Oxford City Council

Audit and Governance Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

15 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 2014/2015 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 15 September 2015, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate that the Council has prepared its financial statements adequately, as we only have a few matters to communicate.

Value for money

- We have completed our work and 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 have completed our work and we have not identified any significant matters that need to be reported 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.

Challenges for the coming year

Highways Network Asset (formerly Transport Infrastructure Assets):	Action taken by the Council
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	The Council are aware of the new requirements and have started identifying assets that will be classified as Highways Network Assets and does not believe that they will be material. It is recognised that more work needs to be done to confirm the number and value of the assets.

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 2014/2015 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)		
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.	1. We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;	1. Our work on journals is complete. No issues were noted.
	2. We reviewed accounting estimates for evidence of management bias; and	2. Our review of accounting estimates has not identified any issues with the application of estimates
	3. We evaluated the business rationale for any significant unusual transactions. We specifically reviewed the classification of the lease for the Westgate redevelopment. The Council classified the lease as operational. The lease is for 250 years from 2015. We queried if this classification was appropriate given the length of time of the lease and if the risks and rewards were with the developer and not the Council. Given the importance and impact of the classification to the financial statements we sought advice from our technical support team.	3. Our review of the Westgate lease classification challenged the Council's initial classification of the land element of the Westgate Redevelopment as an operating lease. Following discussions with the Council it was agreed that it would be amended to a finance lease. See further detail on page 9

Addressing audit risks – other 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.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Other audit risks		
Accounting for Westgate re-development Formal work started on the Westgate re-development project in February 2015. As the Council is a major partner in the project the re-development will have a significant impact across a number of key areas: property; leases and car parking income.	We: ► Reviewed the Council's approach to accounting for the Westgate re-development ► Tested a sample of the assets and leases affected to ensure that these have been correctly accounted for ► Reviewed contracts to ensure that the accounting is supported by legally binding contracts ► Challenged the classification of the lease to the developer	We reviewed the classification of the lease for the Westgate redevelopment. The Council had classified the lease as operational. The lease is for 250 years from 2015. We queried if this classification was appropriate given the length of time of the lease and if the risks and rewards were with the developer and not the Council. Following discussions the Council agreed to amend the classification to that of a finance lease. Our testing of a sample of assets and a review of contracts did not identify any issues.
Accounting for internal recharges As part of the 2013-14 audit an adjustment was made to correct the accounting in respect of how internal re-charges were being recognised in the Income and Expenditure Account. Although the adjustments had no impact on net expenditure, gross expenditure and gross income were reduced by £25m.	We: ► Reviewed the approach to accounting for internal recharges in the Income and Expenditure Account ► Reconciled the Budget Book back to the gross expenditure and gross income in the Income and Expenditure Account and sought explanations for ant differences	Our work on revenue and expenditure recognition is now complete. We reviewed the approach to ensuring that internal recharges were stripped out and noted no significant issues from this review.
Accounting for revaluations and impairments As part of the 2013-14 audit adjustments were made to correct prior year and in-year accounting for fixed asset revaluations and impairments within the Income and Expenditure Account and the Revaluation Reserve. The overall net impact was approximately £42m. The adjustments were made and agreed by management in 2013-14.	We: ► Reviewed the approach to accounting for fixed asset revaluations and impairments	Our work on revaluations is now complete. No issues were noted from this review.

Section 4

Financial statements audit – issues and findings

Financial statements audit – issues and misstatements arising from the audit

Progress of our audit

- We still need to complete the following areas of our work programme. We will provide an update of progress at the Audit and Governance Committee meeting:
  - We need a signed Letter of Representation
- Subject to this being resolved satisfactorily and final audit review, we propose to issue an unqualified audit report on the financial statements.

Uncorrected misstatements

- To date we have identified 1 misstatement in the draft financial statements which management has chosen not to adjust. This has been noted in Appendix B
- We ask the Audit Committee to consider approving management's rationale for this and, if they do approve, to include it in the Letter of Representation.

Corrected misstatements

- Our audit also identified a number of misstatements which our team has highlighted to management for amendment. These have been corrected during the audit and Appendix A shows the details.

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 found when discussing the technical accounting issues that the Council only had access to information that is free to view. There is further information on the application of the standards that requires a subscription to be paid. We would recommend that the Council ensure that they have access to all the information provided by the standard setting body.

  We have no other 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 £3.7 million (2014: £4.2 million), which is 2% of gross expenditure in the accounts of £175.5 million, adjusted for other items of expenditure which are accounted for outside of the Net Cost of Services such as expenditure in relation to finance charges. We have not calculated materiality at group as Barton LLP is not a significant component. 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 lower level of the available range (50%) because of the level of amendments made to the CIES and Revaluation Reserve in the 2013/2014 financial statements.
Reporting Threshold	We agreed with the Audit and Governance Committee that we would report to them all audit differences in excess of at £1.839 million (2014: £3.115 million)

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, and 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 have concluded our work in this area and there are no matters arising as a result of this work which we need to bring to the attention of 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 Oxford City 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 did not identify any significant risks under this criterion
- We have no issues to report under this criterion

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 did not identify any significant risks under this criterion
- We have no issues to report under this criterion.

- 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

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 dated 23 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 15 September 2015.
- 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 23 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	114,900	
Certification of claims and returns	TBC	34,100	
Non-audit work	0	0	0

- Our actual fee is provisionally in line with the agreed fee, 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.

Section 7

Appendices

Appendix A – corrected audit misstatements

- The following corrected misstatements greater than £1.839m have been identified during the course of our audit and we judge that we should inform the Committee.
- Management has corrected these items in the revised financial statements.

Balance sheet and statement of comprehensive income and expenditure

Item of account	Nature	Type	Balance sheet	Comprehensive income and expenditure statement (CIES)
	Description	F = Factual	Debit/(credit)	Debit/(credit)
1. MIRS, CIES, Balance Sheet (B/S), Cashflow (C/F) and related notes 6, 8, 13, 15, 23, 27, 35, 36	Westgate Lease Classification. The Land element of the Westgate Lease was originally classified as an Operating Lease. Upon review it was changed to a Finance Lease. The key adjustments which have impacted on the primary statements are disclosed here.	F	Long Term Debtors – £20.630 m Investment Properties – (£20.632 m)	
2. CIES & Note 9 Financing and Investment Income and Expenditure.	Income and Expenditure in Relation to Investment Properties and Changes in their Fair Value were incorrectly excluded from Note 9 and also incorrectly included in the CIES Financing and Investment Income and Expenditure Planning Services Revenue Cultural Services Revenue	F		(£2.508) £2.456m £0.052m

Appendix A – corrected audit misstatements (cont'd)

- The following misstatements greater than £1.89mn have been identified during the course of our audit and we judge that we should inform the Committee
- Management has corrected these items in the revised financial statements

Disclosures

Disclosure	Description of misstatement
1. Note 15 and 42 Financial Instruments	Statutory amounts relating to Council Tax and NDR were incorrectly included in the Financial Instrument disclosure notes in Short-term Creditors and Short-term Debtors. As per the Code these amounts are not technically Financial Instruments. These were removed and the comparative figures similarly adjusted. The impact of the FY 14-15 adjustments was a reduction in Short-term Creditors of £11.221m (£7.548 m 13/14) and Short-term Debtors of £4.896 m (£1.908 m 13/14)

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ED None

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