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

Building a better
working world

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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 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: ► tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ► reviewed accounting estimates for evidence of management bias, and ► evaluated the business rationale for significant unusual transactions.	Our work is still ongoing.
Revenue and expenditure recognition 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. 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: ► evaluated the types of revenue and expenditure and the associated risks; ► evaluated the selection and application of relevant accounting policies by the Council; ► Gained an understanding of the systems relevant controls; and ► Performed audit procedures to obtain the necessary assurance.	Our work is still ongoing.

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 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. 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 ► discussed with the Finance Team accounting issues that arose during the close down process; ► monitored the timetable to deliver the financial statements to ensure that key milestones were achieved; and ► 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 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. 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. 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: ► 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; ► ensured that the Council have correctly applied the relevant accounting standards (IAS16) to the non-current assets for each category of schools; ► reviewed documentation and evidence that support the accounting treatment adopted; and ► 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.

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.

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. 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. 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)

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.

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.

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

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ED None

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