OXFORDSHIRE COUNTY COUNCIL

# Audit & Governance Committee
# Wednesday, 16 September 2015

# ADDENDA

**5. Final Accounts 2014/15** (Pages 1 - 4)

An additional report and correction is attached.

**6. Ernst & Young - Annual Results** (Pages 5 - 44)

The late reports in relation to this item are attached.

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**AUDIT & GOVERNANCE COMMITTEE – 16 SEPTEMBER 2015**

**FINAL STATEMENT OF ACCOUNTS 2014/15**

**Report by the Chief Finance Officer**

**Addenda**

**Main Accounts**

Note 35 - Capital Commitments

1. As at 31 March 2015 the final value of completed works for the 'Better Broadband' scheme was £6.535m rather than £4.729m assumed in the original version of Note 35. That means the remaining commitment for the scheme should be £7.325m instead of £9.131m. In total the council was contractually committed to capital expenditure of £40.645m as at 31 March 2015.

**Pension Fund Accounts**

Note 16a – Reconciliation of Movements in Investments and Derivatives

2. The second table for Note 16a in Annex 2 has been corrected to show the table for 2014/15 included in the draft Statement of Accounts rather than the prior year position.

**Fire Fighters' Pension Fund Accounts**

3. Further guidance received since the report was finalised sets out that under IAS 19 the liability for the past service costs arising from the retrospective change to commutation factors should be recognised within the accounts for the year in which the plan amendment took place, ie. 2015/16. This is therefore a non – adjusting post balance sheet event and needs to be recognised as such in the 2014/15 statements, including an estimate of the likely level of additional payments and noting that these will be reimbursed by DCLG.

4. The contingent liability will be removed from the notes to the accounts, and note 9 will be retitled "Material Post Balance Sheet Event". The final paragraph of the note will be removed and replaced with the following:

   The Department for Communities & Local Government (DCLG) issued further guidance on 1 September so it is now possible to estimate the total cost. The final detailed calculation is required to be submitted to DCLG by December 2015 with payment of the top – up grant by April 2016. On an assumed national basis the estimated cost is expected to be within a range from £0.444m - £0.765m, but based on a sample of Oxfordshire pensioners the actual cost is expected to be at the higher end of the range (around £0.750m). The additional expenditure and equivalent top - up grant due from DCLG will be included in the 2015/16 accounts.

LORNA BAXTER

Chief Finance Officer

Background Papers: Report on the Statement of Accounts 2014/15 to the Audit & Governance Committee on 8 July 2015

Contact Officer: Kathy Wilcox, Chief Accountant, 01865 323981

September 2015

**Note 16a – Reconciliation of Movements in Investments and Derivatives**

Original table:

| | **Value at 1 April 2014 Reclassification** | **Purchases at Cost & Derivative Payments** | **Sales Proceeds & Derivative Receipts** | **Change in Market Value** | **Cash Movement** | **Increase in Receivables / (Payables)** | **Value at 31 March 2015** |
|---|---|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Fixed Interest Securities | 74,957 | 98,661 | -91,655 | 5,785 | | | 87,748 |
| Index Linked Securities | 80,201 | 41,394 | -45,526 | 16,064 | | | 92,133 |
| Equities | 590,179 | 101,381 | -101,388 | 53,163 | | | 643,335 |
| Pooled Investments | 703,652 | 112,976 | -73,526 | 95,908 | | | 839,010 |
| Pooled Property Investments | 97,287 | 11,229 | -5,789 | 8,735 | | | 111,462 |
| Derivative Contracts | | | | | | | |
| FX | -11 | 720 | -2,513 | 3,009 | | | 1,205 |
| Other Investment Balances | | | | | | | |
| Cash Deposits | 10,285 | 64,501 | -68,822 | 39 | 1,329 | | 7,332 |
| Amounts Receivable for Sales of Investments | 2,360 | | | | | 730 | 3,090 |
| Investment Income Due | 3,233 | | | | | 685 | 3,918 |
| Amounts Payable for Purchases of Investments | -2,288 | | | | | -1,961 | -4,249 |
| **Total** | **1,559,855** | **430,862** | **-389,219** | **182,703** | **1,329** | **-546** | **1,784,984** |

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# Oxfordshire County Council

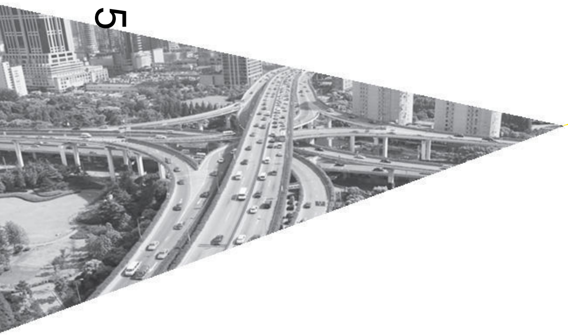
## Audit and Governance Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

16 September 2015







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Section 1

# Executive summary

# Executive summary – key findings

## Audit results and other key matters

The Audit Commission'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 2014/15 audit which is substantially complete. It includes the messages arising from our audit of the Council's financial statements and the results of our work to assess its arrangements to secure value for money in its use of resources.

**Financial statements**

- As at 16 September 2015, subject to satisfactory completion of outstanding work we expect to issue an unqualified opinion on the financial statements, we will update the Committee on progress at the meeting.

**Value for money**

- We expect to conclude that the Council has made appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources

**Whole of Government Accounts**

- Subject to completion of our work we do not expect to reported any significant matters to the National Audit Office (NAO) on the Whole of Government Accounts submission.

**Audit certificate**

- The audit certificate is issued to demonstrate that the full requirements of the Code have been discharged for the relevant audit year. We expect to issue the certificate at the same time as the audit opinion.

## Section 2

# Extent and purpose of our work

# Extent 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 any planned changes in the coming period.
- The Council is also responsible for having 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 2014/15 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 proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion); and
  - discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

This report also 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.

As the Council is considered a component of the Whole of Government Accounts (for the whole public sector) and we are the component auditor, we also follow the NAO group instructions and report the results on completion of the WGA work through the Assurance Statement to both the NAO and to the Council.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Section 3

# Addressing audit risks

# Addressing audit risks – significant audit risks

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

In the context of auditing the financial statements, we define a significant audit risk as an inherent risk which is both more likely to happen and has a more serious effect if it does happen, and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's relevant controls and assess their design and implementation.

| Audit risk identified within our audit plan | Audit procedures performed | Assurance gained and issues arising |
|---|---|---|
| Significant audit risks (including fraud risks) | | |
| **Risk of management override**<br><br>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. | We:<br>► tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;<br>► reviewed accounting estimates for evidence of management bias, and<br>► evaluated the business rationale for significant unusual transactions. | Our work is still ongoing. |
| **Revenue and expenditure recognition**<br><br>ISA 240 requires auditors' consideration of the risks of material misstatement due to fraud to be based on a presumption that there are risks of fraud in revenue and expenditure recognition. This is due to the potential pressures or incentives on management to commit fraudulent financial reporting to achieve an expected financial outcome through inappropriate revenue and expenditure recognition.<br><br>Given the level and nature of revenue and expenditure; and the financial challenges facing the Council, we are unable to rebut this presumption of fraud and therefore assess this as a significant risk. | We:<br>► evaluated the types of revenue and expenditure and the associated risks;<br>► evaluated the selection and application of relevant accounting policies by the Council;<br>► Gained an understanding of the systems relevant controls; and<br>► Performed audit procedures to obtain the necessary assurance. | Our work is still ongoing. |

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# Addressing audit risks – other audit risks

► We identified the following other audit risks during the planning phase of our audit, and reported them in our Audit Plan. We set out here how we have gained audit assurance over those issues.

| Audit risk identified within our Audit Plan | Audit procedures performed | Assurance gained and issues arising |
|---|---|---|
| Other audit risks | | |
| **Oxfordshire County Council resources**<br><br>The Council will outsource a number of back office functions to a Hampshire Partnership known as the Integrated Business Centre (IBC) from 1 July 2015.<br>A number of staff working in the finance function will be made redundant or transfer to Hampshire County Council on that date. Some staff may leave before then and staff are involved in preparing for the outsourcing. The Council are bringing in additional resources to provide cover for the year end close down and preparation of the final statements. There is a risk that sufficient and knowledgeable resources will not be available to complete the financial statements or respond to audit queries | We<br>► discussed with the Finance Team accounting issues that arose during the close down process;<br>► monitored the timetable to deliver the financial statements to ensure that key milestones were achieved; and<br>► reviewed and monitored response times to audit queries to ensure that the audit remains on target to meet our reporting deadlines. | ► The accounts were produced to the statutory deadline of 30 June 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. |
| **Accounting for schools' non-current assets**<br><br>The 2015 Accounting Code confirms that local authority maintained schools (community, voluntary aided, voluntary controlled and foundation) should be treated as entities for financial reporting purposes in accordance with IFRS 10, and adapts the definition of single entity financial statements so that schools are consolidated into these statements.<br><br>In December 2014, CIPFA/LASAAC issued LAAP Bulletin 101 Accounting for Non-Current Assets Used by Local Authority Maintained Schools providing guidance on the application of the Accounting Code to non-current assets , particularly in respect of Voluntary Aided (VA), Voluntary Controlled (VC), and some foundation schools where non-current assets are owned by a third party.<br><br>Despite the changes to the Accounting Code and the additional guidance included in LAAP Bulletin 101, there remains the potential for different interpretations of how non-current school assets are accounted for in 2014/15. | We:<br>► confirmed that the Council have not applied a 'blanket' approach to recognition, but have considered the nature of the agreements in place locally when determining their accounting approach;<br>► ensured that the Council have correctly applied the relevant accounting standards (IAS16) to the non-current assets for each category of schools;<br>► reviewed documentation and evidence that support the accounting treatment adopted; and<br>► ensured appropriate disclosures of the judgments and accounting policies applied to schools' assets. | ► 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 conclude that the disclosure is appropriate. |

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Section 4

# Financial statements audit – issues and findings

# Financial statements audit – issues and misstatements arising from the audit

## Progress of our audit

- We need to complete the following areas of our work programme. We will provide an update of progress at the Audit and Governance Committee meeting:
  - Non current assets and related notes;
  - Creditor testing;
  - Whole of Government Accounts;
  - Value for money; and
  - We will need a Letter of Representation.

- Subject to these being resolved satisfactorily, we propose to issue an unqualified audit report on the financial statements.

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## Uncorrected misstatements

- We have not yet identified any misstatements in the draft financial statements which management has chosen not to adjust.

## Corrected misstatements

- We have not yet identified any corrected misstatements that are above our reporting threshold.

## Other matters

- As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must communicate to the Committee significant findings from the audit and other matters significant to the oversight of the Council's financial reporting process. These include the following:
  - qualitative aspects of accounting practices; estimates and disclosures;
  - matters specifically required by other auditing standards to be communicated to those charged with governance, e.g. issues around fraud, compliance with laws and regulations, external confirmations, and related party transactions;
  - any significant difficulties during the audit; and
  - any other audit matters of governance interest.

We have no matters we wish to report.

# Financial statements audit – application of materiality

## Our application of materiality

- When establishing our overall audit strategy, we set the level of uncorrected misstatements we considered to be material for the financial statements as a whole.

| Item | |
|---|---|
| Planning Materiality and Tolerable error | We set planning materiality at £10.6 million (2014: £20.4 million), which is 1% of gross expenditure in the accounts of £1,056 million.<br>We also set a tolerable error (TE) for the audit. This is how we apply planning materiality at the more detailed level of an individual account or balance. Its purpose is to make reasonably sure that the total of all uncorrected and undetected misstatements is unlikely to exceed planning materiality. The level of TE drives how much detailed audit testing we need to support our opinion.<br><br>We set TE at the upper level of the available range because there were no corrected significant errors in the Council's 2013/2014 financial statements. |
| Reporting Threshold | We are reporting to the Audit and Governance Committee all audit differences in excess of £0.528 million (2014: £1.018 million) |

Page 16

We also identified areas where we used a lower level of materiality level, as it might influence the reader. For these areas we developed a specific audit strategy. These include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: Strategy applied: substantive testing of disclosures.
- Related party transactions. Strategy applied: substantive testing of disclosures.
- Firefighters Pension - we have calculated planning materiality at 1% of contributions receivable.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above; we also take into account any other relevant qualitative considerations.

# Financial statements audit – internal control, written representations and whole of government accounts

## Internal control

- It is the Council's responsibility to develop and implement systems of internal financial control and to have proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as the Council's auditor is to consider whether the Council has adequate arrangements to satisfy itself that this is indeed the case.
- We have tested the controls of the Council only to the extent needed to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- We have reviewed the Annual Governance Statement and can confirm that:
  - it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework, and
  - it is consistent with other information we know from our audit of the financial statements.
- We have not identified any significant deficiencies in the design or operation of an internal control, which the Council does not know about, that might result in a material misstatement in the financial statements.

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## Request for written representations

- We have requested a management representation letter to gain management's confirmation on a number of matters. At the moment we have not identified any additional representations.

## Whole of Government Accounts

- As well as our work on the financial statements, we also review and report to the National Audit Office on the Council's Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.
- We will complete our work in this area when we have concluded our work on the Statement of Accounts and will report any matters arising to the Audit and Governance Committee.

Section 5

# Arrangements to secure economy, efficiency and effectiveness

# Arrangements to secure economy, efficiency and effectiveness

**The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Oxfordshire County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we consider the following criteria and focus specified by the Audit Commission.**

## Criterion 1 – arrangements for securing financial resilience

- Whether the Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- We have identified one significant risk under this criteria and the work we have done on this risk is reported on page 16.

## Criterion 2 – arrangements for securing economy, efficiency and effectiveness

- Whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.
- We have identified one significant risk under this criteria and the work we have done on this risk is reported on page 17.
- We also identified two other risks and these are reported on page 18.

# Addressing audit risks – significant VFM risks

We identified the following VFM risks during the planning phase of our audit and reported them in our Audit Plan. We set out here how we have gained audit assurance over them.

In the context of the value for money conclusion, a significant risk is one that the auditor may issue the wrong conclusion. Where auditors identify a significant value for money conclusion risk, they may need to undertake further work to reach an appropriate conclusion.

**VFM risk identified within our Audit Plan**

## Criterion 1 – arrangements for securing financial resilience

- ‘Whether the Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future’
- We identified one significant risk under this criterion: - Delivering Financial Resilience
  - Extract from our Audit Plan - When we drafted our audit plan the Council was reporting an overspend in both Adult and Children’s Social Care and was having to plan for significant cuts in spending in future years. In the Cabinet report of 24 February 2015 directorates were forecasting to overspend by £4.3m, this reduced by £6m compared to the £10.3m forecast overspend reported to Cabinet in December. The forecast included the release of £2.8m corporate contingency to Children’s Social Care as agreed by Council on 4 November 2014. A balanced budget has been set for 2015/16 but this includes the use of reserves (1.6% of gross expenditure). The Council’s Medium Term Financial Plan (MTFP) identifies savings of £64m. Over the period of the MTFP earmarked reserves will fall from £87.9m to £38.6m.
  - We have reviewed the process that the Council have in place for preparing and monitoring of budgets. We have reviewed the action taken by the Council during 2014/15, such as the introduction of a recruitment freeze, and seen that this has reduced the level of overspends by the year end. The Council are using budget reserves to balance the budget in 2015/16 and 2016/17 and are planning not to use the budget reserve in 2017/18. The Council are now planning to make additional savings over the next four years. Options are being considered for making £50m of savings and a revised MTFP for the years 2016/17 to 2019/20 will be produced. The Council plans so that each MTFP is always balanced and reserves are only ever used as a short term measure. early indications are that financial pressures remain in 2015/16.
  - 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 be help decision making.

# Addressing audit risks – significant VFM risks

We identified the following VFM risks during the planning phase of our audit and reported them in our Audit Plan. We set out here how we have gained audit assurance over them.

In the context of the value for money conclusion, a significant risk is one that the auditor may issue the wrong conclusion. Where auditors identify a significant value for money conclusion risk, they may need to undertake further work to reach an appropriate conclusion.

**VFM risk identified within our Audit Plan**

## Criterion 2 – arrangements for securing economy, efficiency and effectiveness

- ‘Whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity’
- We identified one significant risk under this criterion:
  - Back office out-sourcing
  - To make cost savings the Council has decided to outsource its back office functions. The Council undertook a soft market testing and were contacted by Hampshire County Council who invited them to join a partnership with them, Hampshire Chief Constable and Hampshire Fire and Rescue known as the Integrated Business Centre (IBC). The Council accepted this offer and began agreeing the scope with the Partnership. During negotiations the scope of what was to be included in the partnership has been reduced and this has decreased the costs savings however the Council will make savings out of the services that are no longer in scope to ensure that the overall required level of savings is achieved.
  - 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 has not considered any other provider than Hampshire and have not tested the market more robustly. We recognise that savings will be made from joining the partnership and that further opportunities exist for including 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 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.

# Addressing audit risks – other VFM risks

We identified the following VFM risks during the planning phase of our audit and reported them in our Audit Plan. We set out here how we have gained audit assurance over them.

In the context of the value for money conclusion, a significant risk is one that the auditor may issue the wrong conclusion. Where auditors identify a significant value for money conclusion risk, they may need to undertake further work to reach an appropriate conclusion.

**VFM areas of focus identified within our Audit Plan**

## Criterion 2 – arrangements for securing economy, efficiency and effectiveness

- We identified two other areas of audit focus under this criterion:
- 1.At a meeting of the County Council on the 17 February 2015 it was decided that the Chief Executive would be made redundant and would not be replaced. The reason for this decision was to save costs and streamline the management structure of the Council. On the 26 February 2015 the Council announced that following questions from Members and legal advice the Council would review the current proposal. Report to County Council on 24 March 2015 recommended to rescind the decision to make the Chief Executive redundant and to consider a restructuring of the Senior Management Team.

  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.
- 2. The serious case review was released in March 2015. Since operation Bullfinch the Council have taken extensive action in a number of areas. We need to consider whether there are any matters coming out of the review that impact on our audit.

  We have reviewed the reports and actions taken by the Council in response to the Serious Case Review and are satisfied that there are no matters affecting our value for money conclusion from this issue.
- Our work did not identify any other matters on aspects of the Council’s corporate performance and financial management framework which are not covered by the scope of these criteria.

Section 6

# Challenges for the coming year

# Challenges for the coming year

## Highways Network Asset (formerly Transport Infrastructure Assets):

The Invitation to Comment on the Code of Accounting Practice for 2016/17 (ITC) sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost from the existing Depreciated Historic Cost. This is to be effective from 1 April 2016.

This requirement is not only applicable to highways authorities, but to any local government bodies that have such assets.

This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.

Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities.

## Potential impact

Given the size of the Highways network in Oxfordshire this will have a significant impact for the Council. Members will need to ensure the Council has plans in place to assess if current systems and processes are adequate to identify, administer, value and report on any requirement to account for Highways Network Assets.

Section 7

# Independence and audit fees

# Independence and audit fees

## Independence

- We confirm there are no changes in our assessment of independence since the confirmation in our Audit Plan 22 April 2015.
- We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. In our professional judgement the firm is independent, and the objectivity of the audit engagement partner and 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 and that we are required by auditing and ethical standards to report to the Council.
- We consider that our independence in this context is a matter that should be reviewed by both the Council and us. It is therefore important to consider the facts of which the Council is aware and come to a view. If the Committee wish to discuss any matters concerning our independence, we will be pleased to do so at the meeting on 16 September 2015.

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## Reporting to Those Charged With Governance (TCWG)

- We confirm that we have met the reporting requirements to the Audit and Governance Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our plan to meet these requirements were set out in our Audit Plan of 22 April 2015.

## Audit fees

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

| | Proposed final fee 2014/2015 | Scale fee 2014/2015 | Variation comments |
|---|---|---|---|
| | £ | £ | |
| Audit Fee: Code work | TBC | 146,610 | |
| Certification of claims and returns | 0 | 0 | |
| Non-audit work | 49,000 | 0 | See below |

- Due to the number of significant risks identified we will need to charge an additional fee for the work we needed to do over and above the scale fee. We have raised this throughout the audit and will discuss and agree the amount with the Chief Finance Officer once the audit is complete.

We confirm that we have undertaken the following non-audit work outside the Audit Commission's Audit Code requirements. This was approved by the Audit Commission and latterly PSAA:

- 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

**EY** | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP



ED None

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# Oxfordshire Pension Fund

## Pension Fund/Audit and Governance Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

4 September 2015



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Building a better working world

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Section 1

# Executive summary

# Executive summary – key findings

## Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance. We regard Oxfordshire County Council's Audit and Governance Committee as the member forum ultimately responsible for the governance of the Oxfordshire Pension Fund. However we also report our findings to the Pension Fund Committee ahead of the Audit and Governance Committee meeting.

The Code requires us to report 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 2014/2015 audit, which is substantially complete. It includes the messages arising from our audit of your financial statements.

### Financial statements

As at 4 September 2015, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, as we only have a few matters to communicate, that the Pension Fund has prepared its financial statements to a good standard.

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Section 2

# Extent and purpose of our work

# Extent and purpose of our work

## The Council's responsibilities

- Oxfordshire County Council as the administering authority of the Pension Fund is responsible for preparing and publishing its Statement of Accounts which includes the financial statements of the Pension Fund.
- The Council is also required to prepare a separate Annual Report and Statement of Accounts for the Pension Fund.

## Purpose of our work

- Our audit was designed to:
  - express an opinion on the 2014/2015 financial statements of the Pension Fund, and
  - report on whether information in the Annual Report is consistent with the financial statements

In addition, this report contains our findings on significant deficiencies in internal control or the Pension Fund's accounting policies and key judgments.

This report is intended solely for the information and use of the Pension Fund. It is not intended to be, and should not be, used by anyone other than the specified party.

Section 3

# Addressing audit risks

# Addressing audit risks – significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. We set out here 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 your controls relevant to each risk and assess the design and implementation of the relevant controls.

| Audit risk identified within our audit plan | Audit procedures performed | Assurance gained and issues arising |
|---|---|---|
| **Significant audit risks (including fraud risks)** | | |
| 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 to 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. | Our approach focused on:<br>► testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;<br>► reviewing accounting estimates for evidence of bias, specifically the approach to valuation of investments; and<br>► evaluating the business rationale for significant unusual transactions. | All our planned procedures are complete. We have no matters to bring to your attention based on our testing. |

## Section 4

# Financial statements audit – issues and findings

# Financial statements audit – issues and misstatements arising from the audit

## Progress of our audit

- The following areas of our work programme remain to be completed. We will provide an update of progress at the Pension Fund and Audit Committee meetings:
  - Receipt of a Letter of Representation
  - Final partner review procedures
  - Final audit closing procedures and review procedures.
- Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.



## Uncorrected misstatements

- Our audit has identified one misstatement in the Pension Fund's draft financial statements:
  - The December 2014 quarterly reports for the Partners Group private equity investments, adjusted for relevant cash flows during the last quarter, were used to value the investments at year-end instead of the year-end reports, understating investments by £2.665m.

## Corrected misstatements

- Our audit identified a small number of disclosure errors which we highlighted to management for amendment. We do not consider any of these significant and therefore we have not provided further detail of these amendments.

## 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 your oversight of the Pension Fund's financial reporting process including the following:
  - Qualitative aspects of accounting practices; estimates and disclosures;
  - Matters specifically required by other auditing standards to be communicated to those charged with governance e.g. 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 one matter we wish to report:

- We found no evidence that bank reconciliations are reviewed by managers: although we found no issues, this is a key control for picking up errors promptly. Two very small bank accounts were not reconciled. The cash book is also prepared from the bank statements.

# Financial statements audit – application of materiality

## 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 | |
|---|---|
| Planning Materiality | We determined planning materiality to be £18.5 million (2014: £16.3 million), which is 1% of net assets reported in the 2014/15 accounts of £1,845 million<br>We consider net assets to be one of the principal considerations for stakeholders in assessing the financial performance of the Pension Fund. |
| Tolerable Error | We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion. We set the level of tolerable error at the upper level because we found no material adjustments in the 2013/14 audit. |
| Reporting Threshold | We agreed with the Pension Fund and Audit and Governance Committees that we would report to the Committee all audit differences in excess of £0.8 million (2014: £0.8 million), |

# Financial statements audit – internal control and written representations

## Internal control

- It is the responsibility of the Council and the Pension Fund 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 Pension Fund 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 tested the controls of the Council and the Pension Fund only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

## Request for written representations

- We have requested a management representation letter to gain management's confirmation in relation to a number of matters. We are not requesting any specific representations over and above the standard ones.

Section 5

# Independence and audit fees

# Independence and audit fees

## Independence

- We have reassessed our independence since we confirmed in our Audit Plan dated 10 April 2015 that there were no issues. Two team members confirmed that they, or a family member, were deferred members of the Pension Fund. As required by our internal processes, these team members did no further work on this engagement.
- We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. 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 us. 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 this at the meetings of the Pension Fund Committee on 4 September 2015 and the Audit and Governance Committee on 16 September 2015.
- 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 were set out in our Audit Plan of 10 April 2015.

## Audit fees

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

| | Proposed final fee 2014/2015 | Scale fee 2014/2015 |
|---|---|---|
| | £ | £ |
| Audit Fee: Code work | 24,108 | 24,108 |

- Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- We confirm that we have not undertaken any non-audit work outside the Audit Commission's Audit Code requirements.

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ED None



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