	Fieldwork concluded
Debtors	10	3	Scoping commenced
Creditors	10	3	Scoping commenced
Payroll	10	3	Scoping commenced
Collection Fund	10	2	Fieldwork commenced
Cash Collection and Establishment	10	1	Draft Report issued
Treasury Management	5	2	Draft Report issued
Housing Benefit	10	3	To be commenced in Q4
Fixed Asset	10	4	To be commenced in Q4
Housing Rents	5	3	Scoping commenced
Risk Management and Performance Monitoring	15	3	Scoping commenced
Law and Governance - Transparency Agenda	5	1	Review parked
Homelessness	5	1	Draft Report issued
Income Stream - Car Parking	5	2	Final Report issued
Income Stream - Trade Waste	5	2	Fieldwork commenced
Income Stream - Commercial Property	5	2	Scoping commenced
Budgetary Control	10	2	Draft Report issued
Year end Support	10	4	To be commenced in Q4
Procurement CAATS	5	2	Scoping commenced
ICT	25	-	Risk assessment commenced
Contract Assurance	10	2	Fieldwork commenced
Project Governance	5	4	To be commenced in Q4
Fraud Awareness	5	1	Work completed
HRA Reform	10	2	Scoping commenced
Follow Up	10	-	Ongoing
Audit Management	30	-	Ongoing
	<b>250</b>		

## Summary of recommendations (final reports only)

Assignment	High (10 points)	Medium (3 points)	Low (1 point)	TOTAL POINTS	Overall Risk Rating
Car Parking	0	2	6	12	<b>MEDIUM</b>
<b>Total</b>	<b>0</b>	<b>2</b>	<b>6</b>	<b>-</b>	

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# *Appendix Two – Recent PwC Publications*

As part of our regular reporting to you, we plan to keep you up to date with the emerging thought leadership we publish. The PricewaterhouseCoopers Public Sector Research Centre (PSRC) produces a range of research and is a leading centre for insights, opinion and research on best practice in government and the public sector.

## *Accounting developments*

There are a number of minor updates to the CIPFA Code of Practice on Local Authority Accounting in the UK 2011/12

The main accounting change relates to the adoption of the requirements of FRS 30 Heritage Assets in the CIPFA Code. This requires heritage assets to be measured at valuation in normal circumstances, and permits authorities to use the measurement and disclosure principles of FRS 30 for Community Assets.

## *Creating Auditor Choice*

On 13th August 2010, Secretary of State for Communities and Local Government Eric Pickles announced the end of the Audit Commission, signalling a new era of public sector audit.

What followed was a period of uncertainty and speculation with the publication of the ‘future of local public audit’ consultation paper in April 2011, providing much needed structure to the debate. The political and economic backdrop to the demise of the Audit Commission has been one of significant change, with substantial public sector spending cuts.

## *Capable Communities: Towards Citizen-Powered Public Services*

Everyone is talking about the ‘Big Society’ as part of the next stage of public service reform, but much of the discussion to date has been abstract rather than practical. Getting citizens more involved in the design and delivery of public services has real promise as a way of empowering citizens, improving outcomes and providing better value for money. But we need to understand much better how this agenda can be translated into practice. This report asks how, in practical terms, citizens can act together to improve the way public services work for them. This can involve individuals volunteering their time to help others, but it is also about empowering people to help themselves.

All publications can be read in full at [www.psrc.pwc.com/](http://www.psrc.pwc.com/).

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# Annual governance report

Oxford City Council

Audit 2010/11

DRAFT

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

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Ladies and Gentlemen

## 2010/11 Annual Governance Report

I am pleased to present the results of my audit work for 2010/11.

I discussed and agreed a draft of my report with the Chief Executive and Corporate Director Finance & Efficiency on 13 September 2011 and will update it as the final outstanding issues are resolved.

My 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;
- note the adjustments to the financial statements 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);
- approve the letter of representation for the Council before I issue my opinion and conclusion (appendix 4); and
- agree your response to the proposed action plan (appendix 6).

Yours faithfully

Maria Grindley  
District Auditor

Date 16 September 2011

# Key messages

**This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

Table 1: **Key messages**

<b>Financial statements</b>	<b>Results</b>
Audit opinion on the financial statements	I propose to issue an unqualified opinion
Internal control	I found no significant deficiencies I need to report
<b>Value for money</b>	<b>Results</b>
Value for money conclusion	I propose to issue an unqualified conclusion on your arrangements to secure value for money

## Financial statements

- 1** Subject to clearance of outstanding issues (set out in paragraph 31) I expect to issue an unqualified opinion by 30 September 2011.
- 2** Key issues arising from the audit are:
  - Review of the Council's treatment of the provision for bad debts on investments with Icelandic banks;
  - Adjustment of £78m in the lease disclosure note;
  - Delays in providing restated IFRS compliant financial statements;
  - Financial statements and notes needing additional work and explanation in order to gain assurance and reconcile them.
- 3** Overall the audit has gone well with good cooperation from the finance team. It has been a challenging year with the introduction of IFRS and staffing changes during the year. Performance has improved and a good indicator of this is that there are fewer uncorrected errors set out in Appendix 3. A comparison with prior years shows an improving trend.

4 Whilst there has been an improvement on last year there is more to do to ensure that the accounts and working papers are prepared to the standard required and eliminate the need for additional audit work and resulting fee. I had to do additional 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. The audit also took longer than planned due to the supporting working papers, in particular spreadsheets not containing adequate narrative explanation and in some cases not agreeing to the notes in the financial statements.

## Value for money

5 I assessed the risk of giving a wrong value for money conclusion as low. I identified no significant risks and did not undertake any risk based value for money work. I propose to give an unqualified value for money conclusion.

## Audit fees

6 An extra fee of £8,000 has been charged on top of the original fee of £200,000 for the extra time and work we spent on IFRS restatement work. Audit fees in previous years have been higher, the fee for 2009/10 was £227,000 and in 2008/09 was £273,032. An additional fee will be required for the extra work I have had to do on agreeing the accounts to the trial balance and ledger and for the extra time spent agreeing figures in the accounts to supporting working papers. I will inform you of this additional fee once the audit is completed.

7 I reduced the audit fee in 2010/11 on the expectation that there would be further efficiency savings and improvements to the financial statements, supporting notes and working papers. Whilst there have been improvements on last year I have had to undertake additional work.

## Independence

I can confirm that I have complied with the Audit Practice Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I identified the following threat to independence which I need to bring to your attention. The spouse of my Team Leader works for City works. I applied the following safeguard that reduced this threat to independence an acceptably low level, my Team Leader does not do any audit work on City Works or on their payroll.

8 The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

## 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.**

- 9 I ask the Audit and Governance 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);
  - consider to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (appendix 3 table 7);
  - approve the letter of representation for the Council before I issue my opinion and conclusion (appendix 4); and
  - agree your response to the proposed action plan (appendix 6).

# 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.**

## Opinion on the financial statements

**10** Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

## Key areas of judgement and audit risk

**11** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 2: **Key areas of judgement and audit risk**

Issue or risk	Finding
International Financial Reporting Standards (IFRS).	<p>The Council's preparation of IFRS restated accounts for 2009/10 did cause me some concern.</p> <p>It was agreed at the January Audit and Governance Committee that the Council would produce IFRS compliant restated 2009/10 financial statements by 21 February 2011. These were received late.</p> <p>The delays and having to redo some of our early work resulted in extra time being spent on the audit and an extra fee of £8,000 has been charged.</p> <p>I have now completed my work on the restatement and no material errors were identified. My recommendations relating to this work have been included in my interim memo.</p>



Issue or risk	Finding
<p>Accounts close down and accurate preparation of the financial statements</p>	<p>Performance has improved in 2010/11. The working papers, whilst needing further improvement, were better than those provided last year and my working paper requirement has been followed.</p> <p>The speed and quality of response to audit queries has improved.</p> <p>But :</p> <ul style="list-style-type: none"> <li>■ errors discovered and adjusted by the Council delayed the start of the audit;</li> <li>■ ledger clearance proved time-consuming - and we had one false start on this;</li> <li>■ there was a lack of narrative to explain links between supporting spreadsheets - this is essential to explain the information contained and how this links to other working papers;</li> <li>■ a number of the working papers did not support the figures in the accounts and I had to raise additional queries to obtain the assurance I required;</li> <li>■ sometimes the initial response to our audit queries did not fully address the point being raised but in fact resulted in further queries.</li> </ul> <p>The additional time taken by my team will result in an additional fee.</p>
<p>The government's Spending Review which requires every council across the country to make large financial savings.</p>	<p>The Council has made plans to make significant savings through its Medium Term Financial Strategy and is working in partnership with other local public bodies to manage the impact of the budget cuts.</p>

### Errors in the financial statements

- 12 Corrected errors are shown in appendix 2.
- 13 Uncorrected errors are shown in appendix 3.

### Recommendation

**R1** Better attention to detail and review of supporting working papers is needed to improve the efficiency of the audit by reducing the amount of queries I have had to raise. This would save officer time and reduce the need for additional fees in future.

## Important weaknesses in internal control

### Control environment

14 My review of the control environment has not revealed any issues that may lead to a material misstatement of the financial statements.

15 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.

### Material information systems - key controls

16 The table below summarises my findings on all material information systems and whether I was able to place reliance on the key controls within them or had to undertake more substantive testing during the opinion audit:

Table 3: **System findings**

System	Findings	Impact on opinion work
Capital	There were few evidenced controls in place in the system that I could place any reliance on. The only evidenced controls were those over the authorisation of invoices for additions	Substantive year end testing of fixed assets.
General ledger	Control weaknesses identified: 4 out of 45 journals tested by Internal Audit were not authorised before input; not all the monthly reconciliations have been produced promptly or reviewed or had reconciling differences investigated; the bank reconciliation had uncleared reconciling items from up to 1 year ago; the suspense account had not been reviewed or cleared.	I used the high risk testing factor, which means more testing, for testing of year end journals and I substantively tested the year end bank reconciliation and feeder systems.
Accounts payable (AP)	There was a difference of £2,635 on the December 2010 reconciliation between Accounts Payable system and the GL. This has now been cleared. The control should work as intended throughout the year. As this was not the case I was not able to rely on this as a control for our work on the AP system.	I substantively tested the year end AP reconciliation.
Housing rents	Monthly reconciliations of the Tenant's control account are produced but no evidence of review was recorded.	I substantively tested at year end.
Housing benefits	No evidence of the operation of controls is kept. No evidence of review of the input of parameters onto the housing benefit system. This has been	Parameters and accuracy of housing benefit payments will be

System	Findings	Impact on opinion work
	<p>kept for 2011/12 parameters.</p> <p>No evidence of review on the Housing Benefits payments to the GL. There was also an unreconciled difference.</p> <p>I found some improvement from our review last year: there are now regular quality reviews of assessor's work and we can rely on these for assurance over some parts of the system.</p>	<p>substantively tested as part of the grant claim audit.</p> <p>Year end reconciliation of Academy was substantively tested.</p>
Payroll	<p>I found no weaknesses in the controls operating over the system:</p> <p>Control checks had been carried out to ensure that information from the outgoing payroll system was transferred over to the new system. Whilst the 2 systems were being run in parallel, a full reconciliation was performed.</p> <p>I also found the monthly reconciliation between payroll and General Ledger is being reviewed and signed off each month, and monthly exception reports are being reviewed and approved each month.</p>	I was able to rely on controls.
Car parking	<p>There was a backlog of the reconciliation between cash taken and car park machine printouts. Reconciliations from November 2010 were not performed until February 2011.</p> <p>The backlog has now been cleared.</p> <p>I also reviewed the Council's review of the impact of the uncovered fraud. An estimate of income lost is £7,000. This is not material.</p>	I was able to rely on controls.
Accounts receivable	<p>There are controls in place around the raising of sales orders and invoices.</p> <p>I found that monthly reconciliations of AR to GL have not been fully reconciled or reviewed for all months.</p>	I substantively tested year end reconciliations.
Treasury management	<p>Weakness in controls identified: lack of checking of authorised investments back to the 3rd party documentation for part of the year.</p>	I substantively tested investments.
Council tax	<p>There are weaknesses in controls: monthly reconciliations have not been performed effectively. There are unreconciled differences.</p>	I substantively tested year end reconciliation.
NNDR	<p>Weaknesses have been identified with the</p>	I substantively tested year

System	Findings	Impact on opinion work
	<p>monthly reconciliations.</p> <p>There was no evidence that the system parameters had been checked once input.</p> <p>Controls were found to be in place around the checking of Valuation Officer reports to the system and implementing the required changes.</p>	<p>end reconciliation.</p> <p>I substantively checked parameters.</p>

Source: Interim audit work

**17** Matters arising from our interim work have been reported to the Council and a response to the recommendations in our action plan has been received.

**18** These weaknesses are only those I identified during the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

### Recommendation

**R2** The Council should check on the implementation of the recommendations made in our interim report.

### Quality of your financial statements

**19** I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures. Overall the quality of the financial statements and supporting working papers is much improved reflecting the hard work of the finance team. Your accounts were also selected by our technical team for review (they review about 30 to 40 sets a year to check compliance with disclosure requirements) and no significant concerns or omissions were identified. I provided our working paper requirements which set out how I need you to structure working papers and these were followed.

**20** The next step would be to ensure that the spreadsheets provided contain a narrative explaining how they have been constructed and how they link to other working papers. This would reduce the time we need to go back and seek explanations. There were still found in some cases that the supporting information did not agree directly to the disclosures in the accounts and further work was required to provide and review the explanation and any additional working paper.

**21** Table 4 summarises the issues I want to raise with you.

Table 4: **Quality of the financial statements**

Issue	Finding
The Trial Balance and financial	Agreeing the trial balance, which is

Issue	Finding
<p>statements were received on 11 July. The Council sent a new version on 18 July. Extra time was spent trying to agree version 1 and then to redo the work on version 2. It took extra 4-5 days for the all the figures included in the primary statements (CIES,BS &amp; HRA) to be agreed back to the trial balance. This is because many of the individual codes are allocated out to different areas and there are a number of adjustments to reach the final figures. This is made more complex due to manual entries and the use of over 10 different worksheets. This needs to be simplified for the coming year.</p>	<p>a key test to demonstrate the integrity of the accounts, proved time consuming and complex. The additional time taken by my team will result in an additional fee.</p>
<p>It is difficult to navigate between the spreadsheets provided in the working papers.</p>	<p>Ensure that the spreadsheets provided contain a narrative explaining how they have been constructed and how they link to other working papers. This would save time by reducing the time we need to go back and seek explanations.</p>
<p>A bank account with a value of £13,000 was not included in the final accounts.</p>	<p>This is the second year running that a bank account has been left out of the accounts.</p>
<p>I found a number of errors when performing cut off testing. The Council undertook additional work and was able to demonstrate that the actual error was £47,000.</p>	<p>Review cut off testing to ensure accuracy.</p>

## Recommendation

- R3** Simplify the process for agreeing the ledger to the trial balance and then agreeing this to the financial statements.
- R4** Provide a narrative explanation for related spreadsheets to make it easier to follow the thought process of the preparer. Sample check supporting information to the disclosures in the financial statements to ensure that they agree. Provide an explanation for any variance.

## Recommendation

**R5** Include all bank accounts in the financial statements

**R6** Review cut-off prior to presenting the accounts to audit.

---

### Significant matters that were discussed or subject to correspondence with management

**22** I have discussed with the Council the impact of IAS39 and LAAP Bulletin 82 update 4 issued by CIPFA in May 2011 in relation to the treatment of Icelandic bank deposits.

**23** IAS 39 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 in relation to deposits in Icelandic banks.

**24** The updated LAAP Bulletin reported an Icelandic court decision of 1 April 2011. The court confirmed that local authorities' claims against Glitnir and Landsbanki banks qualified for priority under Article 112 of the Icelandic Bankruptcy legislation. LAAP bulletin Update 4 therefore recommends that 100% repayment in December 2011 is used as the best estimate.

**25** These decisions are being appealed in the Icelandic Supreme Court and the Council have taken the view that it would not be prudent to assume this and have maintained the impairment.

**26** I received the Council's response and I am comfortable that the explanation provided that supports the Council's best estimate of the liability and this is in line with IAS 39.

**27** I have also discussed with officers a property, Ramsey House with a value of £2.2m, included in assets held for sale and I am seeking more evidence to show that this categorisation is appropriate as assurance that the requirements of IFRS 5 are met.

### Other matters relevant to the financial reporting process

**28** My work is nearly complete and I am waiting for responses in a number of areas and once I have satisfactory responses I will complete outstanding work. I will also update Members at the Audit and Governance Committee meeting on progress with these matters and any resulting additional issues or changes to the issues in this report. I am waiting response for a number of items and have received responses to some as this report was being prepared for papers and I am now reviewing these. Outstanding issues include:

- Disclosure checklist – queries emailed to Finance Team and I will discuss queries outstanding with the Finance Team.
- Supporting notes 2008/9 and 2009/10 – waiting to receive remainder of the supporting documentation.

- Note 33 Revenue grants - Information now supplied and I am reviewing it.
- Capital grants RIA – Information now supplied and I am reviewing it.
- Usable and Unusable reserves – Information now supplied and I am reviewing it.
- Part of short term debtors testing - I have now received a council tax system report to confirm year debit position and I am reviewing it.

### **Letter of representation**

**29** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.

DRAFT

# Value for money

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

**30** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources. The Commission has specified two criteria that I assess performance against:

- securing financial resilience – whether the Council is managing its financial risks to secure a stable financial position for the; and
- challenging how the Council secures economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

**31** My conclusion on each of the two areas is the Council had proper arrangements in place. I intend to issue an unqualified conclusion stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

## Report by exception

**32** The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

**33** There are no issues I wish to bring to your attention.



# Appendix 1 Draft independent auditor's report to Members of Oxford City Council

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OXFORD CITY COUNCIL**

### **Opinion on the Authority accounting statements**

I have audited the accounting statements of Oxford City Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account and the Collection Fund and 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Corporate Director Finance & Efficiency and auditor**

As explained more fully in the Statement of Responsibilities the Corporate Director Finance & Efficiency, as the chief financial officer, is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited

accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on accounting statements**

In my opinion the accounting statements:

- give a true and fair view of the state of Oxford City Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

### **Matters on which I report by exception**

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

### **Conclusion on Authority's 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 to review regularly the adequacy and effectiveness of these arrangements.

#### **Auditor's responsibilities**

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

## Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Oxford City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

## Certificate

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

Maria Grindley

Officer of the Audit Commission

Audit Commission

Unit 5 ISIS Business Centre

Horspath Road

Oxford OX4 2RD

Xx September 2011

## Appendix 2 Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities.

Table 5: **Adjustments with impact on the comprehensive income and expenditure statement and balance sheet**

Adjusted mis-statement	Comprehensive income and expenditure statement		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Description	Account entry and value			Account entry and value
Note 19 Assets Held For Sale includes items which were sold before year end. Assets overstated		767,000	767,000	
<i>Source: Audit work 2010/11</i>				

Table 6: **Adjustments with no impact on the comprehensive income and expenditure statement and balance sheet**

Note	Adjusted mis-statement	Impact on note
11	Area based grant missing from note: Taxation and non-specific grant income	Taxation and non-specific grant income increases by 150k
33	The note does not disclose housing benefits and council tax subsidy	Note amended

Note	Adjusted mis-statement	Impact on note
42	The financial loans liability has not been split correctly into the different lengths of time	Note amended
Cash Flow Statement - Note 26	"Other financing activities" was understated by £36,000	Note amended - the CFS already had a "balancing adjustment" of £33,000
12	Depreciation on OL&B was shown as charged to provision of services instead of to revenue reserve	A movement between lines in the note, the correct amount was included in revaluation reserve
12	Impairment losses on AUC were shown as to revaluation reserve instead of to provision of services	A movement between lines in the note, the correct amount was included in revaluation reserve
36	Operating leases future minimum lease payments have been overstated by £78.8m	Note amended
23	Revaluation Reserve - split of upward and downward revaluations was incorrect.	Note amended
23	The Revaluation Reserve is understated by £104,000. The Capital Adjustment Account is overstated by the same amount	Note amended
<i>Source: Audit work 2010/11</i>		

A number of narrative amendments have been made following my review of the Foreword and the text in the financial statements.

## Appendix 3 Unadjusted misstatements in the financial statements

I identified the following misstatements set out in Table 7 during my audit but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to consider correcting these misstatements. If you decide not to amend, please tell me 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.

I also include in Table 8 and 9 uncorrected misstatements brought forward from earlier years,

Table 7: **Unadjusted misstatements in the accounts 2010/11**

Unadjusted mis-statement	Comprehensive income and expenditure statement		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Description	Account entry and value			Account entry and value
None identified to date				
<i>Source: Audit work 2010/11</i>				

Table 8: **Unadjusted misstatements in the accounts 2010/11 with no impact on the comprehensive income and expenditure statement and balance sheet**

Note	Unadjusted mis-statement	Impact on note
36	My testing identified two errors which when extrapolated gave a figure of £704,000.	Note incorrect

Table 9: **Unadjusted misstatements in the accounts 2009/10**

Description of error	Accounts affected	Value of error £	Continuing Impact
Testing of valuations identified 2 assets that had not incorrectly re-valued. The extrapolated error came to £21,000	Fixed asset valuation	£21,000	No - IFRS restatement work brought reserve up to date,
A bank account with £12,000 was not included in the accounts	Balance sheet - Current assets Bank accounts	£12,000	Yes - bank account not included in 2011/12
There was an adjustment put into the revaluation reserve the wrong way round.	Balance sheet Revaluation reserve and capital adjustment account	£47,000	No - IFRS restatement work brought reserve up to date,
46 Charles Street has been included as an addition this year but the Council have owned it since 1985.	Balance sheet - Plant Property and Equipment Note 6.12 additions	£170,000	No - inclusion corrected previous error

Source: Annual Governance Report 2009/10

Table 10: **Unadjusted misstatements in the accounts 2008/09**

Description of error	Accounts affected	Value of error £Million	Continuing impact
Accumulated depreciation in relation to finance leases has not been disclosed.	Note 6.12	Not known	No - IFRS restatement work brought reserve up to date,
Capital expenditure charged in year to the General Fund balance £1,220k does not agree to the figure in the capital adjustment account due to the adjustment to earmarked reserves.	Note 6.40	£150,000	No impact as earmarked reserves subsequently reviewed,
There is a balancing figure on the STRGL	STRGL	£140,000	No
There is a difference of £300k between Hewitts figures and	I&E	£300,000	No - IFRS restatement

Oxford City Councils figures in respect of the expected contributions in 2009/10.			work brought valuations up to date.
Various disclosures missing such as: - failure to disclose vacant possession value and the balance sheet value of dwellings within the HRA show the economic cost to government of providing council housing as less than open market rents. - fair value disclosures how they are determined is not shown - market risk, no sensitivity analysis prepared for market risk - no basis of accounting note - developers contributions should be other capital contributions in note 6.31			No - specific to 2008/09 accounts
Total of amounts included in the Income & Expenditure Account but required by statute to be excluded when determining the movement on the general fund balance for the year does not add up.	Note 5.3	£380,000	No continuing impact as in year error.
Cut off testing extrapolation of error	Income Expenditure	£377,000 £122,000	No - corrected in 2010/11
Opening balance does not agree to last years closing balance	Pensions reserve	£304,000	Now corrected
Restated figure for employer's contribution payable to the pension fund has not been included in the SMGFB.	Note 5.3	£450,000	Now corrected
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.	Note 6.40	Not known	No - IFRS restatement work brought valuations up to date.
The cashflow contains a balancing item of £78,000.	Cashflow	£78,000	No - specific to 2008/09 accounts

Source: Annual Governance Report 2008/09



# Appendix 4 Draft letter of representation

Draft management representation letter

To: Maria Grindley  
Appointed Auditor  
Audit Commission  
Unit 5 ISIS Business Centre  
Horspath Road  
Oxford  
OX4 2RD

Oxford City Council - Audit for the period ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other [insert relevant details e.g.; directors, officers, officials] of Oxford City Council, the following representations given to you in connection with your audit of the Council's financial statements for the period ended 31 March 2011.

## **Compliance with the statutory authorities**

I have fulfilled 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 which give a true and fair view of the financial position and financial performance of the Council for the completeness of the information provided to you, and for making accurate representations to you.

## **Uncorrected misstatements**

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

reason 1 etc;

reason 2]

[This section must also include prior year uncorrected misstatements where still relevant.]

## **Supporting records**

All relevant information and access to persons within the organisation has 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 financial statements.

### **Internal control**

I have communicated to you all deficiencies in internal control of which I am aware.

### **Fraud and error**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error. 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;
- 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; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

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

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. 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.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the process;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures; and

- the completeness and appropriateness under the financial reporting framework.

### **Related party transactions**

I confirm that I have disclosed the identity of Oxford City Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

### **Subsequent events**

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Oxford City Council

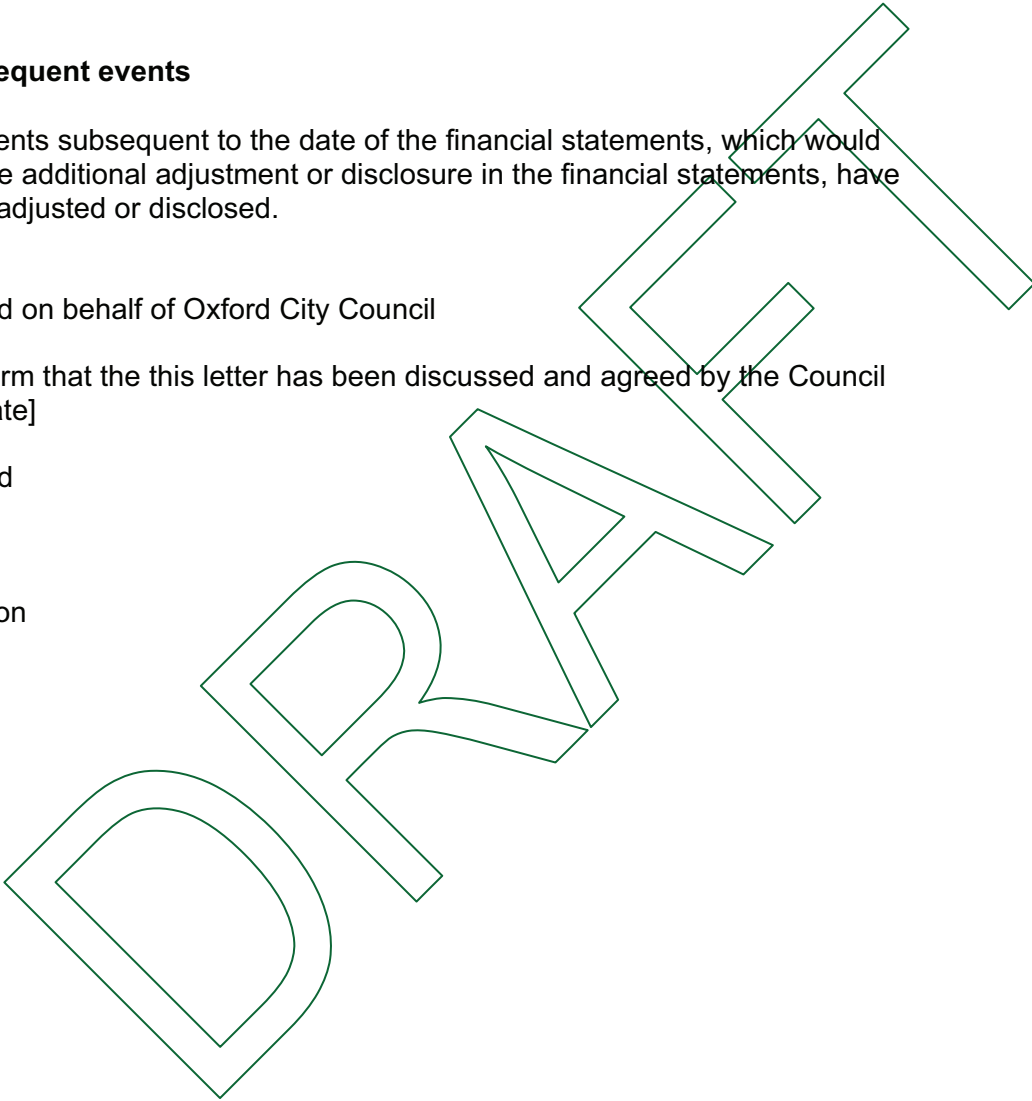
I confirm that the this letter has been discussed and agreed by the Council on [date]

Signed

Name

Position

Date



## Appendix 5 Glossary

### **Annual governance statement**

A statement of internal control prepared by an audited body and published with the financial statements.

### **Audit closure certificate**

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

### **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.

## **Materiality (and significance)**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## **Weaknesses in internal control**

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

## **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.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;

- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

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.

DRAFT

## Appendix 6 Action Plan

### Recommendations

#### Recommendation 1

- Better attention to detail and review of supporting working papers is needed to improve the efficiency of the audit by reducing the amount of queries I have had to raise. This would save officer time and reduce the need for additional fees in future.

<b>Responsibility</b>	Financial Accounting Manager
<b>Priority</b>	Medium
<b>Date</b>	30 June 2012
<b>Comments</b>	The format of Working papers will be reviewed and improved ahead of the completion of the accounts for 11/12; this will include ensuring all working papers received are accurate.

#### Recommendation 2

- The Council should check on the implementation of the recommendations made in our interim report.

<b>Responsibility</b>	Financial Accounting Manager
<b>Priority</b>	Medium
<b>Date</b>	31 March 2012
<b>Comments</b>	Recommendations on the interim report will be reviewed

#### Recommendation 3

- Simplify process for agreeing the ledger to the trial balance and then agreeing this to the financial statements.

<b>Responsibility</b>	Financial Accounting Manager
<b>Priority</b>	Medium
<b>Date</b>	30 June 2012
<b>Comments</b>	As part of the planning and preparation process for completion of the accounts for future years we will look to introduce a more robust and easy to follow way of agreeing the ledger to the financial statements

#### Recommendation 4

- Provide a narrative explanation for related spreadsheets to make it easier to follow the thought process of the preparer. Sample check supporting information to the disclosures in the financial statements to ensure that they agree. Provide an explanation for any variance.

<b>Responsibility</b>	Financial Accounting Manager
<b>Priority</b>	Medium
<b>Date</b>	30 June 2012
<b>Comments</b>	As part of the review process of the completion of the accounts checks will be introduced to review disclosure notes against working papers. Within the improvements of working papers we will look to introduce a standard format including a header sheet which will include narrative to accompany the working papers

### Recommendation 5

- Include all bank accounts in the financial statements

<b>Responsibility</b>	Financial Accounting Manager
<b>Priority</b>	Medium
<b>Date</b>	30 June 2012
<b>Comments</b>	All bank accounts will be included within future financial statements

### Recommendation 6

- Review cut-off prior to presenting the accounts to audit.

<b>Responsibility</b>	Financial Accounting Manager
<b>Priority</b>	Medium
<b>Date</b>	30 June 2012
<b>Comments</b>	Further review will be undertaken on cut-off to ensure data is accurate within the financial statements



## AUDIT AND GOVERNANCE COMMITTEE

**Thursday 30 June 2011**

**COUNCILLORS PRESENT:** Councillors Hazell (Chair), Brundin (Vice-Chair), Mills, Morton, Van Nooijen, Rowley and Sinclair.

**OFFICERS PRESENT:** Mathew Metcalfe (Democratic Services)

### **5. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Apologies were received from Councillor Roy Darke (Councillor Mike Rowley attended as a substitute) and Councillor Bryan Keen (Councillor Dee Sinclair attended as a substitute).

Apologies were also received from Peter Sloman (Chief Executive) and Jeremy Thomas (Head of Law and Governance).

### **6. DECLARATIONS OF INTERESTS**

Councillor Dee Sinclair declared a personal interest in agenda item 3 (Statement of accounts) as she had a flexible home loan through the Council (minute 9 refers).

### **7. AUDIT RECOMMENDATION TRACKER**

The Head of Finance submitted a report (previously circulated, now appended) which detailed the progress on the implementation of internal and external audit recommendations.

Simon Howick, Head of People and Equalities following a request from a previous meeting of the Committee for an update on the work being undertaken on Equalities said that there needed to be more effective communication of what had been undertaken or was currently underway to give the required assurance with regard to equalities. He said that the strategy was to reach "Achieving Level" in September 2011 which would involve approximately two days of inspections and that following a dry-run of the inspection, had recently been carried out by officers.

Simon Howick highlighted further work completed or underway as follows:

- (1) Review of equality and diversity targets, reducing them to 10 that were service related;
- (2) Refreshing of the Corporate Equalities Scheme with better use of the Council's website for promotion;
- (3) Better internal communications – Diversity Matters newsletter being produced;

- (4) Workforce equalities report being submitted to the Corporate Management Team;
- (5) Staff had attended diversity training;
- (6) Oxford City Council is recognised as a Diversity Champion
- (7) Single Status Pay Review completed.

In response to further questions Simon Howick said that the gender pay gap was 1-2% in the City Council, which was extremely low compared to other organisation. He further added that a particular area of concern was to communicate better all the work which was being undertaken.

Councillor Van Nooijen felt that the information currently presented in excel spreadsheet formats could be presented in a better and more understandable way.

Jacqueline Yates in response to questions concerning the areas highlighted in red, said that all of the Service Heads had provided updates and that plans were in place to address those area still showing as red.

The Committee agreed:

- (a) To thank Simon Howick for his update;
- (b) To note the progress made so far on the implementation of audit recommendations;
- (c) To approve the recommendations listed at appendix B to the report.

## **8. ADDRESS BY MEMBER OF THE PUBLIC**

The Chair agreed to allow Mr Feeney to address the Committee for up to 5 minutes.

Mr Feeney as part of his address raised the issue of Contingent Liabilities as part of the draft Statement of Accounts 2010/11. He informed the Committee that the first hearing of his claim would take place in the High Court on 27 July 2011 and it was his view that he had a high degree of success.

Mr Feeney then proceeded to read out questions which were directed to Councillors. In response Councillor Hazell informed Mr Feeney that while he could make a statement to the Committee he did not have the right to ask specific questions of specific Members of the Committee at the meeting.

Councillor Van Nooijen asked if there were any concerns about liabilities. In response Jacqueline Yates confirmed that that there were none.

## **9. STATEMENT OF ACCOUNTS 2010/11**

The Head of Finance submitted a report (previously circulated, now appended) which presented the Council's Statement of Accounts for the year ending 31<sup>st</sup> March 2011.

Jacqueline Yates introduced the item and informed the Committee that these draft Accounts were still subject to formal audit. She highlighted that a great deal of work had been undertaken by Officers on these draft accounts despite a number of challenges experienced by the team which included a service restructure, the move to International Financial Reporting Standards (IFRS) and key officers leaving the Council.

Jacqueline Yates further informed the Committee that the table which related to the Collection Fund Adjustment Account, circulated with the draft Statement of Accounts was incorrect, and circulated a correct version. She added that this amendment would not affect the bottom line in the General Fund balance. She further advised that there was an issue in respect of Historic Costs which the Auditors were aware of which officers were working to resolve prior to the Auditors coming to the Council on 11<sup>th</sup> July 2011 to conduct the audit. She again assured the Committee that this would not impact the bottom line.

Nigel Kennedy reiterated the significant effort that had gone into the production of the final accounts this year, with the first time adoption of IFRS and in particular the efforts of Anna Winship, the Councils Financial Accounting Manager who had led on the Statement production.

Nigel Kennedy introduced the Foreward to the draft Statement of Accounts and explained that the Foreward now stood along side the accounts rather than being part of them, as had previously been the case. He added that this was also the case with the Annual Governance Statement.

The Committee agreed:

- (a) To note the draft Statement of Accounts and the correction to the Collection Fund Adjustment Account;
- (b) To thank all of the Officers for their work during a challenging period in producing the draft Statement of Accounts.

## **10. 2010/11 ANNUAL GOVERNANCE STATEMENT**

The Head of Law and Governance submitted a report (previously circulated, now appended) which presented the 2010/11 Annual Governance Statement.

Lindsay Cane, Law and Governance introduced the report.

Councillor Van Nooijen said that the performance information, which Members now received, was not as clear as it had previously been and said it would be appreciated if the information could be presented in the same style as before. He further said that a monthly report would also be useful. In response Jacqueline Yates said that integrated performance reports were about to be rolled out and that training would be provided to Members shortly on how to access the information.

Councillor Morton asked questions concerning the historic costs of assets and how the problem had arisen. In response Jacqueline Yates said that the problem had been identified as a consequence of a revaluation of assets at 1 April 2011.

Councillor Brundin asked for clarification of Prince2 Light. In response Jacqueline Yates said that Prince2 was a way of managing projects which provided good governance. She said rather than adopt all of Prince 2, which could be very onerous, Officers had taken the more useful parts and used these.

The Committee agreed to approve the 2010/11 Annual Governance Statement.

## **11. AUDIT COMMISSION PROGRESS REPORT**

The Head of Finance submitted a report on behalf of the Audit Commission (previously circulated, now appended) which detailed the progress made in delivering the work set out in the 2010/11 audit plan.

Maria Grindly, (Audit Commission), introduced the report and informed the Committee that since the report had been submitted to be printed with the agenda, the IFRS work had now been completed and was in the process of being reviewed.

Councillor Van Nooijen asked if Members should be concerned at the delays in completing the IFRS work. In response Nigel Kennedy acknowledged that there had been some problems in re-stating the accounts, but this had been resolved. Jacqueline Yates further added that this was during the time of the service area restructure, however a great deal of work gone into reviewing and managing the process of the closing down the accounts.

The Committee agreed to note the report.

## **12. AUDIT COMMISSION - INTERIM MEMO**

The Head of Finance submitted a report on behalf of the Audit Commission (previously circulated, now appended) which set out the findings from the interim audit in preparation for work on the 2010/11 financial statements for the Council.

Maria Grindly, (Audit Commission), introduced the report.

The Committee agreed:

- (a) To note the report;
- (b) To request that officers be aware of how revisions to the accounts affected the auditors and that should information not be available when the Auditors come to the Council that this is communicated to them as soon as possible.

## **13. AUDIT COMMISSION - 2011/12 FEE LETTER**

The Head of Finance submitted a report on behalf of the Audit Commission (previously circulated, now appended) which confirmed the audit work that is proposed to be undertaken for the 2011/12 financial year at the City Council and the fee for this work.

The Committee agreed to note the 2011/12 Audit Commission Fee and that Maria Grindly would continue to be the Auditor assigned to the City Council for a further two years.

**14. INTERNAL AUDIT ANNUAL REPORT 2010/11 -  
PRICEWATERHOUSECOOPERS (PWC)**

The Head of Finance submitted a report on behalf of the Council's Internal Auditors, Pricewaterhousecoopers (PWC) (previously circulated, now appended) which provided a commentary of internal audit activity for the 2010/11 year.

Richard Bacon, (PWC) introduced the report.

Councillor Hazell expressed concern at the time delay between the conclusion of the fieldwork and the final report being presented to the Committee.

The Committee agreed to note the report.

**15. INTERNAL AUDIT SUMMARY REPORT - 2011/12 PLAN -  
PRICEWATERHOSUECOOPERS (PWC)**

The Head of Finance submitted a report on behalf of the Council's Internal Auditors, Pricewaterhousecoopers (PWC) (previously circulated, now appended) which provided an update of the work undertaken as part of the 2011/12 audit plan.

Katherine Bennett, (PWC) introduced the report and briefly took the Committee through its findings.

The Committee agreed to note the report.

**16. DATA LOSS PREVENTION - PRICEWATERHOUSECOOPERS (PWC)**

The Head of Finance submitted a report on behalf of the Council's Internal Auditors, Pricewaterhousecoopers (PWC) (previously circulated, now appended) which detailed the outcomes of a recent audit undertaken into data loss prevention.

Katherine Bennett, (PWC) introduced the report and took the Committee through the findings and said that she was happy with the responses from the Management with regard to the recommendations.

The Committee agreed to note the report.

**17. DEBTORS - PRICEWATERHOUSECOOPERS (PWC)**

The Head of Finance submitted a report on behalf Council's Internal Auditors, Pricewaterhousecoopers (PWC) (previously circulated, now appended) which detailed the outcomes of a recent audit undertaken into debtors.

Katherine Bennett, (PWC) introduced the report.

The Committee agreed:

- (a) To note the report;
- (b) To request further updates on the progress of implementing the recommendations from the audit.

## **18. PARIS/ITRENT CONTROLS - PRICEWATERHOUSECOOPERS (PWC)**

The Head of Finance submitted a report on behalf of the Council's Internal Auditors, Pricewaterhousecoopers (PWC) (previously circulated now appended) which detailed the findings of a recent audit undertaken of IT and process controls for Parish and Payroll Systems.

Katherine Bennett, (PWC), introduced the report.

The Committee agreed to note the report.

## **19. AVOIDING BRIBERY, FRAUD AND CORRUPTION POLICY**

The Head of Finance submitted a report (previously circulated, now appended) which sought the adoption of an Avoiding Bribery, Fraud and Corruption Policy in place of an existing Avoiding fraud and Corruption Policy.

Carol Quinton, (Finance), introduced the report and said that the Bribery Act would come into force on 1<sup>st</sup> July 2011 and this was the new part to the revised policy.

The Committee agreed to endorse the Avoiding Bribery, Fraud and Corruption Policy.

## **20. INVESTIGATION TEAM, FINANCE, PERFORMANCE 2010/11**

The Head of Finance submitted a report (previously circulated, now appended) which detailed the performance of the Investigation Team for the period 2010/11.

Carol Quinton, (Finance), introduced the report.

The Committee agreed to note the report and the performance of the Investigation Team for the period 2010/11.

## **21. MINUTES**

The Committee agreed to approve:

- (a) The minutes (previously circulated) of the meeting held on 28 March 2011
- (b) The minutes of the special meeting (previously circulated) held on 1 June 2011

## **22. DATES OF FUTURE MEETINGS**

The Committee agreed to note that the Committee would meet at 6.00pm in the Town Hall on the following dates.

Thursday 29<sup>th</sup> September 2011

Monday 28<sup>th</sup> November 2011

Monday 6<sup>th</sup> February 2012

Monday 16<sup>th</sup> April 2012

## **23. MATTERS EXEMPT FROM PUBLICATION**

None.

**The meeting started at 6.00 pm and ended at 7.50 pm**

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