

Annual governance report

South Oxfordshire District Council

Audit 2011/12



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Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

As at 19 September 2012 I expect to issue an unqualified audit opinion subject to completion of final outstanding work.

There are three issues to draw to your attention

- Following an extensive review of the material adjustments to fixed assets in the accounts, the note has been restated. The update reflects both changes in presentation and taking out some of the entries.
- The adjustment to interest and reserves for corporate bonds and unit trusts was very complex and time consuming to audit;
- Due to the extra work on fixed assets and corporate bonds the audit fee has increased by £2,100.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2010/12.

I ask the Audit and Corporate Governance Committee to:

- take note of the adjustments to the financial statements included in this report (appendix 2); and
- approve the letter of representation (appendix 3), on behalf of the Authority before I issue my opinion and conclusion.

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Corrected errors

There was one material and five non material adjustments to the accounts. These are listed in appendix 2. The main errors or adjustments are explained below:

- In preparation for the new Fixed Asset Register system (which will be introduced in 2012/13) it was realised that the new system would show changes made to some assets in earlier years as if they had been done under IFRS rules. Although material, the changes needed did not have any impact on the value of assets shown in the balance sheet, and the adjustments were put into the 2011/12 accounts. During the audit, it was realised that the Council had had its land and buildings revalued on 31 March 2011, and could write down these assets to the new value. As a result, the original adjustment was taken out, and the note changed to show this. The accounting policy on land and buildings has also been changed. For the other types of asset, where there were no detailed working papers to support the adjustments fully, it was decided to take out most of the adjustments to give time for a more detailed analysis. One correct adjustment for vehicles plant and equipment is still shown in the accounts.
- An adjustment of £250k has been made as a result of a late adjustment identified by officers. This changes both the CIES and balance sheet (note 16e).
- Two errors were found in the disclosures for leases. As a result note 33c has been restated.

- The annual governance statement (AGS) presented to Members at the June Audit and Corporate Governance Committee included a paragraph referring to the first year of IFRS reporting, and comments made by me at that time. This has been changed in the AGS being considered by Members today.

Significant risks and my findings

In my April 2011 Audit Plan I identified three significant risks to my audit of your financial statements. In Table 2 I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
Icelandic banks The Council had deposits of £2.5M with an Icelandic bank (Kaupthing, Singer and Friedlander) when it collapsed. I needed to make sure the proper accounting treatment and disclosures were made for this.	I found that you had followed the latest guidance issued in both accounting for and disclosing this investment.
Payroll The Payroll service was fully outsourced to Capita in February 2012. I needed to make sure this did not pose a risk for the figures in the accounts.	By reviewing the work internal audit had done and the management controls brought in by officers I was able to conclude there was no risk to the figures in your accounts which come from the payroll system.
Valuation of property, plant and equipment (PPE) The Council must value PPE at fair value (with some exceptions). There were risks around how this was accounted for this in your accounts due to the use of spreadsheets rather than a specific fixed assets system.	The valuation carried out by your expert in March 2011 supported the value of PPE shown in your accounts. My testing of in year fixed asset transactions supported the entries in your fixed asset spreadsheet.

Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has done this.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that, after adjustment:

- it meets the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have not identified any weaknesses in controls during the audit that are relevant to preparing the financial statements.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

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

I have no matters I wish to report.

Whole of Government Accounts

Alongside my work on the financial statements, I have also reviewed and reported to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. I have no matters to report.

Value for money

I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. I identified no significant risks relevant to my conclusion either in my March 2011 Audit Plan or since that date. I set out below my conclusion on the two criteria.

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 2: **Value for money conclusion criteria and my findings**

Criteria	Findings
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2011/12: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	The Council delivered planned savings and continues to look for ways in which it can improve the way it delivers its' services.
2. Securing economy efficiency and effectiveness The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. Focus for 2011/12: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	The Council continues to use joint working and its 'fit for the future' programme to provide services in an effective way.

Fees

I reported my planned audit fee in the March 2011 Audit Plan.

I have agreed with the Strategic Director a revision to the audit fee because of the matters highlighted in this report. The work on claims and returns is ongoing.

Table 3: **Fees**

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	105,580	107,680
Claims and returns	33,300	30,000
Total		

The Audit Commission has paid a rebate of £8,446 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £99,234.

Appendix 1 – Draft independent auditor's report

Opinion on the Authority financial statements

I have audited the financial statements of South Oxfordshire District Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Strategic Director and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Strategic Director is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of South Oxfordshire District Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the accounting statements. The paragraph on future prospects on page 11 of the statements is excluded from my opinion as it relates to future accounting periods.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

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

Respective responsibilities of the Authority and the auditor

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 to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, South Oxfordshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Maria Grindley
District Auditor
Audit Commission
Unit 5, Isis Business Centre
Horspath Road
Cowley Oxford OX4 2RD
To be confirmed September 2012

Appendix 2 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
note 12a fixed assets	Adjustment of PPE balance to valuation as at 31 March 2011 as allowed under LAAP88. This has resulted in a change in the accounting policy note for PPE valuations.				
	gross book value				6,863
	gross depreciation			6,863	
note 12a fixed assets	Reversal of adjustments to gross book value and gross depreciation on Vehicles plant and equipment			332	332
	infrastructure			348	348
note 15 intangible assets	reversal of adjustments to gross carrying value and gross accumulated amortisation			738	738
note 16a, note 16f Categories of financial instrument	creditor value increased by £250k to reflect a late movement relating to Thame, with a corresponding change to CIES	250			250

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
note 24d capital adjustment account	Correction to fixed assets reduced by £75k following testing.	75	75	75	75
table 28c exit packages	The 10/11 figure has been altered to agree with that in the audited statement. The 11/12 figures have been amended to remove hidden pension costs.	n/a	n/a	n/a	n/a
Note 33c – future lease payments	This has been adjusted to reflect errors in the analysis of future payments. The cumulative effect of this is to increase future payments by £2.064m.	n/a	n/a	n/a	n/a

Minor inconsistencies between the Foreword to the accounts and the detailed statements have also been corrected.

Appendix 3 – Draft letter of management representation

I confirm to the best of my knowledge and belief, having enquired of other officers and Members of South Oxfordshire District Council, the following representations relating to your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities:

- for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom, which give a true and fair view of the financial position and performance of the Authority;
- for the completeness of the information provided to you; and
- for making accurate representations to you.

Supporting records

I have made available all relevant information and access to staff for the purpose of your audit. I have properly reflected and recorded in the financial statements all the Authority's transactions.

Irregularities

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

I also confirm I have disclosed:

- my knowledge of fraud, or suspected fraud, involving management, employees who have significant roles in internal control, or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud or suspected fraud affecting the financial statements made by employees, former employees, analysts, regulators or others; and
- the results of risk assessment the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed all instances of non-compliance - known or suspected - with laws, regulations and codes of practice to be considered when preparing financial statements.

I have carried out transactions and events in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

I have disclosed to you all known actual or possible litigation and claims to be considered when preparing the statements. I have accounted for and disclosed them in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the significant assumptions used in accounting estimates are reasonable, including those measured at fair value.

Related party transactions

I confirm I have disclosed the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed them in accordance with the Code.

In particular I confirm that there are no risks as a result of non return of declarations from Councillors who are no longer service on the Council.

Subsequent events

I have adjusted for, or disclosed in the financial statements, all relevant events after the date of the financial statements.

Signed on behalf of South Oxfordshire District Council

I confirm that the Audit and Corporate Governance Committee has discussed and agreed this letter on 27 September 2012.

Signed

Name

Position

Date

Appendix 4 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

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

