

Oxford City Council

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

September 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk)

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

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. We, as appointed auditor, take no responsibility to any third party.

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

1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit and Governance Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	<p>We have substantially completed our audit of the financial statements of Oxford City Council for the year ended 2015/16. Subject to satisfactory completion of the outstanding items included in Appendix B.</p> <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Council's financial statements.</p> <p>We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p> <p>The Council is below the reporting thresholds for income, expenditure, assets and liabilities for Whole of Government Accounts purposes so our work on this is limited to reporting that fact to the NAO once the final Whole of Government Accounts return has been submitted.</p> <p>We expect to issue the audit certificate at the same time as the audit opinion.</p>
Audit differences	<p>Our audit identified a number of audit differences which our team have highlighted to management for amendment. The majority of these are below our reporting threshold and all have been corrected during the audit. There was one audit difference which was above our reporting threshold and further details are provided at Appendix A.</p> <p>These adjustments have not had an impact on useable reserves.</p>
Scope and materiality	<p>In our audit plan presented at the March 2016 Audit and Governance Committee meeting, we communicated that our audit procedures would be performed using a materiality of £3,728,000. We have reassessed this based on the actual results for the financial year and we increased this amount to £3,857,000. The reason for the increase in planning materiality was a higher operating expenditure in 2015/16 compared to the Council's 2014/15 outturn.</p> <p>The basis of our assessment is 2% of gross operating expenditure, which has remained consistent with prior years.</p> <p>The threshold for reporting uncorrected audit differences which impact the financial statements has also increased from £186,000 to £192,000.</p>
Significant audit risks	<p>We identified the following audit risks during the planning phase of our audit, and reported these to you in our audit plan:</p> <ul style="list-style-type: none"> Valuation of property, plant and equipment

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- Risk of fraud in revenue and/or expenditure recognition
 - Risk of management override.

The 'addressing audit risks' section of this report sets out how we have gained audit assurance over those issues.

Other reporting issues

We have no other matters we wish to report.

Control observations

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

During the audit, we identified one observations and improvement recommendation in relation to management's financial processes and controls. This is set out in the "Assessment of control environment" section of this report.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Paul King

Executive Director
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- Report on an exception basis on the Annual Governance Statement;
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office. For the Council this work is limited to confirming that the Council falls below the reporting thresholds for income, expenditure, assets and liabilities.

3. Financial statements audit

Addressing audit risks

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

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>PPE Valuation</p> <p>The value of the Council's property, plant and equipment is material and there has been a significant increase in value from the prior year.</p> <p>Economic conditions continue to be uncertain, which has a potential impact upon the valuation of the property, plant and equipment. There is a requirement to assess the carrying value of assets for impairment every year and under ISAs (UK&I) 500 and 540 we are required to undertake certain procedures on the use of external expert valuers and processes and assumptions underlying fair value estimates.</p>	<p>We:</p> <ul style="list-style-type: none"> agreed the source data used by the valuers to supporting records; assessed the work of the valuers to ensure that assets have been valued and recorded appropriately; agreed the outputs to the fixed asset register and statement of accounts; and reviewed the Authority's assumptions underlying any impairment review undertaken. 	<p>No issues were identified from our review of the work performed by the Council's valuers. There was an immaterial error identified where the incorrect information from the Valuers report was taken to the Statement of accounts. This is detailed within Appendix A.</p> <p>The Council has not identified any impairments of PPE for the year. We have reviewed the Council's assumptions in reaching this conclusion and we used our own sources of evidence, including the Gerald Eve valuation report for Local Government Bodies, to establish that the risk of material misstatement was sufficiently low to accept the reasonableness of the Council's assumptions.</p>
<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>We</p> <ul style="list-style-type: none"> Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; Reviewed accounting estimates for evidence of management bias; and Evaluated the business rationale for any significant unusual transactions. 	<p>Our testing of journal entries did not identify adjustments which were outside of the normal course of business. All journals tested had an appropriate business rationale.</p> <p>The most significant accounting estimates in the financial statements relate to the net pension liability and property valuations. We found no indication of management bias in these estimates.</p> <p>We did not identify any evidence of management override or fraudulent activity.</p>
<p>Risk of fraud in revenue recognition</p> <p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that</p>	<ul style="list-style-type: none"> Reviewed and tested revenue and expenditure recognition policies; Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias; Developed a testing strategy to test material revenue and expenditure streams; and 	<p>Our testing gave us no concerns as to inappropriate revenue and expenditure recognition through fraudulent or biased management decisions.</p>

auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.	<ul style="list-style-type: none"> • Reviewed and tested revenue cut-off at the period end date.
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Other matters

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

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

We have no matters we wish to report.

Control themes and observations

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

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

The matter reported below is limited to those deficiencies that we identified during the audit and that we concluded is of sufficient importance to merit being reported to you.

Description	Impact
Process for adding electoral staff to iTrent is via a spreadsheet with no additional support to confirm details retained.	There is a risk that some electoral staff may not exist and there is no support to agree back to.

We have reviewed the Annual Governance Statement and can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

Request for written representations

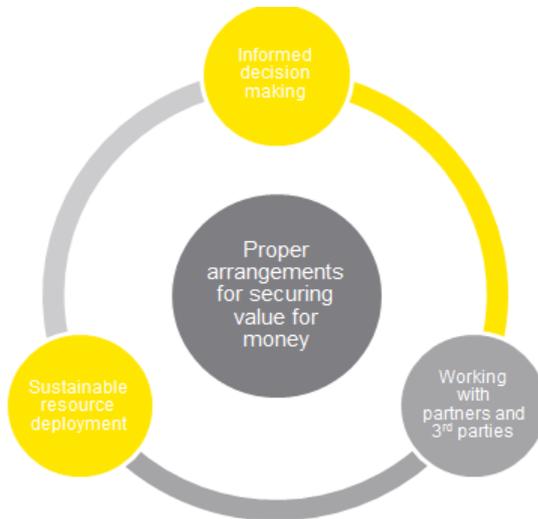
We have asked for a representation letter to gain management's confirmation on a number of matters, as outlined in the papers for the Audit and Governance Committee on 28 September 2016.

Whole of Government Accounts

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

We are currently concluding our work in this area and will report any matters that arise to the Audit and Governance Committee. The Council is below the reporting thresholds for income, expenditure, assets and liabilities for Whole of Government Accounts purposes so our work on this is limited to reporting that fact to the NAO once the final Whole of Government Accounts return has been submitted.

4. Value for money



We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

Overall conclusion

We did not identify any significant risks for these criteria through our audit planning risk assessment

We therefore expect to conclude that the Council has proper arrangements to secure value for money in its use of resources.

Appendix A – Corrected audit differences

The following corrected differences have been identified during the course of our audit and warrant communicating to you.

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

Disclosures

Disclosure	Description of difference
Property, Plant and Equipment	We have identified two valuations on Council Dwellings performed by external valuers that were not reflected in the FAR and therefore the financial statements. The first error caused the PPE balance to be understated by £115,200 whereas the second error caused an overstatement of £11,200. This leaves a net adjustment made in the accounts of £104,000
Group Accounts – Barton Oxford LLP	The Barton Oxford LLP 2015/16 accounts were audited by Grant Thornton. This audit identified adjustments required to those accounts for an increase in Non Current Assets of £2.293m. The Council, within their statement of accounts, provides summary accounts for Barton Oxford LLP which will need to be updated to reflect this change.
Financial Instruments	The Current loans and receivables were stated at £15,426k, but should be £13,180k. Current financial liabilities were stated at £20,516k, but should be £14,020k. Neither of these amendments impact on the main financial statements.

Appendix B – Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report

Item	Actions to resolve	Responsibility
Pension Liability Valuation	Receipt and evaluation of assurance from the Pension fund administrator's auditor.	EY and Oxfordshire County Pension Fund auditor.
Subsequent events review	Complete the subsequent events procedures up to the date the audit report is signed.	EY and management
Whole of Government Accounts	Submission to the NAO of confirmation that the Council falls below the reporting thresholds for income, expenditure, assets and liabilities, once the Council has made its final Whole of Government Accounts submission.	EY and management

Appendix C – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan presented on 01 March 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit and Governance Committee on 28 September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 01 March 2016.

Appendix D – Auditor fees

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

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £	Variation comments
Total Audit Fee - Code work	86,175	86,175	N/a
Certification of claims and returns	25,438	25,438	N/a

Our actual fee is in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

Appendix E – Required communications with the audit committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about Oxford City Council's ability to continue as a going concern for the 12 months from the date of our report.
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters we wish to report.

Required communication	Reference
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management’s refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	We have received all requested confirmations.
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have not identified any material instances of non-compliance with laws and regulations.
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY’s objectivity and independence</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Plan and Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	Audit Results Report]
<p>Group audits</p> <ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team’s planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team’s evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor’s work ▶ Any limitations on the group audit, for example, where the group engagement team’s access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	Audit Plan Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	Audit Plan Audit Results Report
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	Certification Report

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