

Oxfordshire County Council

Annual Audit Letter for the year ended 31 March 2017
October 2017

Ernst & Young LLP



Contents

Executive Summary	2
Purpose.....	6
Responsibilities.....	8
Financial Statement Audit	11
Value for Money	17
Other Reporting Issues.....	20
Focused on your future.....	23
Appendix A Audit Fees	25

Public Sector Audit Appointments Ltd (PSAA) have issued a “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between 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 “Terms of Appointment (updated 23 February 2017)” issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter 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.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Oxfordshire County Council (the Council) and Oxfordshire Pension Fund (the Pension Fund) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's and the Pension Fund's:	Unqualified – the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2017 and of its expenditure and income for the year then ended.
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	Subject to the determination of the objection that we have received to the Council's 2015/16 and 2016/17 accounts, we have no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	Subject to the determination of the objection that we have received to the Council's 2015/16 and 2016/17 accounts, we have no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is above the specified audit threshold of £350 million and therefore, we performed audit procedures on the consolidation pack. We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Reports for the Council and the Pension Fund were issued on 6 September 2017. We issued an updated version of our Audit Results Report on 28 September 2017.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	<p>We have received one notice of objection to the 2016/17 Pension Fund accounts from a member of the public. The objection has been made on the grounds that in the view of the elector the Pension Fund Committee has failed to actively manage the risk posed by the Fund's investment in fossil fuels. We are currently assessing this objection and seeking legal advice as appropriate. It is our view that even if the notice of objection were accepted and subsequently resolved in the objector's favour, this would not affect the Statement of Accounts.</p> <p>We have also been considering the objection received to the 2015/16 Statement of Accounts in respect of the Council's Lender Option Borrower Option (LOBO) loans, as set out in our 2015/16 Audit Results Report. We have issued our Provisional Views to the objector and the Council, and are considering the response received from the Council. It is our view that even if the objection were resolved in the objector's favour, this would not affect the Statement of Accounts.</p> <p>We cannot formally conclude the audit and issue an audit certificate for either 2015/16 or 2016/17 until we have completed the work necessary to conclude these two matters.</p>

We would like to take this opportunity to thank the Council and Pension Fund's staff for their assistance during the course of our work.

Paul King

Associate Partner
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the Audit and Governance Committee meeting on 6 September 2017. We subsequently updated our Audit Results Report for the completion of our audit work and issued this report on 28 September 2017. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 14 December 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2016/17 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

A blurred office desk with a laptop, glasses of water, and financial documents. The scene is brightly lit, likely from a window with blinds in the background. A yellow rectangular box is overlaid on the left side of the image, containing the text 'Financial Statement Audit'.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 28 September 2017.

Our detailed findings were reported to the 6 September 2017 Audit and Governance Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Risk of fraud in revenue recognition</p> <p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by manipulating expenditure recognition.</p>	<p>Our testing has not identified any material misstatements from revenue and expenditure recognition.</p> <p>Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.</p>

Significant Risk	Conclusion
<p>Management override of controls</p> <p>As identified in ISA 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 seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>For local authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.</p> <p>In addition to the risk details outlined from our Audit Plan above, we have identified an additional risk that management could use the Movement in Reserves (MIRS) adjustments to add or remove items from the Comprehensive Income and Expenditure Statement (CIES) to alter the reserve position of the Council. Such adjustments would not change the outturn in the CIES but could inflate reserves artificially.</p>	<p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p> <p>We did not identify any issues from our testing of the MIRS adjustments note.</p>

Other key Findings

<p>Accounting for Property, Plant and Equipment</p>	
<p>Property, Plant and Equipment represent a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end fixed assets balances held in the balance sheet.</p> <p>The Council engages an external expert valuer who applies a number of complex assumptions. Annually, assets are assessed to identify whether there is any indication of impairment.</p> <p>As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We identified no significant deficiencies in the Council's overall approach in this area. Our internal experts have identified one instance where the Council's valuation of an asset fell outside the expected EY range. As a result of the EY Estates team review of the Council's property valuations we found that the Council's valuation of the Oxfordshire Museum at £5.3m was outside the EY Estate team acceptable range of £2.9 to £4.7m. The maximum audit difference could therefore be £2.4m (£5.3m – £2.9m). Our review of other valuations found that overall they came within the expected range but our EY Estate team believe that the Council's valuers make optimistic assumptions on depreciation and we would expect to see greater amounts of depreciation. Our findings have been discussed with Council officers and with the Council's valuers and they will be reviewing their methodology in future years.</p>
<p>Accounting for Service Concessions</p>	<p>Conclusion</p>
<p>The County Council has one PFI type contract (service concession arrangement) with an external operator, The Oxfordshire Care Partnership, relating to the provision of residential care homes and care services. These are complex concessions that operate over a number of years, 25 in this case. The Service Concession includes the new Chilterns Court Care Centre built by the Council, which was completed in 2016/17 and replaces the former care home in Henley.</p>	<p>As part of our audit we commissioned a detailed review and testing of the accounting models and related disclosures in the financial statements for Service Concessions by an EY expert. There is a difference of opinion in the application of the accounting treatment between the Council and our expert.</p> <p>The concession contractor ('operator') also receives revenue from residents of the homes that the Council does not fund directly. The information that the Council has provided suggests that the operator uses an assumption of how much it will earn from these sources to set the price that it charges to the Council each year and so part funds the underlying assets and their operation from this non-Council revenue. In these circumstances, the Code requires the Council to record revenue from an exchange transaction under which the Council gives an intangible asset to the</p>

operator while receiving PPE from the operator. Hence the Council would normally split the credit that balances the PPE addition on initial recognition between the IAS 17 liability and the deferred revenue, pro-rata to the relative amounts of revenue that the operator expects to receive from each source.

The Council has determined not to split this credit because its view that it fully funds the underlying PPE does not match the underlying substance, which as stated above is that the operator relies on an amount it expects to earn from third parties to determine how much it charges the Council.

Our expert therefore tested the effect of splitting the credit pro-rata to the amounts that the Council stated that the operator expects to earn from third parties and from the Council on the balances that the Council calculates in the accounting spreadsheet that it uses for this purpose. This split is 70-30 and indicates a net difference in the balance sheet and the income and expenditure is £0.935m. This is above our reporting threshold for unadjusted audit differences but below materiality.

However there does seem to be an error in the underlying policy and a risk that the differences arising from this become material in the future. Therefore the Council should consider its treatment in the 2017/18 Statement of Accounts

Pension valuations and disclosures

The Code and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £1,033.5m (£756.9m at 31 March 2016). The pension liability relates to fire-fighters and teachers pensions as well as the LGPS. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management

Conclusion

Assumptions used by the actuary and adopted by the Council are considered to be generally acceptable. Our Pension experts have queried some of the assumptions made by Barnett Waddingham, for example the methodologies used to derive the discount rate and RPI inflation assumptions are not robust as they do not take adequate account of the specific duration of the scheme's liabilities. Our experts have assessed that in the short term the application of the assumptions does not impact on the figures in the Statements of Account and we have undertaken sensitivity analysis to confirm this. However they may do in the future. Discussions are taking place between Barnett Waddingham and our experts and we will keep the Director of Finance updated on them.

experts and the assumptions underlying fair value estimates

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We planned our procedures using a materiality of £10,270,440. We reassessed this using the actual year-end figure, which has decreased this amount to £9,704,760. The threshold for reporting unadjusted audit differences has decreased from £513,522 to £485,238. The basis of our assessment of materiality has remained consistent with prior years at 1% of gross operating expenditure.
Reporting threshold	When we presented our audit plan to the Audit and Governance Committee we agreed that the threshold for reporting unadjusted audit differences should be £513,522. This figure reduced to £485,238 when we re-assessed for the actual year end figure.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

Remuneration disclosures including any severance payments, exit packages and termination benefits: no specific testing threshold applied, the impact of any issues were considered individually

Related party transactions: no specific testing threshold applied, the impact of any issues were considered individually.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with some showing their edges and others showing their faces. The lighting is warm, highlighting the metallic texture and the ridges on the edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

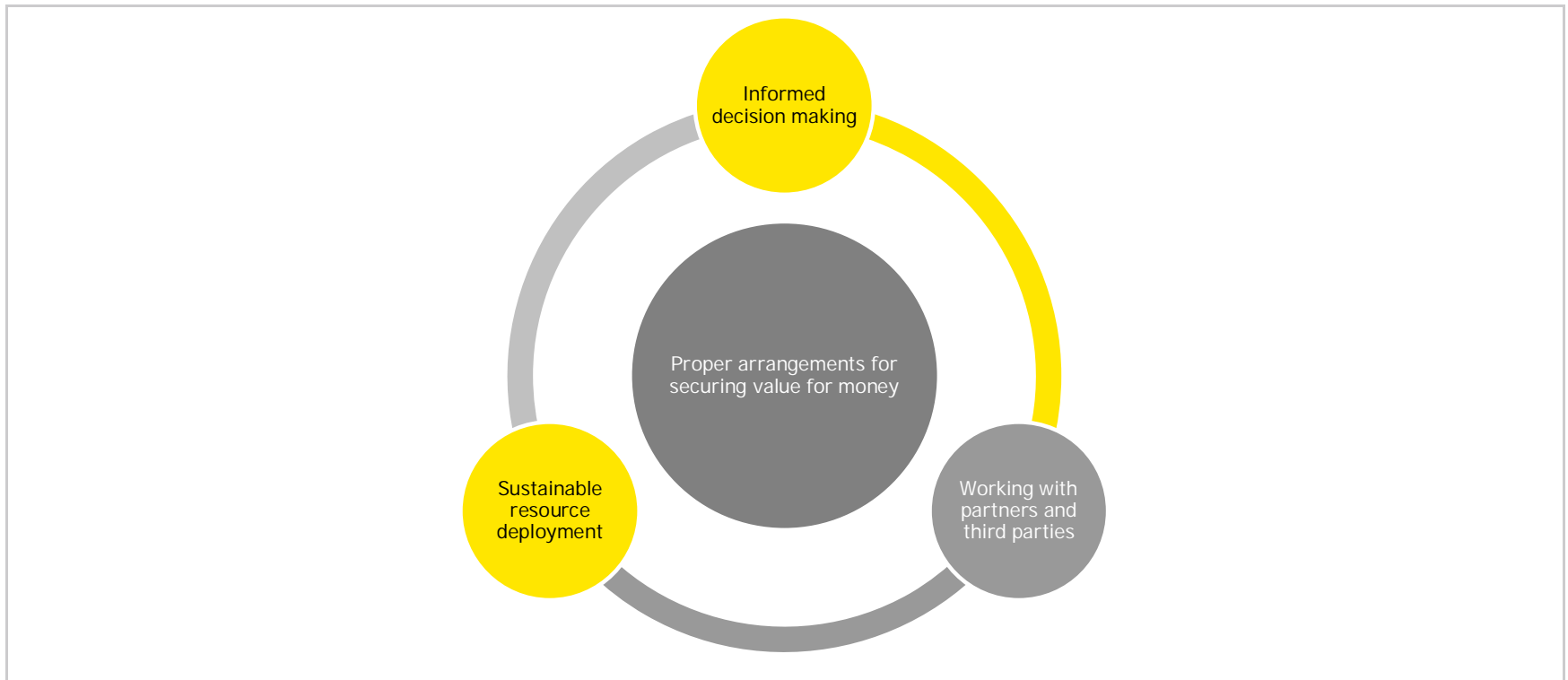
Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We did not identify any significant risks in relation to these criteria

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 28 September 2017.



Other Reporting
Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). Subject to the determination of the objection to the Council's 2015/16 Statement of Accounts and our consideration of the notice of objection to the 2016/17 Pension Fund Accounts we did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We have received one notice of objection to the 2016/17 Pension Fund accounts from a member of the public. The objection has been made on the grounds that in the view of the elector the Pension Fund Committee has failed to actively manage the risk posed by the Fund's investment in fossil fuels. We are currently assessing this objection and seeking legal advice as appropriate. It is our view that even if the notice of objection were accepted and subsequently resolved in the objector's favour, this would not affect the Statement of Accounts.

We have also been considering the objection received to the 2015/16 Statement of Accounts in respect of the Council's Lender Option Borrower Option (LOBO) loans, as set out in our 2015/16 Audit Results Report. We have issued our Provisional Views to the objector and the Council, and

are considering the response received from the Council. It is our view that even if the objection were resolved in the objector's favour, this would not affect the Statement of Accounts.

We cannot formally conclude the audit and issue an audit certificate for either 2015/16 or 2016/17 until we have completed the work necessary to conclude these two matters.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit and Governance Committee on 6 September 2017. 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 regulatory and professional requirements.

Control Themes and Observations

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

Our audit did not identify any controls issues to bring to the attention of the Audit and Governance Committee.

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are focused on the lenses, and their hands are visible holding the device. The background is a soft, out-of-focus white. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
<p><i>Earlier deadline for production and audit of the financial statements from 2017/18</i></p>	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council is reviewing how it can best meet the new deadline.</p> <p>Locally we have held a review of the 2016/17 final accounts audit to ensure that we identify lessons we can put in place to ensure that the new deadlines are met.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> • Issued a thought piece on early closedown • As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales • Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017.

Appendix A

Audit Fees



Appendix A Audit Fees

Our fee for the code work in 2016/17 audit is in line with the scale fee set by the PSAA and reported in our Annual Results Report.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee – Code work	109,958	109,958	109,958	109,958
Total Audit Fee – Fee for objections	TBC ¹	0	0	TBC
Total Audit Fee – pension fund	24,108	24,108	24,108	24,108

¹ The work in relation to considering and responding to the objections is not included within the scale fee set by PSAA. The work to consider the objections is ongoing and the fee will be reported when the work is complete.

We confirm that the only non-audit work outside of the PSAA's requirements undertaken in 2016/17 relates to the certification of the 2015/16 Teachers Pension Return with a fee of £12,000.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All Rights Reserved.

ED None

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

[ey.com](https://www.ey.com)