

South Oxfordshire District Council

Audit results report for the year ended 31 March 2013

September 2013

Ernst & Young LLP



Private and confidential

Audit and Corporate Governance Committee
South Oxfordshire District Council
Council Offices
Crowmarsh Gifford
Wallingford
Oxfordshire
OX10 8ED

September 2013

Dear Members

Audit results report

We are pleased to attach our audit results report for the forthcoming meeting of the Audit and Corporate Governance Committee. This report summarises our preliminary audit conclusion in relation to South Oxfordshire District Council's (the Authority's) financial position and results of operations for 2012/13. We will issue our final conclusion at the Audit and Corporate Governance Committee scheduled for 26 September 2013.

The audit is designed to express an opinion on the 2012/13 financial statements, reach a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources, and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Authority's accounting policies and judgments and material internal control findings.

This report is intended solely for the information and use of the Audit and Corporate Governance Committee and the Authority. It is not intended to be and should not be used by anyone other than these specified parties.

A copy of this report will be sent to the Audit Commission in accordance with the requirements of its Standing Guidance.

We welcome the opportunity to discuss the contents of this report with you at the forthcoming Audit and Corporate Governance Committee meeting.

Yours faithfully

Maria Grindley
Director
For and on behalf of Ernst & Young LLP

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview of the financial statement audit

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ Forming an opinion on the financial statements;
- ▶ Forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ Undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Financial statements

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified opinion on the Authority's financial statements. Our main findings in relation to the areas of risk included in our Audit Plan are set out below.

Significant risks:

Significant risk1: Audit findings and conclusions

- ▶ The Council proposed moving to a new asset register, which would have resulted in additional work. This was deferred to 13/14. No work was undertaken in this area.

Significant risk 2: Audit findings and conclusions

- ▶ The Council intended to complete the restatement of gross asset values in the accounts
- ▶ The only adjustment was to Intangible Assets, and our work confirmed the adjustments were supported by working papers

Significant risk 3: Audit findings and conclusions

- ▶ We recognised the generic risk of fraud and corruption in the financial statements; although this was considered a low risk it could have had a high impact.
 - ▶ The work carried out by us has allowed us to conclude there is no evidence of fraud or corruption in the financial statements
-

Economy, efficiency and effectiveness

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified value for money conclusion.

Whole of Government accounts

We have completed the work required to issue our report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts. We have no issues to report.

Closure of the audit

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

Control themes and observations

Our audit did not identify any control issues.

Summary of audit differences

Our audit identified a small number of misstatements in the disclosure notes presented for audit. Apart from presentational adjustments to the Cash Flow Statements, there were no amendments that impacted on the main accounting statements. There are no uncorrected adjustments.

2. Scope update

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan issued on 11 March 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Our work comprises a number of elements. In our Audit Plan, we provided an overview of our audit scope and approach for the audit of the financial statements, our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, and the work we are required to perform on the Whole of Government Accounts return.

We carried out our work in accordance with our Audit Plan.

3. Significant findings from the financial statement audit

In this section of our report we outline the main findings from our audit, including our conclusions on the areas of risk outlined in our Audit Plan.

Significant risk 1: Asset restatement

Description and conclusion

The Council proposed moving to a new asset register, which would have resulted in additional work. After further consideration of the change process, a decision was made to defer this to 13/14.

No work was undertaken by us in this area. The current time line is for all fixed asset balances to be input by 31 December 13. Further work will be required in 2013/14 to provide assurance for the 13/14 opinion.

Significant risk 2: restatement of fixed assets

Description and conclusion

The Council intended to complete the restatement of gross asset values in the accounts

Our work confirmed that the adjustment to intangible assets on the face of the statements (value £450,000) was reasonable and in line with Council policy and accounting practices.

Significant risk 3: Fraud and Corruption in the financial statements

Description and conclusion

The risk of fraud and corruption in the financial statements was considered unlikely, but could have had a material impact on the financial statements. Nothing has come to light during our work on the financial statements, including the controls over significant financial statements, discussions with internal audit, or the outcomes of the NFI exercise that leads us to conclude this risk has materialised.

Other audit findings 1

Description and conclusion

There is a significant adjustment within the financial statements relating to the treatment of partial redemptions of Unit Trust bonds. This was discussed with us in advance, and we did not identify any risk from this proposal that we wished to bring to your attention.

Our work has confirmed the accounting entries are in line with the Council policies and accounting practices.

Other audit findings 2

Description and conclusion

Our work on the cash flow statement confirmed the figures flowed correctly from the financial statements. However, the way some figures were presented was inconsistent between 2011/12 and 2012/13.

Officers have made adjustments to the presentation for consistency.

Other audit findings 3

Description and conclusion

There were a small number of adjustments to disclosure notes where e.g. figures had been put on the wrong line, or where they were inconsistent with other areas of the statements. None of these adjustments has any impact on the main financial statements.

4. Economy, efficiency and effectiveness

The Code of Audit Practice 2010 sets out our responsibility to satisfy ourselves that the South Oxfordshire District Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the South Oxfordshire District Council's corporate performance management and financial management arrangements we consider the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the South Oxfordshire District Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position to enable it to continue operating for the foreseeable future; and
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the South Oxfordshire District Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and improving efficiency and productivity.

The table below presents the findings of our work in response to the risk areas or areas of focus in our Audit Plan,

Significant risks:	Impacts arrangements for securing:	Key findings:
Managing finances		
The current financial pressure on local authorities and the impact and necessity for continuous focus on financial resilience and use of resources represents a significant challenge over the medium term.	Financial resilience	<p>The Council has</p> <ul style="list-style-type: none"> ▶ A balanced financial plan taking them to 2018 ▶ a history of delivering savings , and came in under budget on 31 March 2013 ▶ a history of using joint working and outsourcing to deliver long term savings.
Changes to Council Tax and business rate arrangements		
From April 2013, there will be changes to the arrangements for both Local Council Tax Support (CTS) and business rates. The changes represent a significant change, and could bring both financial and reputational risks if the level of CTS increases	Financial resilience	<ul style="list-style-type: none"> ▶ The Council had clear plans for introducing the arrangements ▶ The arrangements are working as planned ▶ There is no impact on the Council's financial resilience
Other areas of focus:		
The Council is required to have proper arrangements for challenging how it secures economy, efficiency and effectiveness	Economy, efficiency and effectiveness	<ul style="list-style-type: none"> ▶ There is a strong history of using outsourcing and joint working to deliver services efficiently ▶ There have been no cuts to key services ▶ The Council continues to challenge how it delivers services to look for further efficiency savings.

5. Control themes and observations

As part of our work, we obtained sufficient understanding of internal control to plan our audit and determine the nature, timing and extent of testing. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you any significant deficiencies.

5.1 Current year observations

There are no issues arising from our audit to bring to your attention

5.2 Challenges for the coming year

Description	Impact
The Council will be moving to a computerised system for fixed asset management and accounting	The council should introduce quality checks to ensure the figures entered into the accounts, including any componentisation, is accurate

6. Status of our work

6.1 Financial statement audit

Our audit work for our opinion on the Authority's financial statements is nearing completion. The following items were outstanding at the date of this report.

Item	Actions to resolve	Responsibility
Letter of representation	To be tabled at Audit and Corporate Governance Committee on 26 September 2013.	Management and Audit and Corporate Governance Committee
Review of responses to final queries	Audit staff to review and agree that the responses resolve the queries raised	EY / officers

On the basis of our work performed to date, we anticipate issuing an unqualified auditor's report on the Authority's financial statements. However, until we have completed our outstanding procedures, it is possible that further matters requiring amendment may arise.

6.2 Economy, efficiency and effectiveness

Our work in respect of our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is complete.

We expect to present an unqualified value for money conclusion in regard to the Authority's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

6.3 Objections

We have not received any objections to the 2012/13 accounts from members of the public.

6.4 Closure of the Audit

We anticipate issuing the certificate to close the 2012/13 accounts at the same time as we issue the opinion on the accounts.

7. Fees update

A breakdown of our agreed fee is shown below.

	Proposed final fee 2012/13 £'000	Planned fee 2012/13 £'000	Scale fee 2012/13 £'000
Total Audit Fee – Code work	63,348	63,348	63,348
Certification of claims and returns*	15,650	15,650	15,650
No non-audit work			

Our actual fee is in line with the agreed fee.

**Our fee for certification of grants and claims is yet to be finalised for 2012/13 and will be reported to those charged with governance in January 2014 within the Audit Certification Report for 2012/13.*

8. Summary of audit differences

In the normal course of any audit, we identify differences between amounts we believe should be recorded in the financial statements and amounts actually recorded. These differences are classified as either 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

We would expect to include all amounts greater than £925,000 relating to South Oxfordshire District Council in our summary of misstatements. We identified no such errors during our audit of the financial statements.

There were presentational adjustments above £925,000 on the Cash Flow statement, where figures had been shown netted off, which was inconsistent with prior year's presentation. This made no overall difference to the financial statements. This has been corrected by management. There are no adjustments to the financial statements that management has declined to make.

We identified no material adjustments in the presentation and disclosures of financial statements for the year ended 31 March 2013 that we wish to bring to your attention.

9. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 11 March 2013. We complied with the Ethical Standards for Auditors and the requirements of the Standing Guidance and in our professional judgement the firm is independent, and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and us. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit and Corporate Governance Committee on 26 September 2013

Appendix A Required communications with the Audit Committee

We must provide certain communications to the Audit Committee. These are:

Required communication	Reference
Terms of engagement	The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies.
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
Significant findings from the audit	
<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations we are seeking ▶ Expected modifications to the audit report ▶ Other matters, if any, significant to the oversight of the financial reporting process 	Audit results report No issues Standard Letter of Representation
Misstatements	
<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements relating to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected significant misstatements 	Audit results report No issues
Fraud	
<ul style="list-style-type: none"> ▶ Enquiries of the audit and corporate governance committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Letter to Chairman September 2013
Related parties Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:	
<ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Authority 	Audit results report No issues
External confirmations	
<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	No issues

Required communication	Reference
Consideration of laws and regulations	
<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the committee may be aware of 	<p>No issues</p> <p>Letter of representation</p>
Independence	
<p>Communication of all significant facts and matters that bear on Ernst & Young's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit Plan</p> <p>section 8 of Audit Results report</p>
Going concern	
<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>Audit plan</p> <p>No issues</p>
Significant deficiencies in internal controls identified during the audit	Audit Results report - none
Opening Balances	
<ul style="list-style-type: none"> ▶ Findings and issues regarding the opening balance of initial audits 	No issues
Fee reporting	
<ul style="list-style-type: none"> ▶ Final, planned and scale fee broken down into the headings of Code audit work; certification of claims and returns; and any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the Authority). 	Audit Plan and Audit results report
Summary of certification work undertaken	
<ul style="list-style-type: none"> ▶ Annual report to those charged with governance summarising the certification work undertaken 	Annual Certification Report – to be issued January 2014

Appendix B Letter of representation

[To be prepared on the entity's letterhead]

[Date]

Maria Grindley
Ernst & Young
Apex Plaza
Reading, RG11YE

This representation letter is provided in connection with your audit of the financial statements of South Oxfordshire District Council ("the Council") for the year ended 31 March 2013. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of the Council as of 31 March 2013 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2011 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13
2. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, and of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 that are free from material misstatement, whether due to fraud or error.

There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
 - Additional information that you have requested from us for the purpose of the audit and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, and committees of the Council held through the year.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware as declared by officers and Members. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. Annual returns have not been received from five Members. We do not consider there is a risk of undeclared related party transactions that have not been declared as a result of this.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements..

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.

F. Subsequent Events

1. Other than the declaration of a disposal of unit trust bonds and the early debt redemption by Oxford City Council described in note 6 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

H. Use of the Work of an Expert

1. We agree with the findings of the experts engaged to evaluate the value of land and buildings, including investment properties, and have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

Yours Faithfully,

Finance Director

I confirm that this letter has been discussed and agreed at the Audit and Governance Committee on 26 September 2013

Chairman of Audit and Corporate Governance Committee

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