

Annual Governance Report

South Oxfordshire District Council

Audit 2007/08

Date

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Summary

Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is substantially complete. It identifies the key issues that you should consider before we issue our opinion, conclusion and certificate.
- 2 This report includes only matters of governance interest that have come to our attention in performing the audit. Our audit is not designed to identify all matters that might be relevant to you.

Financial statements

- 3 We expect to issue an unqualified opinion on the financial statements on 12 November 2008. This is considerably after the due date of 30 September 2008.
- 4 We raised concerns around the arrangements for production of your financial statements at the end of our 2006/07 audit. As a result, additional resources were employed within the Finance department and tasks reassigned.
- 5 However, due to problems with the implementation of the new financial accounting system in April 2007, including debtor and creditor modules, new systems for benefits, council tax and business rates in September 2007, bedding in of new staff, and long term staff sickness there was insufficient resilience within Finance to produce accurate accounts by 30th June (when statements were approved by the Audit and Governance Committee).
- 6 As a result, the financial statements adopted contained significant errors and have been considerably amended. The majority of the errors resulted from an imbalance between the systems for council tax and business rates and the general ledger which were not resolved until October 2008. During the audit, management made 76 adjustments to the accounts and supporting notes. These are shown in full in appendix 2. In total these adjustments:
 - Increased the deficit on the I&E for the year by £0.39m (although the general fund balance remained unchanged);
 - Increased the reduction in net worth on the STRGL by £2.633m;
 - Reduced the net worth on the balance sheet by £4.111m; and
 - Increased the collection fund deficit by £0.046m.
- 7 The additional work required to provide the assurance we required to give our opinion resulted in an additional audit fee of £45,000 (additional audit fee 2006/07 £15,000).

8 We therefore recommend:

- Resources within the Finance Department should be reassessed to provide resilience and to enable finance to deliver an efficient and effective service;
- Arrangements for preparation and review of financial statements should be strengthened to ensure accurate accounts are produced for 2008/09; and
- The unallocated cash figure within receipts in advance should be investigated and correctly allocated against outstanding debtor accounts.

Value for Money Conclusion

9 There were three areas where the Council was assessed as not meeting the criteria on which the value for money conclusion is based. We therefore propose issuing an 'except for' conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

10 We therefore recommend:

- Link corporate risks to strategic priorities and develop action plans to manage these risks;
- Document procedures for all key financial systems and undertake regular system reconciliations;
- Strengthen financial reporting to Members; and
- Prepare a capital strategy and asset management plan.

Next steps

11 We ask the Audit and Governance Committee to:

- consider the matters raised in the report before approving the revised financial statements;
- agree to adjust the financial statements as set out in Appendix 2;
- approve the representation letter on behalf of the Council before we issue our opinion, conclusion and certificate; and
- agree the proposed action plan to address the above recommendations

Financial statements and Annual Governance Statement

- 12** The Council's financial statements and Annual Governance Statement are important means by which the Council accounts for its stewardship of public funds. As Council Members you have final responsibility for the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 13** In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 14** In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you to sign;
 - our views about the Council's accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to our report;
 - weaknesses in internal control; and
 - certain other matters.

Key areas of judgement and audit risk

- 15** In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Risks identified were raised with the Council in June 2008. The impact of these on our work is set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
<p>Changes to the reporting requirements for 2006/07 caused difficulties within accountancy, and the statements were considerably revised before certification. Since that time additional resources have been taken on within accountancy.</p>	<p>System changes in year, long term staff sickness and new staff settling in resulted in accounts containing significant errors, and a late opinion. Considerable additional audit resources were needed to deliver our opinion.</p>
<p>Migration to the new main accounting system (Agresso 5.5), including debtor and creditor modules, did not go smoothly. As a result it was not possible to rely on controls within the systems to provide assurance for the final account statements.</p>	<p>We tested substantively all creditor payments in the year. We also undertook additional testing on transactions at the start and end of the year to ensure they were included in the correct financial year.</p> <p>We undertook additional work around income to attempt to identify any shortfalls and verify they were due to genuine reductions in service as opposed to failures to raise invoices.</p>
<p>The Council changed benefits, council tax and NNDR systems mid way through the year. The NNDR system is now entirely managed and administered from Bromley.</p>	<p>We have documented and tested controls within both the old and new systems for council tax and benefits to provide our assurance.</p> <p>For NNDR we have undertaken additional procedures to identify other councils that also completely outsource business rates, and where practical have undertaken work to assure ourselves that we can rely on their work to provide some assurance.</p> <p>We also undertook additional work at the year end to ensure the NNDR claim was audited fully before our opinion was given</p>
<p>Reconciliations between subsidiary systems, especially council tax and business rates, at the year end highlighted material differences in the cash balances and receipts in advance in these subsidiary systems and the general ledger.</p>	<p>Additional work had to be undertaken by officers to identify the causes of the differences and correct them in the financial statements. Additional audit resources were required to verify the accuracy of the adjustments made to the statements as a result.</p>
<p>We requested evidence of ongoing rights and obligations for property assets to be provided for our opinion audit.</p>	<p>We identified errors in valuation and classification of assets as a result of this work which have been corrected in the revised statements.</p>

Recommendation

R1 Resources within the Finance Department should be reassessed to provide resilience and to enable finance to deliver an efficient and effective service.

R2 Arrangements for preparation and review of financial statements should be strengthened to ensure accurate accounts are produced for 2008/09

Draft representation letter

16 Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:

- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
- you have approved the financial statements;
- you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
- you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
- you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
- you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
- you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
- you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures;
- you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
- you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
- cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.

17 We need specific representations from you about related party relationships with Capita as they are a major supplier and this was not specifically requested as part of the process for identifying related party transactions.

18 Appendix 1 contains the draft of the letter of representation we seek from you.

Accounting policies and financial reporting

- 19** We considered the qualitative aspects of your financial reporting and have not identified any significant issues to raise with you regarding the revised financial statements and the financial information in the updated annual report.

Errors in the financial statements

- 20** We identified errors in the financial statements (other than those of a trivial nature) and reported these to management.
- 21** Management has agreed to adjust the financial statements for the errors identified in Appendix 2. However, because of the extent of the errors, and the underlying lack of resilience within Finance that led to these errors, we are reporting these to you.
- 22** Members should note that, whilst the work carried out to reconcile the council tax and business rates systems with the ledger have reduced the errors between cash recorded in these systems, there is still an amount of £176k within receipts in advance that relates to unallocated cash. As a result, receipts in advance is overstated, as is debtors.
- 23** We have not identified any errors (other than those of a trivial nature) that management has declined to correct.

Recommendation

- R3** The unallocated cash figure within receipts in advance should be investigated and correctly allocated against outstanding debtor accounts.

The audit report

- 24** We plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 3 contains a copy of our draft report.

Material weaknesses in internal control

- 25** We have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.
- 26** We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

Other matters

- 27** There are no other matters that auditing standards require me to report to you.

Value for money

- 28** We are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against seven criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 29** We identified weaknesses in arrangements for securing value for money as detailed below.

Table 2 Value for money conclusion: criteria where assessed as not adequate

Criterion	Finding
Arrangements for a system of internal control	<ul style="list-style-type: none">• procedure notes did not exist for all key financial systems• reconciliations between key financial systems, including bank reconciliations were not carried out in a timely manner
Arrangements to match performance against budgets	<ul style="list-style-type: none">• financial reports were not submitted to Members in a timely manner to enable them to fulfil their responsibilities
Management of the asset base	<ul style="list-style-type: none">• the Council does not have either an up to date capital strategy or asset management plan

- 30** We therefore propose to issue a qualified conclusion stating the Council had adequate arrangements for securing economy, efficiency and effectiveness, except in the three areas highlighted above. Appendix 3 contains the wording of our draft report.

Recommendation

R4 The Council should take action to improve arrangements for securing economy, efficiency and effectiveness in its use of resources as follows:

- Link corporate risks to strategic priorities and develop action plans to manage these risks;
- Document procedures for all key financial systems and undertake regular system reconciliations;
- Strengthen financial reporting to Members; and
- Prepare a capital strategy and asset management plan.

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Formal audit powers

31 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Council's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Council to meet and consider the notice before:
 - making a decision that might give rise to unlawful expenditure; or
 - taking an unlawful course of action that would give rise to a loss; or
 - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Council.

32 We have not and do not propose to exercise these powers.

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Independence

- 33** The Code of Audit Practice and the APB’s Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 34** We confirm that we comply with the APB’s Ethical Standards, that we are independent and that our objectivity is not compromised.
- 35** We communicate to you:
- any relationships between us and the Council, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
 - total fees charged to you for audit and non-audit services; and
 - our arrangements to ensure independence and objectivity.

Relationships with the Council

- 36** We have identified the following relationship that could be seen to affect objectivity and independence and have put appropriate safeguards in place and gained assurance that there was no affect.

Table 3 Relationships and safeguards

Relationship	Safeguard
Richard Quayle was appointed as a financial accountant in October 2007. Prior to this he was employed by the Audit Commission as an Audit Manager in the Corporate Office. In this role he worked on occasions from the Oxford office.	None of the staff working on the Council's audit have worked directly with or for Richard during his time with the Audit Commission. In addition Richard had no involvement with our work at the Council during his time with the Audit Commission.

Independence

Audit fees

37 We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

Table 4 Audit fees

	Plan 2007/08	Actual 2007/08
Planning, managing and reporting the audit	9,610	11,100*
work to support the CPA recategorisation	3,500	3,500
Financial statements and Annual Governance Statement	49,121	92,655*
Whole of Government accounts	1,430	1,430
Value for Money	26,024	26,000
National Fraud Initiative	575	575
Total Audit Fees	90,260	135,260

***Our estimate of the additional fee is based on actual time at the end of October, plus an estimate for completion of our responsibilities for 2007/08 (including the audit of the WGA pack). The final fee may thus vary slightly from the above.**

38 The additional fee broadly splits into £15,000 for our work on systems that are material for our opinion, and £30,000 for our work on the financial statements (2006/07 £15,000). The fee is above that originally planned for the following reasons:

- Additional work had to be undertaken to substantively test transactions where we were unable to rely on system controls as planned within the creditor payments system;
- Additional work had to be undertaken to gain assurances over the NNDR (business rates) system which is entirely managed for the Council from Bromley;
- The extent of the errors within the statements meant that considerable additional time was required both to identify where the errors were, work with officers to assist them in addressing these errors, and gain assurance that the revised statements did not contain material errors or omissions.

Our arrangements to ensure independence and objectivity

39 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 5.

Table 5 Arrangements to ensure independence and objectivity

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> • do not hold a financial interest in any of our audit clients; • may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and • may not enter into business relationships with UK audit clients or their affiliates. <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> • the general requirement to carry out work independently and objectively; • safeguarding against potential conflicts of interest; • acceptance of additional (non-audit) work; • rotation of key staff; • other links with audited bodies; • secondments; • membership of audited bodies; • employment by audited bodies; • political activity; and • gifts and hospitality.
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

Appendix 1 – Draft letter of representation

To: Maria Grindley
The Audit Commission
Unit 5, Isis Business Centre,
Horspath Road,
Cowley,
Oxford
OX4 2RD

South Oxfordshire District Council - Audit for the year ended 31 March 2008

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of South Oxfordshire District Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2008.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council committee meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or

- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.
- I also confirm that I have disclosed:
- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information provided regarding the identification of related parties.

Appendix 1 – Draft letter of representation

The identity of, and balances and transactions with, related parties, including any relationships with the provider of financial services, CAPITA, have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by the Audit and Governance Committee no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of South Oxfordshire District Council

I confirm that the this letter has been discussed and agreed by the Audit and Corporate Governance Committee on 12 November 2008.

Signed

Name

Position

Date

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Appendix 2 – Adjusted errors

Area adjusted	detail	original figure £000	revised figure £000	explanation for adjustment
I&E Account	Local tax collection	645	647	Minor adjustment following further work on collection fund
I&E Account	Culture & related services	3,929	4,065	Additional deferred charges identified following audit
I&E Account	Planning & development services	4,412	4,308	Government grant income received now matched against spend
I&E Account	Housing benefits	167	257	Increase in bad debt provision following audit review
I&E Account	Other housing services	1,994	1,677	Credit for future repayment of long term loan now credited against service. Minor adjustment to creditors and bad debt provision
I&E Account	Non distributed costs	1,295	1,166	Reduction in previous year's pension costs, and other minor late adjustments
I&E Account	Loss / (gain) on disposal of fixed assets	6	(50)	Additional fixed asset disposal identified
I&E Account	Income from transferred debt	(38)	0	Entry on accounts not required – not shown in I/E account

Appendix 2 – Adjusted errors

Area adjusted	detail	original figure £000	revised figure £000	explanation for adjustment
I&E Account	(Surplus) / deficit from trading undertakings	2,857	3,467	Additional deferred charges and increased bad debt provision charged to trading operations following audit
I&E Account	Contribution to housing pooled capital receipts	13	24	Additional pooling liability identified following audit
I&E Account	Interest and investment income	(6,875)	(6,766)	Interest accrued on “interest on maturity” investments originally included in figure – now excluded
Impact on I&E account	Deficit for year increased	7,457	7,847	
SMGFB	Surplus for the year on the I&E account	7,457	7,847	Figure amended to reflect changed I/E account
SMGFB	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the GF balance for the year	(7,457)	(7,847)	Figure amended to reflect changed I/E account
Impact on SMGFB	GF balance carried fwd unchanged	750	750	
STRGL	(Surplus) / deficit for the year on the I&E account	7,457	7,847	Figure amended to reflect changed I/E account

Area adjusted	detail	original figure £000	revised figure £000	explanation for adjustment
STRGL	(Surplus) / deficit arising on revaluation of fixed assets	(5,597)	(4,297)	Asset revalued upwards in error in original accounts
STRGL	(Surplus) / deficit arising on revaluation of available-for-sale financial assets	(837)	(783)	Amendment to values of financial instruments shown in accounts following audit review
STRGL	Actuarial (gains) / losses on pension fund assets & liabilities	43	(43)	Error in original STRGL – now amended
STRGL	Deficit / (surplus) on the collection fund relating to SODC	55	61	Collection fund accounts amended by accountancy following further review
STRGL	Movements in net worth which have not been accounted for in the I&E account	(969)	0	Original STRGL included balancing figure for some items where accounting treatment was uncertain. These have all been resolved
Impact on STRGL	Net worth has decreased	152	2,785	
Balance sheet (and note 12.2)	Non operational assets	27,386	22,629	One asset revalued in error and one asset double counted in error in original accounts

Appendix 2 – Adjusted errors

Area adjusted	detail	original figure £000	revised figure £000	explanation for adjustment
Balance sheet (and note 24.1)	LT investments (net of provision for loss in value)	69,294	72,145	Accrued interest on LT investments, previously shown in debtors, now added to the carrying value.
Balance sheet (and note 24.2)	Long term debtors	2,886	2,676	Long term debtor included in error – transferred to debtors
Balance sheet (and note 24.3)	Debtors	16,342	10,704	Accrued interest on investments now shown as addition to carrying value on LT investments and investments. Also includes amendments to council tax / NNDR debtor balances following further work on collection fund and inclusion of item previously shown in LT debtors
Balance sheet	Bad debt provision	(3,258)	(3,442)	Bad debt provision revised following further collection fund work. Also includes amendment to provision post audit
Balance sheet (and note 24.1)	Investments	37,780	38,997	Accrued interest on ST investments, previously shown in debtors, now added to the carrying value.

Appendix 2 – Adjusted errors

Area adjusted	detail	original figure £000	revised figure £000	explanation for adjustment
Balance sheet (and note 24.4)	Receipts in advance	(7,252)	(2,435)	Amendments to council tax / NNDR receipt in advance balances following further work on collection fund and audit review. Also prior year amount overstated by capital receipts included here in error
Balance sheet	Developers contributions	(190)	(544)	Opening balance understated owing to error in prior year accounts
Balance sheet (and note 21)	Capital grants unapplied	(478)	(422)	Original figure overstated – double count of government grant. Other grant transferred here following STRGL review
Balance sheet (and note 24.4)	Creditors	(5,038)	(7,146)	Amendments to council tax / NNDR creditor balances following further work on collection fund and audit review. Other minor amendments to accruals reflected in revised figure
Balance sheet	Net pension liability	(18,488)	(18,289)	Pensions liability overstated in original accounts – corrected following audit review
Impact on balance sheet net worth	Net worth has decreased	144,217	140,106	

Appendix 2 – Adjusted errors

Area adjusted	detail	original figure £000	revised figure £000	explanation for adjustment
Balance sheet (and note 23.6)	Revaluation reserve	5,597	4,297	Asset identified as revalued in error in original accounts
Balance sheet (and note 23.8)	Financial instrument adjustment account	0	109	Interest accrued on “interest on maturity” investments shown here as not yet realised
Balance sheet (and note 23.7)	Available for sale financial instrument reserve	837	674	Amendment to value of financial instruments following audit review
Balance sheet (and note 23.2)	Capital adjustment account	63,385	59,928	One asset double counted in original accounts
Balance sheet (and note 23.4)	Deferred capital receipts reserve	2,767	2,556	Transfer of deferred capital receipt to usable capital receipts reserve following audit review
Balance sheet (and note 23.3)	Usable capital receipts reserve	36,916	38,692	Prior year amount understated by capital receipts transferred to receipts in advance error. Also included in revised figure is transferred deferred capital receipt following audit review, other grant transferred out following STRGL review and additional housing pooling payment
Balance sheet (and note 23.5)	Pensions reserve	(18,488)	(18,289)	Pensions liability overstated in original accounts – corrected following audit review

Appendix 2 – Adjusted errors

Area adjusted	detail	original figure £000	revised figure £000	explanation for adjustment
Balance sheet (and note 23.1)	Earmarked reserves	52,463	51,405	Adjustments to opening financial instrument values reflected through earmarked reserves. Opening earmarked reserves overstated by capital receipts incorrectly posted here in prior year. Revenue changes to I/E surplus / deficit – eg bad debt provision – also included here
Balance sheet	Balances – collection fund	(10)	(16)	Collection fund accounts amended by accountancy following further review
Impact on balance sheet total equity	Total equity has decreased	144,217	140,106	
Cash flow statement	Cash paid to and on behalf of employees	10,315	10,466	Amended following revisions to accounts
Cash flow statement	Other operating cash payments	15,859	15,518	Amended following revisions to accounts
Cash flow statement	Council tax receipts	(71,463)	(71,061)	Amended following revisions to accounts
Cash flow statement	Cash received for goods and services	(3,495)	(3,677)	Amended following revisions to accounts
Cash flow statement	Purchase of fixed assets	15,763	15,734	Amended following revisions to accounts

Appendix 2 – Adjusted errors

Area adjusted	detail	original figure £000	revised figure £000	explanation for adjustment
Impact on cash flow statement	No change to net increase in cash	(177)	(177)	
Note 2 trading operations	Expenditure	307	331	Increase in bad debt provision charged to trading operations
Note 2 trading operations	Charges for capital expenditure and other adjustments	3,492	4,078	Increase in deferred charges charged to trading operations
Impact on note 2 trading operations	Deficit has increased	2,857	3,467	
Note 10 audit costs	Fees payable to the audit commission in respect of statutory inspection	1	16	Statutory inspection fees overstated in original accounts – amended following audit review
Note 10 audit costs	Fees payable to the audit commission for the certification of grant claims and returns	64	35	Statutory inspection fees overstated in original accounts – amended following audit review
Impact on note 10 audit costs	Audit fees have decreased	161	147	

Area adjusted	detail	original figure £000	revised figure £000	explanation for adjustment
Note 11 – SMGFB	Amortisation of intangible fixed assets	(175)	(203)	Original figure shown net of amortisation of government grant on intangible assets – now shown gross
Note 11 – SMGFB	Depreciation and impairment of fixed assets, and write down of fixed asset expenditure not enhancing the asset	(6,442)	(1,576)	Downward revaluations of assets originally included here – now shown in separate line.
Note 11 – SMGFB	Downwards revaluation of assets	0	(5,452)	Previously included within impairments – now correctly shown as downward revaluation. Includes further downward revaluation resulting from corrections to fixed assets, following audit review
Note 11 – SMGFB	Government grants deferred amortisation matching depreciation and impairments	862	890	Original figure shown net of amortisation of government grant on intangible assets – now shown gross
Note 11 – SMGFB	Write down of deferred charges financed from capital resources	(5,491)	(5,627)	Additional deferred charges identified following audit
Note 11 – SMGFB	Net gain or (loss) on sale of fixed assets	(6)	50	Additional fixed asset disposal identified

Appendix 2 – Adjusted errors

Area adjusted	detail	original figure £000	revised figure £000	explanation for adjustment
Note 11 – SMGFB	Income from transferred debt	38	0	Entry on accounts not required – not shown in I/E account so not required in SMGFB note
Note 11 – SMGFB	Net charges made on retirement benefits in accordance with FRS17	(2,335)	(2,136)	Pensions liability overstated in original accounts – corrected following audit review
Note 11 – SMGFB	Transfer from usable capital receipts to meet payments to the housing capital receipts pool	(13)	(24)	Additional pooling liability identified following audit
Note 11 – SMGFB	Net transfer to or from earmarked reserves	3,848	3,974	Amendments to I/E account following audit review adjusted net transfer amount
Impact on note 11 – SMGFB	Increase in amount debited	(7,457)	(7,847)	
Note 12.4 – capital financing requirement	Opening capital finance requirement	(18,896)	(21,767)	Opening capital finance requirement amended following adjustments to opening balances
Note 12.4 – capital financing requirement	Capital adjustment account	(292)	(878)	Movement amended following revisions to balance sheet
Note 12.4 – capital financing requirement	Revaluation reserve	(5,597)	(4,297)	Movement amended following revisions to balance sheet

Area adjusted	detail	original figure £000	revised figure £000	explanation for adjustment
Impact on note 12.4 – capital financing requirement	Capital financing requirement has increased	(19,062)	(21,219)	
Note 19 – net assets employed	General fund	126,026	123,162	Note amended following other amendments to balance sheet
Note 19 – net assets employed	Trading operations	18,698	16,673	Note amended following other amendments to balance sheet
Impact on note 19 – net assets employed	Net assets employed has decreased	144,724	140,106	
Note 24.5 – soft loans	Car loans to employees – current	358	43	Value of current loans overstated in original accounts
Note 24.5 – soft loans	Loans to local residents for rent deposits	30	4	Value of current loans overstated in original accounts
Impact on note 24.5 – soft loans	Total current soft loans has decreased	388	47	
Note 25 – LGPS liability	Estimated liabilities in scheme	(73,338)	(73,139)	Pensions liability overstated in original accounts – corrected following audit review

Appendix 2 – Adjusted errors

Area adjusted	detail	original figure £000	revised figure £000	explanation for adjustment
Note 28 – reconciliation of net surplus / deficit on I&E account to net cash flow	Note revised to reflect reporting requirements			
Note 30 – reconciliation of the items shown in the financing and management of liquid resources sections of the cash flow statement to the related items in the opening and closing balance sheets for the period	Short term investments – accrued interest	0	1,147	Accrued interest on ST investments, previously shown in debtors, now added to the carrying value.
Collection fund	Council tax	(70,507)	(70,461)	Collection fund accounts amended by accountancy following further review
Collection fund	Income collectable from business ratepayers	(37,612)	(37,819)	Collection fund accounts amended by accountancy following further review
Collection fund	Transfers from general fund – council tax benefits	(4,731)	(4,596)	Collection fund accounts amended by accountancy following further review
Collection fund	Payment to national pool	37,417	37,624	Collection fund accounts amended by accountancy following further review

Area adjusted	detail	original figure £000	revised figure £000	explanation for adjustment
Collection fund	Provision for bad and doubtful debts	376	241	Collection fund accounts amended by accountancy following further review
Impact on collection fund	Collection fund deficit has increased	77	123	
Collection fund – note 4 – deficit on collection fund	Oxfordshire County Council	59	94	Collection fund accounts amended by accountancy following further review
Collection fund – note 4 – deficit on collection fund	Thames Valley Police	8	13	Collection fund accounts amended by accountancy following further review
Collection fund – note 4 – deficit on collection fund	South Oxfordshire District Council	10	16	Collection fund accounts amended by accountancy following further review
Impact on collection fund – note 4 – deficit on collection fund	Collection fund deficit has increased	77	123	

Appendix 3 – Independent Auditor's report to the Members of South Oxfordshire District Council

Opinion on the financial statements

- 1 I have audited the Authority accounting statements and related notes of South Oxfordshire District Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.
- 2 This report is made solely to the members of South Oxfordshire District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Head of Finance and auditor

- 3 The Head of Finance's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.
- 4 My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).
- 5 I report to you my opinion as to whether the Authority accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority and its income and expenditure for the year.
- 6 I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with

other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

- 7** I read other information published with the Authority accounting statements, and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Explanatory Foreword and the content of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

- 8** I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.
- 9** I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority accounting statements and related notes.

Opinion

- 10** In my opinion:
- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

Best Value Performance Plan

- 11** I issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 in December 2007. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

- 12** The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

- 13** I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

- 14** I have undertaken my audit in accordance with the Code of Audit Practice. In doing so I identified the following:

- The council did not have procedure manuals in place for all the significant financial systems replaced in year;
- The council did not carry out regular reconciliations of its key financial systems including bank reconciliations;
- budget reports to Members were not produced in a timely manner;
- The Council does not have an up to date capital strategy or asset management plan.

- 15** Having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that South Oxfordshire District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008 except that it did not put in place:

- Arrangements within its system of internal control for the preparation of procedure notes and reconciliations of all key financial systems;
- Adequate reporting arrangements to enable Members to fulfil their responsibilities to match performance against budgets; or
- An up to date capital strategy and asset management plan for management of its asset base.

Certificate

16 I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Maria Grindley,

District Auditor, Audit Commission, Unit 5, Isis Business Centre, Horspath Road,
Cowley, Oxfordshire OX4 2RD

12 November 2008

DRAFT

Appendix 4 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Financial Statements						
7	R1 Resources within the Finance Department should be reassessed to provide resilience	3				
7	R2 Arrangements for preparation and review of financial statements should be strengthened to ensure accurate accounts are produced for 2008/09	3				
8	R3 The unallocated cash figure within receipts in advance should be investigated and correctly allocated against outstanding debtor accounts.	3				
Value for money conclusion						
10	R4 The Council should take action to improve arrangements for securing economy, efficiency and effectiveness in its use of resources as follows: <ul style="list-style-type: none"> • Link corporate risks to strategic priorities and develop action plans to manage these risks; • Document procedures for all key financial systems and undertake regular system reconciliations; • Strengthen financial reporting to Members; and • Prepare a capital strategy and asset management plan. 	3				