

# Oxford City Council & Group

Annual Audit Letter for the year ended 31 March 2019

August 2019

19

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better  
working world

Agenda Item 4

# Contents

01

Executive Summary



03

Financial Statement Audit



05

Other Reporting Issues



07

Focused on your future



02

Purpose and Responsibilities



04

Value for Money



06

Data Analytics



08

Audit Fees



20

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk)).

This 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 (updated April 2018)' issued by PSAA set 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 Annual Audit Letter is prepared in the context of the Statement of responsibilities and Terms of Appointment. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.



21

# 01 Executive Summary



# Executive Summary

We are required to issue an annual audit letter to Oxford City Council & Group (the Council) following completion of our audit procedures for the year ended 31 March 2019. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Council's:</b>	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
<b>Concluding on the Council's arrangements for securing economy, efficiency and effectiveness</b>	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
<b>Reports by exception:</b>	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council
▶ Public interest report	We had no matters to report in the public interest
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report

Area of Work	Conclusion
<b>Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).</b>	We had no matters to report. The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the consolidation pack



## Executive Summary (cont'd)

---

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 17 July 2019
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our audit certificate was issued on 07 August 2019

---

23

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

Janet Dawson  
Partner  
For and on behalf of Ernst & Young LLP



24

02

## Purpose and Responsibilities

# Purpose and Responsibilities

## The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the 24 July 2019 Audit Committee, representing those charged with governance. We also re-issued a final version on 7 August. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

## Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we issued in January 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

25 Expressing an opinion:

- ▶ On the 2018/19 financial statements; and
- ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the return.

## Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned 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.



**03**

**Financial Statement Audit**

# Financial Statement Audit

---

## Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 07 August 2019. Our detailed findings were reported to the 24 July 2019 Audit Committee.

The key issues identified as part of our audit were as follows:

27 Significant Risk	Conclusion
<p><b>Misstatements due to fraud or error</b></p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK) 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 have not identified a heightened risk of management override overall, but we have identified a specific area where management override might occur: capital expenditure and financing. Our specific response to this risk is set out in the next slide.</p>	<p>We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation.</p> <p>We did not identify any significant unusual transactions.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p>

## Financial Statement Audit (cont'd)

---

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p data-bbox="91 564 479 592"><b>Capital Expenditure and Financing</b></p> <p data-bbox="91 624 907 707">Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services.</p> <p data-bbox="91 738 840 794">The Council's Constitution requires the Head of Financial Services to prepare a Capital Strategy which;</p> <ol data-bbox="91 799 907 970" style="list-style-type: none"><li data-bbox="91 799 853 826">a. Sets out the principles the Council will follow in its capital planning.</li><li data-bbox="91 826 871 882">b. Outlines the methodology for inclusion of schemes within the Capital Programme.</li><li data-bbox="91 882 808 909">c. Sets out the arrangement for management of capital schemes.</li><li data-bbox="91 909 907 970">d. Identifies the capital schemes to be undertaken over the following four financial years and how those schemes will be funded.</li></ol> <p data-bbox="91 1002 907 1173">Achievement of budget is critical to minimising the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the council and management, and therefore this desire to achieve the budget increases the risk that the financial statements may be materially misstated.</p> <p data-bbox="91 1204 907 1286">Whilst there is no more than normal pressure on the Council to meet the outturn position, due to the size of the capital programme (£105m) there is a risk of inappropriate capitalisation of revenue expenditure.</p>	<p data-bbox="938 564 2047 592">We did not identify any material weaknesses in controls or evidence of material management override.</p> <p data-bbox="938 624 1767 651">We did not identify any instances of inappropriate judgements being applied.</p> <p data-bbox="938 683 2107 735">We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p>

# Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p><b>Group Structure</b></p> <p>The Council has a growing number of companies within the group structure, five of which are wholly owned by the Council and two where the company is jointly owned. With this growth comes additional complexity and risk arising from the need to understand and implement the accounting and reporting requirements for these operations.</p> <p>One of these components, Oxford Direct Services Ltd, will be a significant component to the group.</p> <p>The risk is considered significant because this is the first year of operation of the significant component. The accounts of the components will need to be consolidated into the Group accounts with appropriate consolidating adjustments. This gives scope for material error.</p>	<p>We reviewed the work undertaken by the component auditor and understood their approach to the audit of Oxford Direct Services Ltd.</p> <p>We reviewed the consolidation of the components into the group accounts and raised 1 material adjustment which was fully corrected.</p>

Other Key Findings	Conclusion
Valuation of Land & Buildings	We completed our testing of the valuation of land and buildings and did not identify any errors which we needed to report. Our work included assessment of key assumptions applied by the valuer as well as independent consideration of the values being applied.
Pension Liability Valuation	We completed all relevant procedures to assess the pension liability valuation. We assessed the revised net liability following revised assessments based on the McCloud judgement. We also considered other pension adjustments which were made, including, Guaranteed Minimum Pensions Equalisation and the valuation of scheme assets. We received assurances from the auditor of the Pension Fund as to the material valuation of the Pension Fund Investment assets.
New Accounting Standard - IFRS 9 (Financial Instruments)	We assessed the Council's implementation of IFRS 9. As a result of our work in this area there was a material adjustment to the financial statements in respect of Fair Value through Other Comprehensive Income and Expenditure.
New Accounting Standard - IFRS 15 (Revenue Recognition)	We assessed the Council's consideration of IFRS 15. In line with our wider understanding of the sector and the nature of revenue streams it was confirmed that there was no material impact on the Council's accounts as a result of the introduction of IFRS 15.
Brexit	We reviewed the Council's impact assessment and scenario planning. We considered them to be reasonable in the light of continued and prolonged uncertainty as to both the date and terms of the UK leaving the European Union.

## Financial Statement Audit (cont'd)

---

### Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £5m for the Group and £4 m for the Council (2017/18: £5.1 m), which is 1.8% of Gross Revenue Expenditure reported in the accounts. As this is the first year that the Group Accounts have been determined to be in scope there are no comparator values for 2017/18.</p> <p>We consider Gross Revenue Expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Group &amp; Council.</p>
Reporting threshold	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.25 m for the Group and £0.25 m (2017/18: £0.25 m) for the Council.</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits
- ▶ Related party transactions

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

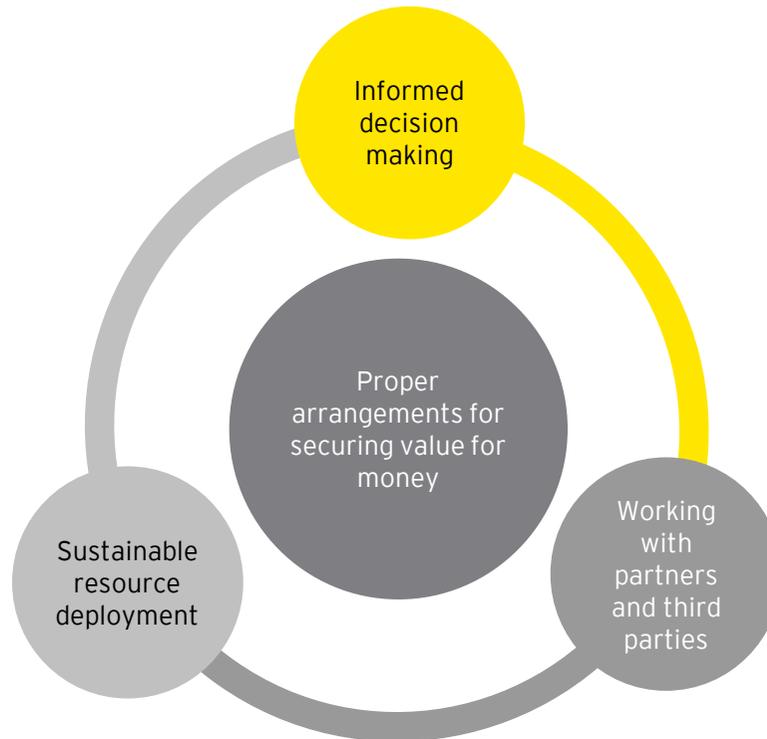


# 04 Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in 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.



32

We did not identify any significant risks in relation to these.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



33

05

## Other Reporting Issues



## Other Reporting Issues

---

### Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

The Council is below the specified audit threshold of £500mn. Therefore, we were not required to perform any audit procedures on the consolidation pack.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.



### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

## Other Reporting Issues (cont'd)

---

### Objections Received

We did not receive any objections to the 2018/19 financial statements from members of the public.

### Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

### Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 24 July 2019. 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 regulatory and professional requirements.

### Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

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

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.



36

06

# Data Analytics



# Use of Data Analytics in the Audit

## Data analytics

### Analytics Driven Audit

37

### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the authority's audit included testing journal entries, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

#### Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



# Data Analytics

## Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2018/19. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.

### EY Helix - GLASS: Journal Entry Data Insights - 19 Oxford City Council - P1 to P12 - 31/03/2019

#### Facts and Figures

Number of Journals Posted:  
**118,591**

Average Number of Journals Posted per Day:  
**344**

Average Number of Lines per Journal:  
**11**

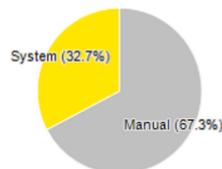
#### Operational Efficiencies

Manual Journals Posted at weekend:  
**19**

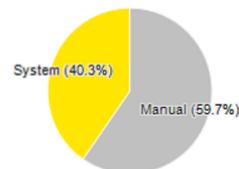
Manual journals where gross amount is < £5:  
**594**

Journal lines with zero value:  
**0**

#### Manual v System by Volume



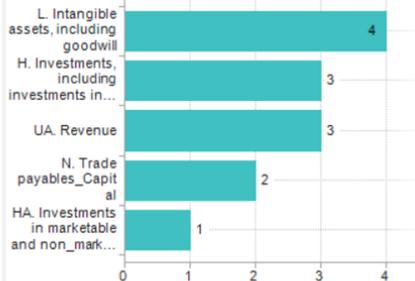
#### Manual v System by Value



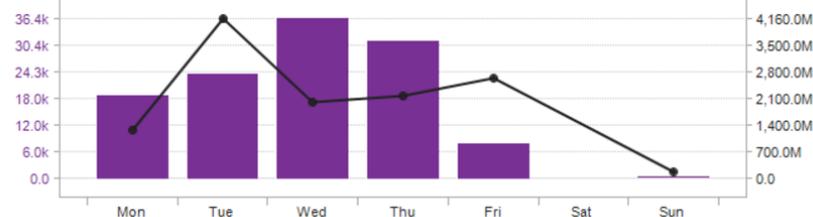
#### Top Five Activity Accounts



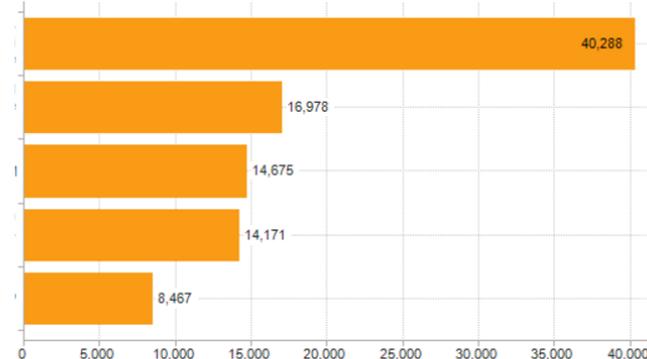
#### Bottom Five Activity Accounts



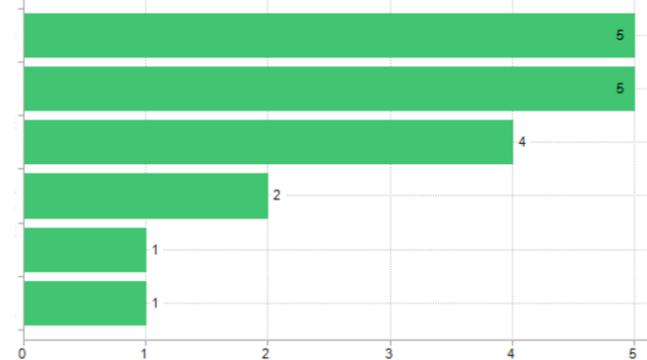
#### Days of the Week



#### Top Five Preparers



#### Bottom Five Preparers





## Journal Entry Testing

### What is the risk?

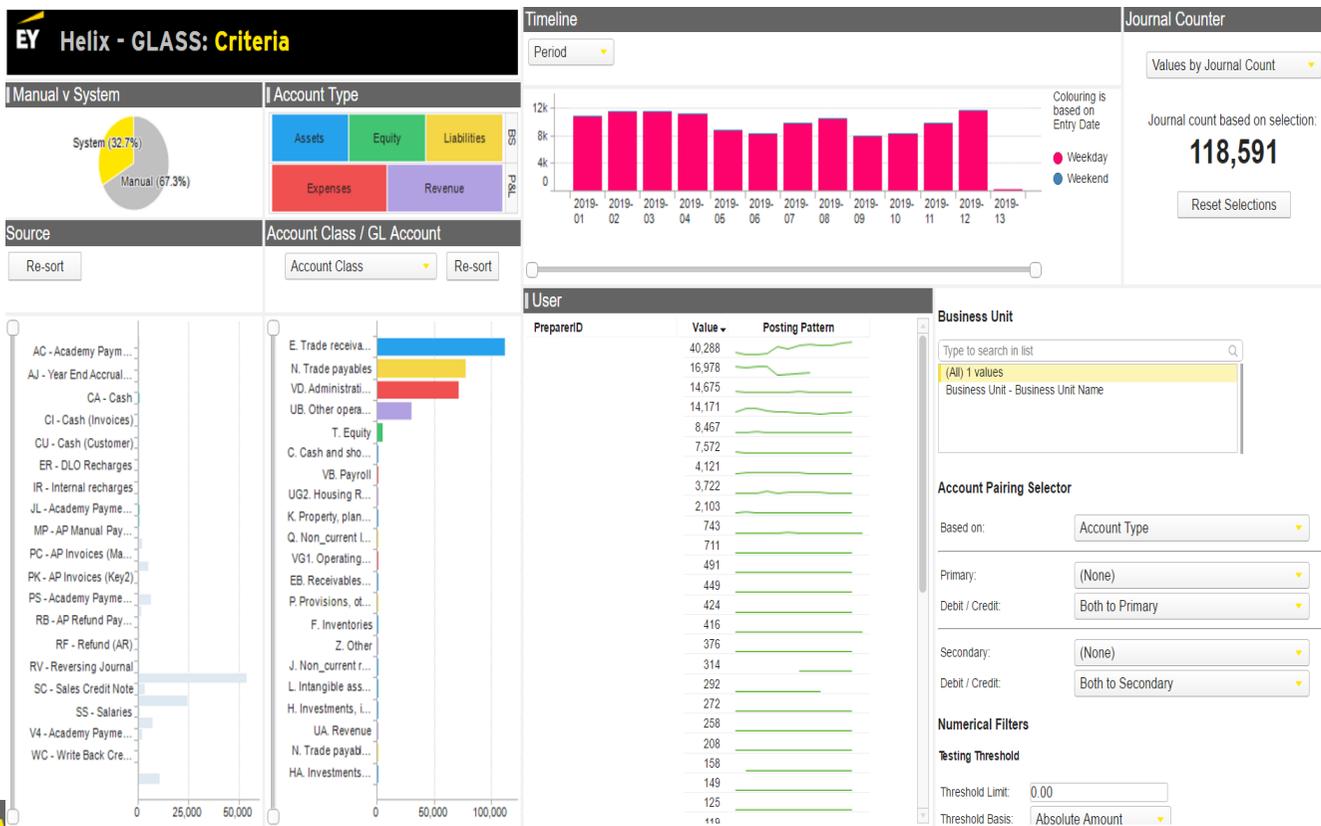
In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Journal entry data criteria – 31 March 2019

### What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

39



### What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

### What are our conclusions?

We isolated a sub-set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



40

## 07 Focused on your future



## Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>
IASB Conceptual Framework	<p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>This introduces;</p> <ul style="list-style-type: none"> <li>- new definitions of assets, liabilities, income and expenses</li> <li>- updates for the inclusion of the recognition process and criteria and new provisions on derecognition</li> <li>- enhanced guidance on accounting measurement bases</li> <li>- enhanced objectives for financial reporting and the qualitative aspects of financial information.</li> </ul> <p>The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards.</p> <p>However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.</p>	<p>It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements.</p> <p>However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p>

41



42

## 08 Audit Fees

## Audit Fees

Our fee for 2018/19 is in line with the scale fee set by the PSAA as agreed in our Engagement Letter and reported in our 24 July 2019 Annual Results Report.

Description	Final Fee 2018/19			
	£	Planned Fee 2018/19 £	Scale Fee 2018/19 £	Final Fee 2017/18 £
Total Audit Fee - Code work	TBC*	66,355	66,355	86,775
Total Audit Fee	TBC*	66,355	66,355	87,775
Non-audit work - Claims and returns (Housing Benefits)	TBC**	N/A	N/A	25,575

All fees stated are exclusive of VAT

- We are in the process of finalising the final fee and will confirm this with senior officers when complete

\*\* The 2018-19 Housing Benefits review has not yet started yet. We will confirm the final fee on the Housing Benefits review when we have concluded on the work.

**About EY**

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

© 2018 EYGM Limited.  
All Rights Reserved.

ED None

EY-000070901-01 (UK) 07/18. CSG London.



In line with EY's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.



This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

[ey.com](http://ey.com)