

South Oxfordshire District Council

Joint Audit and Governance Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

September 2015



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Section 1

Executive summary

Executive summary – key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Joint Audit and Governance Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2014/15 audit which is substantially complete. It includes the messages arising from our audit of the Council's financial statements and the results of our work to assess its arrangements to secure value for money in its use of resources.

Financial statements

- ▶ As at 18 September 2015, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate that the Council has prepared its financial statements adequately, as we only have a few matters to communicate.

Value for money

- ▶ We expect to conclude that the Council has made appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Whole of Government Accounts

- ▶ We have not reported any significant matters to the National Audit Office (NAO) on the Whole of Government Accounts submission.

Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Code have been discharged for the relevant audit year. We expect to issue the certificate at the same time as the audit opinion.

Section 2

Extent and purpose of our work

Extent and purpose of our work

The Council's responsibilities

- ▶ The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and any planned changes in the coming period.
- ▶ The Council is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

- ▶ Our audit was designed to:
 - ▶ express an opinion on the 2014/15 financial statements and the consistency of other information published with them;
 - ▶ report on an exception basis on the Annual Governance Statement;
 - ▶ consider and report any matters that prevent us being satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion); and
 - ▶ discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

This report also contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

As the Council is considered a component of the Whole of Government Accounts (for the whole public sector) and we are the component auditor, we also follow the NAO group instructions and report the results on completion of the WGA work through the Assurance Statement to both the NAO and to the Council..

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Section 3

Addressing audit risks

Addressing audit risks – significant audit risks

- ▶ We identified the following audit risks during the planning phase of our audit, and reported them in our Audit Plan. We set out here how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<ul style="list-style-type: none"> ▶ As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records, directly or indirectly, and to prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. 	<ul style="list-style-type: none"> ▶ We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ we reviewed accounting estimates for evidence of management bias; and ▶ We evaluated the business rationale for any significant unusual transactions. 	<p>Assurance has been gained and no issues arising.</p>

Addressing audit risks – other audit risks

- ▶ We identified the following audit risks during the planning phase of our audit, and reported them in our Audit Plan. We set out here how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Other audit risks		
<ul style="list-style-type: none"> ▶ Loss of supporting documentation, that supports entries in the financial statements, following the fire at the Crowmarsh Gifford offices on 15 January 2015 	<ul style="list-style-type: none"> ▶ We reviewed the Council’s arrangements for addressing gaps in relevant documentation. ▶ We obtained alternative supporting information where original documents have been destroyed in the fire. 	<p>Assurance has been gained and no issues arising.</p>

Section 4

Financial statements audit – issues and findings

Financial statements audit – issues and misstatements arising from the audit

Progress of our audit

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the Joint Audit and Governance Committee meeting:
 - ▶ Receipt of a Letter of Representation
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected misstatements

- ▶ We have identified no misstatements in the draft financial statements which management has chosen not to adjust.

Corrected misstatements

- ▶ Our audit also identified a number of minor misstatements which our team has highlighted to management for amendment. These have been corrected during the audit.

Other matters

- ▶ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must communicate to the Committee significant findings from the audit and other matters significant to the oversight of the Council's financial reporting process. These include the following:
 - ▶ qualitative aspects of accounting practices; estimates and disclosures;
 - ▶ matters specifically required by other auditing standards to be communicated to those charged with governance, e.g. issues around fraud, compliance with laws and regulations, external confirmations, and related party transactions;
 - ▶ any significant difficulties during the audit; and
 - ▶ any other audit matters of governance interest.

We have no matters we wish to report.

Financial statements audit – application of materiality

Our application of materiality

- ▶ When establishing our overall audit strategy, we set the level of uncorrected misstatements we considered to be material for the financial statements as a whole.

Item	
Planning Materiality and Tolerable error	<p>We set planning materiality at £1.28m (2014: £1.27m), which is 2% of gross expenditure in the accounts of £64m.</p> <p>We also set a tolerable error (TE) for the audit. This is how we apply planning materiality at the more detailed level of an individual account or balance. Its purpose is to make reasonably sure that the total of all uncorrected and undetected misstatements is unlikely to exceed planning materiality. The level of TE drives how much detailed audit testing we need to support our opinion.</p> <p>We set TE at the upper level of the available range because there were no corrected significant errors in the Council's 2013/14 financial statements and no uncorrected errors.</p>
Reporting Threshold	We agreed with the Joint Audit and Governance Committee that we would report to them all uncorrected audit differences in excess of £63,000.

We also identified areas where we used a lower level of materiality level, as it might influence the reader. For these areas we developed a specific audit strategy. These include:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits: Strategy applied: We have reviewed the details and agreed to supporting documentation where necessary.
- ▶ Related party transactions. Strategy applied: reviewing all returns made by officers and members of the Council to ensure that all related party transactions are appropriately disclosed.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above; we also take into account any other relevant qualitative considerations.

Financial statements audit – internal control, written representations and whole of government accounts

Internal control

- ▶ It is the Council's responsibility to develop and implement systems of internal financial control and to have proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as the Council's auditor is to consider whether the Council has adequate arrangements to satisfy itself that this is indeed the case.
- ▶ We have tested the controls of the Council only to the extent needed to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- ▶ We have reviewed the Annual Governance Statement and can confirm that:
 - ▶ it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework, and
 - ▶ it is consistent with other information we know from our audit of the financial statements.
- ▶ We have not identified any significant deficiencies in the design or operation of an internal control, and which the Council does not know about, that might result in a material misstatement in the financial statements.

Request for written representations

- ▶ We have requested a management representation letter to gain management's confirmation on a number of matters. As well as the standard representations, we have requested the following specific ones:
- ▶ Management believe that the treatment of the insurance receipt following the fire in January 2015 is appropriate and complies with the relevant accounting standards
 - ▶ We have requested this as the debtor has been estimated at the impairment value of the Crowmarsh Gifford site, as no formal settlement has been agreed with the insurance company.
- ▶ Management have provided appropriate alternative evidence to support entries in the financial statements, where the originals were destroyed in the fire.
 - ▶ We have requested this as some of the original documentation was destroyed.

Whole of Government Accounts

- ▶ As well as our work on the financial statements, we also review and report to the National Audit Office on the Council's Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.
- ▶ We have concluded are currently concluding our work in this area and will report any there were no matters arising to the Joint Audit and Governance Committee.

Section 5

Arrangements to secure economy, efficiency and effectiveness

Arrangements to secure economy, efficiency and effectiveness

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

Criterion 1 – arrangements for securing financial resilience

- ▶ 'Whether the Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future'
- ▶ We did not identify any significant risks under this criterion.

Criterion 2 – arrangements for securing economy, efficiency and effectiveness

- ▶ 'Whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity'
- ▶ We did not identify any significant risks under this criterion.
- ▶ We have no issues to report under this criterion.
- ▶ Our work did not identify any other matters on aspects of the Council's corporate performance and financial management framework which are not covered by the scope of these criteria.

Section 6

Independence and audit fees

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since the confirmation in our Audit Plan dated March 2015.
 - ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. In our professional judgement the firm is independent, and the objectivity of the audit engagement partner and staff has not been compromised within the meaning of regulatory and professional requirements.
 - ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm and that we are required by auditing and ethical standards to report to the Council.
 - ▶ We consider that our independence in this context is a matter that should be reviewed by both the Council and us. It is therefore important to consider the facts of which the Council is aware and come to a view. If the Committee wish to discuss any matters concerning our independence, we will be pleased to do so at the meeting on 28 September 2015.
- ▶ We confirm that we have met the reporting requirements to the Joint Audit and Governance Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our plan to meet these requirements were set out in our Audit Plan dated March 2015.

Audit fees

	Proposed final fee 2014/15	Scale fee 2014/15	Variation comments
	£	£	
Audit Fee: Code work	64,248	64,248	
Certification of claims and returns	12,830	12,830	

- ▶ Our actual fee is provisionally in line with the agreed fee, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside the Audit Commission's Audit Code requirements.

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