

Oxfordshire County Council

Audit and Governance Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

17 September 2014



Building a better
working world

■ Maria Grindley, Director
■ mgrindley@uk.ey.com

■ Alan Witty, Manager
■ awitty@uk.ey.com

Contents

- ▶ Executive summary
- ▶ Extent and progress of our work
- ▶ Addressing audit risk
- ▶ Financial statements audit – issues and findings
- ▶ Arrangements to secure economy, efficiency and effectiveness
- ▶ Independence and audit fees
- ▶ Appendices

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 2013/14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- ▶ As of 17 September 2014, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements adequately.

Value for money

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- ▶ We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit certificate

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

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. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

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

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2013/14 financial statements;
- Report on any exception on the governance statement or other information included in the foreword; and
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion).

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

As a component auditor for the Whole of Government Accounts, we also follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule.

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.

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. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p>26 schools have and another 3 are planning to move to academy status during 2013/14. This will have an impact on how you account for the schools property, plant and equipment (PPE), expenditure and income such as Dedicated Schools Grant.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> Evaluating the management controls in place to ensure the appropriate accounting entries are made; Undertaking testing to ensure that academy PPE is appropriately removed from the Balance Sheet; Ensuring the Comprehensive Income and Expenditure Statement only includes amounts relating to LEA controlled schools. 	<ul style="list-style-type: none"> We have been able to downgrade this risk as we found that the Council has put in place procedures to manage the de-recognition of schools moving to academy status. Our work on the financial statements confirms that appropriate action has been taken to remove assets and related income and expenditure transactions. No issues arising.
<p>Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud. Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.</p> <p>The Council continues to face significant financial pressures due to reduced external funding and changes such as the localisation of council tax support. These changes add further pressure on management to meet budget and savings targets. This presents a risk that the financial statements may be materially misstated.</p>	<p>Our approach to address the risks of fraud we have identified at this stage of our planning will focus on:</p> <ul style="list-style-type: none"> Reviewing the year-end position against in-year financial forecasts; Reviewing the reasonableness and completeness of prepayments, accruals and provisions; Testing material adjustments made by journals; and Reviewing transactions both before and after year end to ensure they are correctly disclosed in the correct financial period. 	<p>Our general audit work on journals, accounting estimates and significant unusual transactions identified no matters that we need to bring to the Council's attention.</p>

Addressing audit risks

Other audit risks

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

Audit Risk identified within our Audit Plan	Audit Procedures performed	Assurance gained and issues arising
Other audit risks		
<p>The financial statements include a number of significant valuations in respect of pension obligations. These include the estimated liability on the pension fund as well as movements and charges in year. These figures are accounting estimates with a high degree of uncertainty attached to them.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> Evaluating the management controls in place to ensure the appropriate information is shared with the actuaries; Assess the appropriateness of using the work of the actuary as a basis for accounting entries; and Ensuring the statements accurately reflect the figures provided by the actuary. 	<ul style="list-style-type: none"> We found that controls were in place to ensure appropriate information is shared with actuaries. We have assessed the report of the service auditor and our internal review of that report and undertaken additional work as appropriate. The financial statements accurately reflect the figures in the actuarial report. No issues arising.
<p>The Council has a medium term plan for savings to achieve financial balance. The plans are risk rated and monitored on a number of levels. Achievement of the plans to date has been good however a risk remains around increasing financial pressure in the future.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> Reviewing the position against budget on an ongoing basis and at year end; and Understand the Council's response to significant financial pressures such as the spending review. 	<ul style="list-style-type: none"> We found that the Council achieved an underspend against budget and has set a balanced budget for 2014/15. The Council through its medium term financial plan is aware of future budget pressures and is considering a number of ways to improve efficiencies including the outsourcing of back office functions.

Financial statements audit

Issues and misstatements arising from the audit

- ▶ The following areas of our work programme remain to be completed at the time of drafting this report. We will provide an update of progress at the Audit and Governance Committee meeting:

- ▶ Receipt of a Letter of Representation
- ▶ Final Review of Financial Statements
- ▶ Awaiting response from valuer
- ▶ Incomplete:
 - Capital Adjustment Account
 - Elements of Property Plant and Equipment
 - Income testing
 - Whole of Government Accounts
 - Expenditure Trend Analysis
 - Final reviews of file and our internal documentation.

- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected Misstatements

To date we have not identified any uncorrected misstatements. We will inform the Committee of any uncorrected misstatements identified between the drafting of this report and the Audit and Governance Committee on 17 September 2014.

Corrected Misstatements

To date we have not identified any misstatements which warrant communicating to you. We will inform the Committee of any corrected misstatements identified between the drafting of this report and the Audit and Governance on 17 September 2014.

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 Council's financial reporting process including the following:

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

We have no matters we wish to report.

Financial statements audit (continued)

Internal Control, Written Representations & Whole of Government Accounts

Internal Control

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

We have tested the controls of the Council 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 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 that we are aware of from our audit of the financial statements.

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.

Whole of Government Accounts

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

We are currently concluding our work in this area and will report any matters that arise to the Audit and Governance Committee.

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 put in place 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 have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 - Arrangements for securing financial resilience

- ▶ *“Whether the Council 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 did not identify any significant risks in relation to this criteria.

We have no issues to report in relation to this criteria.

Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

- ▶ *“Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”*
- ▶ We did not identify any significant risks in relation to this criteria.

We have no issues to report in relation to this criteria.

We have no other issues to report.

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 26 February 2014.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice 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 ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.

If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit and Governance Committee on 17 September 2014.

- ▶ 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&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of 26 February 2014.

Audit fees

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

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
	£s	£s	
Total audit fee - Code work	TBC	146,610	
Certification of claims and returns	0	700	There are no claims to be certified under the Audit Commission regime.
Non-audit work	5,971	5,971	See detail below.

- ▶ 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 undertaken non-audit work outside of the Audit Commission's Audit Code requirements. This was in relation to Oxfordshire County Council Waste PPP.

Appendix 1 - Uncorrected audit misstatements

- The following misstatements, which are greater than £1m, have been identified during the course of our audit.
- These items have not been corrected by management.
- No such misstatements have been identified to date. We will inform the Committee of any uncorrected misstatements identified between the drafting of this report and the Audit and Governance Committee on 17 September 2014.

Item of Account	Nature	Type	Balance Sheet	Statement of Comprehensive Income & Expenditure
	Description	F, P, J	Debit/(Credit)	Debit/(Credit)
1.				
2.				
3.				
4.				
Cumulative effect of uncorrected misstatement				

- **Key**
- ▶ F – Factual misstatement
 - ▶ P – Projected misstatement based on audit sample error and population extrapolation
 - ▶ J – Judgemental misstatement

Appendix 1 - Uncorrected audit misstatements

- The following misstatements, have been identified during the course of our audit and in our professional judgement warrant communicating to you.
- These items have not been corrected by management. We will inform the Committee of any uncorrected misstatements identified between the drafting of this report and the Audit and Governance Committee on 17 September 2014.

Disclosures

Disclosure	Description of misstatement
1.	
2.	
3.	
4.	

Appendix 2 - Corrected audit misstatements

- The following corrected misstatements, have been identified during the course of our audit and warrant communicating to you.
- These items have been corrected by management within the revised financial statements.
- No such misstatements have been identified to date. We will inform the Committee of any corrected misstatements identified between the drafting of this report and the Audit and Governance Committee on 17 September 2014.

Balance Sheet and Statement of Comprehensive Income and Expenditure

Item of Account	Nature	Type	Balance Sheet	Statement of Comprehensive Income & Expenditure
	Description	F, P, J	Debit/(Credit)	Debit/(Credit)
1.				
2.				
3.				
4.				
Cumulative effect of corrected misstatement				

- **Key**
- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

Appendix 2 - Corrected audit misstatements

- The following misstatements, have been identified during the course of our audit and in our professional judgement warrant communicating to you.
- These items have been corrected by management within the revised financial statements.
- No such misstatements have been identified to date. We will inform the Committee of any corrected misstatements identified between the drafting of this report and the Audit and Governance Committee on 17 September 2014.

Disclosure	Description of misstatement
1.	
2.	
3.	
4.	

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All Rights Reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive 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 Audit Results Report 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.

