

# Oxfordshire County Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP



Building a better  
working world



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The Members  
Oxfordshire County Council  
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1 October 2015

Dear Members

## **Annual Audit Letter 2014/15**

The purpose of this annual audit letter is to communicate to the 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 Oxfordshire County Council.

We have already reported the detailed findings from our audit work in our 2014/15 annual results report for Oxfordshire County Council and its Pension Fund to the 16 September 2015 Audit and Governance Committee representing those charged with governance. We do not repeat those detailed findings in this letter.

The matters reported here are the most significant for Oxfordshire County Council.

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

Yours faithfully

Maria Grindley  
Executive Director  
For and on behalf of Ernst & Young LLP  
United Kingdom

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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer of each audited body and via the [Audit Commission's website](#).

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

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

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

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

# 1. Executive summary

Our 2014/15 audit work has been undertaken in accordance with the Audit Plan that we issued on 22 April 2015 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS the Authority reports publically on an annual basis 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 year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements and on the consistency of other information published with them;
- ▶ reviewing and reporting by exception on the Authority's Annual Governance Statement;
- ▶ forming a conclusion on the arrangements the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statement of Oxfordshire County Council and its Pension Fund for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland).	On 22 September 2015 we issued an unqualified audit opinion. On 18 September 2015 we issued an unqualified audit opinion in respect of the Pension Fund
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 22 September we issued an unqualified value for money conclusion.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 23 September 2015.
Consider the completeness of disclosures on the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA/SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report.

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***As a result of the above we have also:***

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Issued a report to those charged with governance of the Authority communicating significant findings resulting from our audit.

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Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

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Our Audit results report for Oxfordshire County Council and its Pension Fund was issued on 16 September 2015 to the Audit and Governance Committee.

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Issued on 24 September 2015.

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## 2. Key findings

### 2.1 Financial statement audit

The Authority'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 2014/15 Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 22 September 2015.

Our detailed findings were reported to the 16 September 2015 Audit and Governance Committee. The main issues identified as part of our audit were:

#### Significant risk 1: Risk of management override

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Our key findings are:

- ▶ we tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. No issues were identified.
  - ▶ we reviewed accounting estimates for evidence of management bias. No issues were identified.
  - ▶ we evaluated the business rationale for any significant unusual transactions. No issues were identified
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#### Significant risk 2: Revenue and expenditure recognition

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To address this risk:

- ▶ we evaluated the types of revenue and expenditure and the associated risks;
- ▶ we evaluated the selection and application of relevant accounting policies by the Council;
- ▶ we obtained an understanding of the systems relevant controls; and
- ▶ our testing focused on the areas we identified with the highest risk: Adult Social Care and Children's Education Services.

No significant issues were identified.

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#### Other risks: Oxfordshire County Council resources

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The accounts were produced to the statutory deadline of 30 June 2015 but were produced later than planned due to staff leaving and the need to back fill with contract staff. Capital was a particular problem area and we agreed to delay our work in this area to enable working papers to be prepared.

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**Other risks: Accounting for schools' non-current assets**

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Our review confirmed that the Council had not taken a “blanket” approach to the accounting treatment and have considered each on its own merits and have concluded our work in this area. We concluded that the disclosure was appropriate.

**Other key findings:**

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We had to delay the completion of the audit by a week due to the difficulty the Council had in providing us with supporting evidence for our test samples.

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We had to delay our completion of Whole of Government Accounts by a further day due to the need to correct errors in the initial submission.

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## 2.2 Value for money conclusion

We carry out sufficient and relevant work to conclude whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

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

We issued an unqualified value for money conclusion on 22 September 2015.

We undertook work and in the following areas:

**Significant VFM risk - We identified one significant risk under criterion 1 arrangements for securing financial resilience.**

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We have reviewed the process that the Council has in place for preparing and monitoring budgets and the action taken by the Council during 2014/15.

Our conclusion is that the Council has taken steps to close the gap in the current year and has clear plans for the coming year or two, however there are continuing financial pressures and the Council needs to take action to ensure that the financial position is manageable in the coming years.

The quarterly Business Management and Monitoring reports include financial and operational information and provide a good summary of the performance of the Council. They are however not produced until nearly the end of the next quarter and early production would help decision making.

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**Significant VFM risk - We identified one significant risk under criterion 2 arrangements for securing economy, efficiency and effectiveness - Back office outsourcing**

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We have reviewed reports and held discussions with the S151 officer to understand the process that the Council went through. Our main issue is that the Council had not considered any provider other than Hampshire and had not tested the market more robustly. We recognise that savings will be made from joining the partnership and that further opportunities exist to include more services in the partnership. We also have reviewed calculations provided to the Council from external consultants that show that the savings achieved from the partnership fall within a range that would be expected from market testing. Therefore we are able to conclude that the difference in value between the partnership arrangement and

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any other contract would not be significant enough to adversely impact on our value for money conclusion.

We recommend that in future consideration is given to a more robust market testing to enable the Council to clearly demonstrate that it is achieving value for money.

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**Other VFM risk - We identified the following risk under criterion 2 arrangements for securing economy, efficiency and effectiveness – Departure of the Chief Executive**

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We have reviewed the reports produced by the Council and the actions taken and concluded that this does not affect our vfm conclusion. However, the Council has identified learning points from this process which it will take forward.

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**Other VFM risk - We identified the following risk under criterion 2 arrangements for securing economy, efficiency and effectiveness – Serious case review**

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We reviewed the reports and actions taken by the Council in response to the Serious Case Review and as a result of our work and the actions already taken we are satisfied that there are no matters affecting our value for money conclusion from this issue. The Council will need to ensure that the lessons learned from this review are applied across its activities and in particular areas where cross working with other key organisations in similar circumstances is in place.

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## **2.3 Whole of Government Accounts**

We reported to the National Audit office (NAO) on 23 September 2015 the outcomes of our review of your WGA return conducted under instructions issued by the NAO. A number of amendments were required to the Council's submission.

## **2.4 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 complies with relevant guidance.

We completed this work and identified one issue where further disclosure on the need to update the strategic risk register was required to reflect the position at the Council. The Council amended the annual governance statement to include this area.

## **2.5 Objections received**

We did not receive any objections to the 2014/15 financial statements from members of the public.

## **2.6 Other powers and duties**

We identified no issues during our audit that required using powers under the Audit Commission Act 1998, including reporting in the public interest.

## **2.7 Independence**

We communicated our assessment of independence to the Audit and Governance Committee on 16 September 2015. In our professional judgement the firm is independent and the objectivity of the audit engagement director and audit staff has not been compromised within the meaning of regulatory and professional requirements.



### 3. 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 did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council's financial statements.

## 4. Fees

Our fee for 2014/15 has not yet been finalised. This is due to extra fee applying in respect of the additional value for money risks and related work along with additional work required this year for our audit. The final fee has been discussed and agreed with the Chief Finance Officer and is currently being reviewed by the Public Sector Audit Appointments (PSAA) who are responsible for setting audit fees.

	Final fee 2014/15	Planned fee 2014/15	Scale fee 2014/15	Final fee 2013/14
Total Audit Fee – Code work	£TBC	£146.610	£146.610	£146.610
Total Audit Fee –Certification of claims and returns	£0	£0	£0	£4,541
Total Audit Fee	£TBC	£146,610	£146,610	£146,610
Non-audit work	£49,000	£0	£0	£6,000

### Delivered by the audit team:

Assurance report on Teachers Pension £10,000

### Delivered by the wider EY team:

Financial analysis for payment mechanism for Ardley E/W Facility £6,000

High level review of the potential for unitary status £33,000

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