

Oxfordshire County
Council & Pension Fund
Annual Audit Letter for the year
ended 31 March 2019

August 2019

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

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Contents



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.psa.co.uk).

This 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 April 2018)' issued by PSAA set 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 and Terms of Appointment. 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.



01 Executive Summary



Executive Summary

We are required to issue an annual audit letter to Oxfordshire County Council (the Council) following completion of our audit procedures for the year ended 31 March 2019. Below are the results and conclusions on the significant areas of the audit process.

| Area of Work | Conclusion |
|---|--|
| Opinion on the Council's and Pension Fund's: ▶ Financial statements | Unqualified – the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2019 and of its expenditure and income for the year then ended |
| ▶ 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 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 | We had no matters to report |
| ▶ 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 | We had 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). | We have not yet concluded our work on the WGA. |



Executive Summary (cont'd)

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 Report was issued on 17 July 2019 |
| 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. | We have not yet issued our audit completion certificate. We cannot formally conclude the audit and issue an audit certificate for 2018/19 until we have completed the work on the Whole of Government Accounts. The national deadline for completion of the WGA is 13 th September 2019. We will report on our findings from the WGA Review at the next available opportunity. |

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.

Janet Dawson
Partner
For and on behalf of Ernst & Young LLP



02 Purpose and Responsibilities

Purpose and Responsibilities

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 2018/19 Audit Results Report to the 17 July 2019 Audit & Governance Committee, representing those charged with governance. We also issued a final Audit Results Report on 31 July 2019. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plans that we issued on 20 December 2018 for Oxfordshire County Council and 9 January 2019 for Oxfordshire Pension Fund. It is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2018/19 financial statements, including the pension fund; 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 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. [The extent of our review and the nature of our report are specified by the NAO [QR](#) The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the 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 having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



03

Financial Statement Audit

Financial Statement Audit – Oxfordshire County Council

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 and Pension Fund's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 31 July 2019. Our detailed findings were reported to the 17 July 2019 Audit & Governance Committee.

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

| Significant Risk | Conclusion |
|--|---|
| Misstatements due to fraud or error | We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation. |
| The financial statements as a whole are not free of material misstatements whether caused by fraud or error. | We did not identify any significant unusual transactions. |
| As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement. | We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. |
| We have not identified a heightened risk of management override overall, but we identified a specific area where management override might occur: the quantification of amounts owed to and from Carillion. Our specific response to this risk is set out in the next slide. | We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business. |

Financial Statement Audit (cont'd) – Oxfordshire County Council

The key issues identified as part of our audit were as follows: (cont'd)

| Significant Risk | Conclusion |
|--|---|
| <p>Risk of fraud in revenue and expenditure recognition</p> <p>The County Council had a 10 year contract with Carillion running from 2012 to 2022. A significant portion of this was terminated with the mutual consent of both parties in December 2017 before Carillion's collapse in January 2018. The County Council have planned their response to this in four stages:</p> <p>Stage 1 – transition of services back to the Council from Carillion</p> <p>Stage 2 - stabilisation</p> <p>Stage 3 – assessment of Carillion legacy issues</p> <p>Stage 4 - implementation of work programme for rectification of defects</p> <p>The Council were at stage 3 when we drew up our audit planning report.</p> | <p>We reviewed the latest position in respect of the Carillion contract and noted no issues that we needed to bring to your attention. We will continue to monitor this position in future years.</p> |

| Other Key Findings | Conclusion |
|---|--|
| <p>Valuation of Land & Buildings</p> | <p>We completed our testing of the valuation of land and buildings and did not identify any errors which we needed to report. Our work included assessment of key assumptions applied by the valuer as well as independent consideration of the values being applied.</p> |
| <p>Pension Liability Valuation</p> | <p>We completed all relevant procedures to assess the pension liability valuation. We assessed the revised net liability following revised assessments based on the McCloud judgement. We also considered other pension adjustments which were made, including, Guaranteed Minimum Pensions Equalisation and the valuation of scheme assets. We received assurances from the auditor of the Pension Fund as to the material valuation of the Pension Fund Investment assets.</p> |
| <p>New Accounting Standard – IFRS 9 (Financial Instruments)</p> | <p>We assessed the Council's implementation of IFRS 9. As a result of our work in this area there was a material adjustment to the financial statements in respect of Fair Value through Other Comprehensive Income and Expenditure.</p> |
| <p>New Accounting Standard – IFRS 15 (Revenue Recognition)</p> | <p>We assessed the Council's consideration of IFRS 15. In line with our wider understanding of the sector and the nature of revenue streams it was confirmed that there was no material impact on the Council's accounts as a result of the introduction of IFRS 15.</p> |
| <p>Brexit</p> | <p>We reviewed the Council's impact assessment and scenario planning. We considered them to be reasonable in the light of continued and prolonged uncertainty as to both the date and terms of the UK leaving the European Union.</p> |

Pension Fund Audit Significant Risks – Oxfordshire Pension Fund

| Significant Risk | Conclusion |
|---|--|
| <p>Investment valuations and investment income are manually input on the GL, so it would be possible to manipulate the valuation of investments and the resulting investment income, specifically through posting journals inconsistent to the valuation data provided to the fund.</p> <p>We reconsidered our risk after the interim audit visit and on presentation of the draft financial statements. We clarified our risk assessment to focus on the valuations and associated journal postings, rather than the investment income. We have rebutted the presumption of fraud in revenue recognition.</p> <p>Total net assets of the Fund available: £2,514,650,000</p> <p>The key issues identified as part of our audit were as follows:</p> | <p>We did not identify any evidence of inappropriate accounting for investment values.</p> |

| Significant Risk | Conclusion |
|---|--|
| <p>The Fund's Investments include a significant balance of level 3 investments such as unquoted pooled investment vehicles and private equity investments. Judgements are taken by Investment Managers to value those investments whose prices are not publicly available.</p> <p>Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. There is also a continued general economic uncertainty around Brexit which could also affect this judgement.</p> | <p>We concluded that the key assumptions used by the professional valuer and management were reasonable and consistent with that reported in the financial statements.</p> |

Pension Fund Audit (Other Areas of Audit Focus) – Oxfordshire Pension Fund

| Other Key Findings | Conclusion |
|--|---|
| Transfer of Assets to the Brunel Partnership | We concluded that arrangements were reasonable and that we were able to gain assurance over the completeness and valuation of the transfer of assets to date. |
| Valuation of Level 2 Investments | We compared the listing of equity prices to an independent valuation obtained from EY's Investment Security Pricing where there are differences between the valuation from State Street and our recalculated value (using EY ISP). For pooled investments, we compared to publicly available market value information or used audited financial statements. We assessed the reasonableness of the fair value hierarchy. |
| Application of New Accounting Standards | We reviewed: <ul style="list-style-type: none">• management's assessment of the classification and measurement of financial assets under IFRS 9, including review of the new expected credit loss impairment model and new disclosure requirements• Management's assessment of the impact on revenue recognition as a result of the adoption of IFRS 15 - Revenue from Contracts with Service Recipient We concluded that management's assessment of the impact of the new standards was reasonable. |

Financial Statement Audit (cont'd)

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 - | <p><u>Oxfordshire County Council:</u></p> <p>We determined planning materiality to be £18.7 m (2017/18: £19 m), which is 1.8 % of Gross Revenue Expenditure reported in the accounts.</p> <p>We consider Gross Revenue Expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council</p> <p>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:</p> <ul style="list-style-type: none">▶ Remuneration disclosures including any severance payments, exit packages and termination benefits.▶ Related party transactions. <p>We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.</p> <p><u>Oxfordshire Pension Fund:</u></p> <p>We determined planning materiality to be £23.6 m (2017/18: £25.1 m), which is 1% of Net Assets reported in the accounts of £2.36 billion.</p> <p>We consider Net Assets to be one of the principal considerations for stakeholders in assessing the financial performance of the Pension Fund.</p> |
| Reporting threshold | <p>We agreed with the Audit & Governance Committee that we would report to the Committee all audit differences in excess of £0.973 m (2017/18: £0.875 m) for Oxfordshire County Council and differences in excess of £1.26 m (2017/18: £1.23 m) for Oxfordshire Pension Fund</p> |

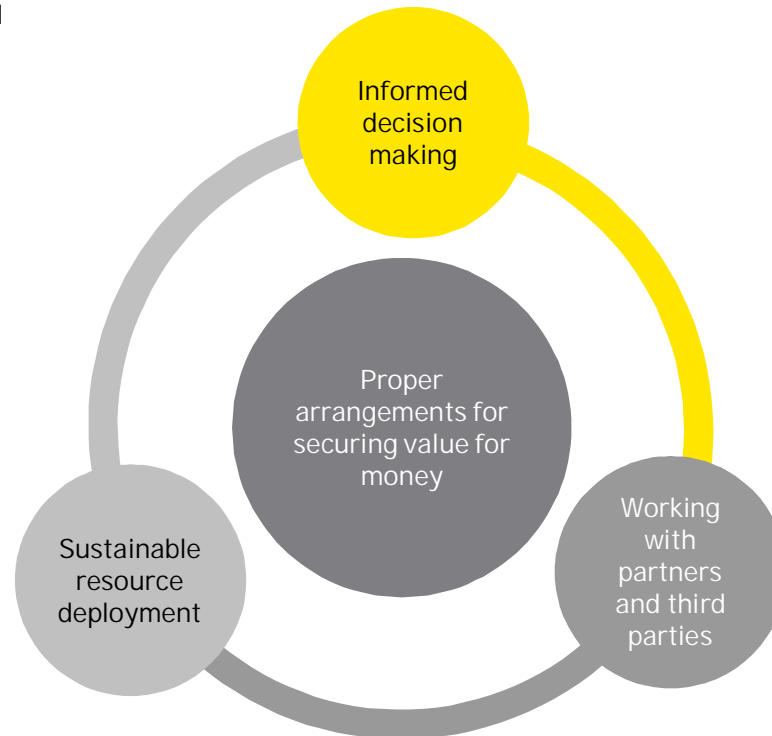


04 Value for Money

We are required to consider whether the Council has 'proper arrangements' to secure economy, efficiency and effectiveness in 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.



05 Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

We have not yet concluded our work on the WGA but will do so in advance of the 13 September 2019 deadline. We will report our findings to the next available Audit Committee.

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, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

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.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2018/19 financial statements from members of the public.

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 & Governance Committee on 17 July 2019. 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.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

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



06 Data Analytics



06- Use of Data Analytics in the Audit

Data analytics

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the authority's audit included testing journal entries to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



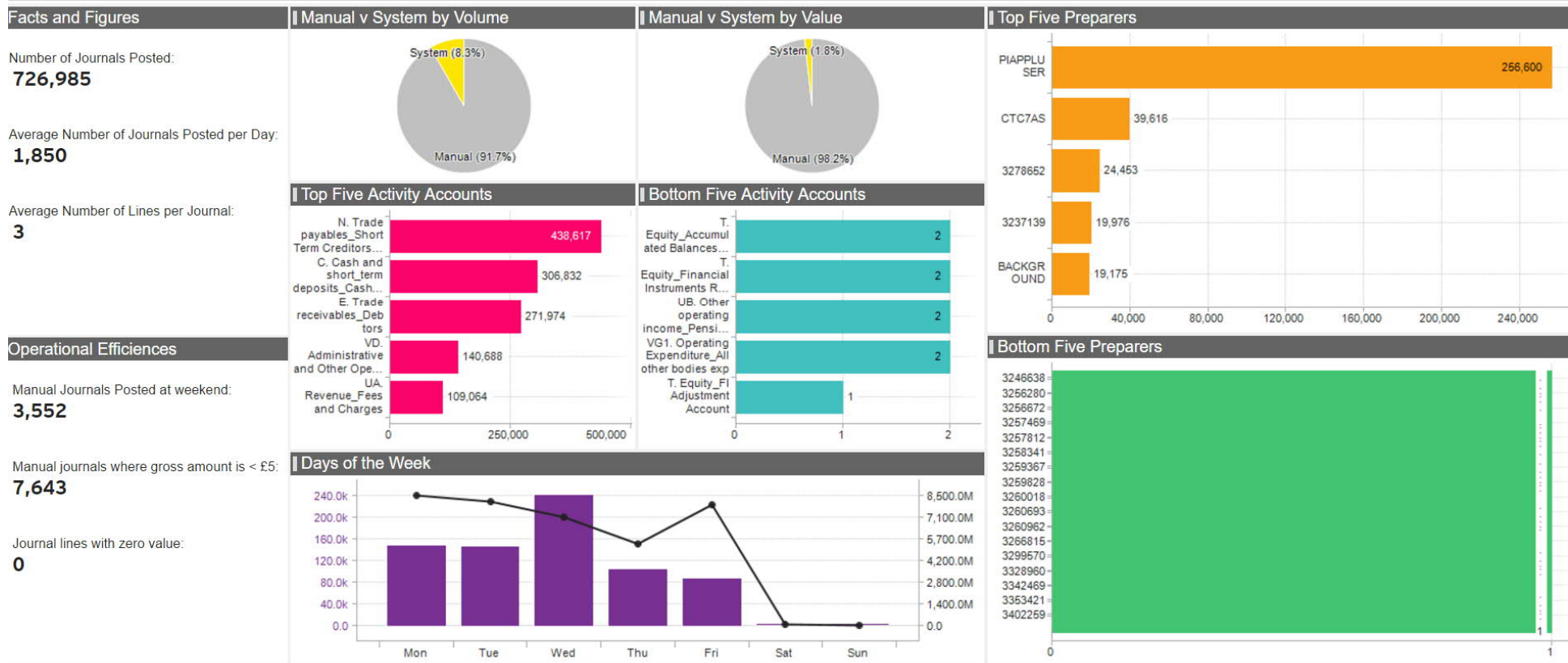
06 - Data Analytics

Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2018/19. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.

EY Helix - GLASS: Journal Entry Data Insights - Oxfordshire county Council - 31/03/2019





Journal Entry Testing

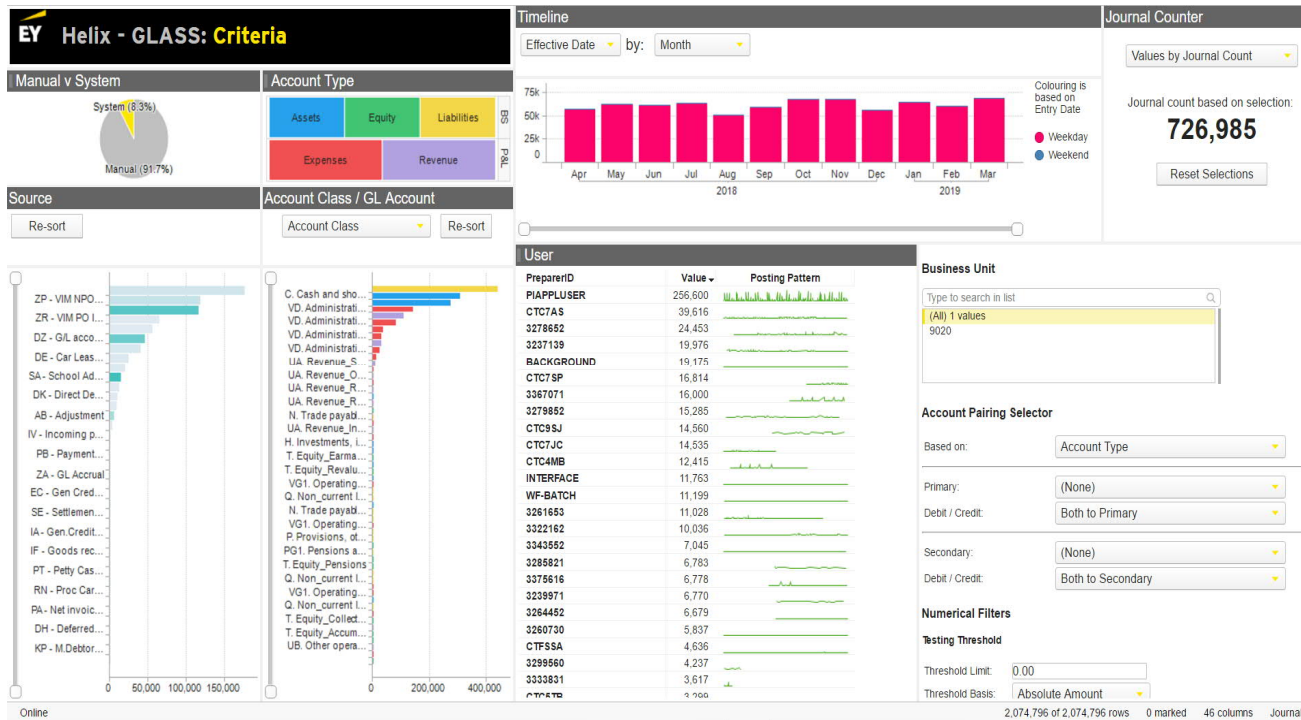
What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Journal entry data criteria – 31 March 2019

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.



What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



07

Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

| Standard | Issue | Impact |
|---------------------------|---|---|
| IFRS 16 Leases | <p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p> | <p>Until the 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p> |
| IASB Conceptual Framework | <p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>This introduces;</p> <ul style="list-style-type: none"> - new definitions of assets, liabilities, income and expenses - updates for the inclusion of the recognition process and criteria and new provisions on derecognition - enhanced guidance on accounting measurement bases - enhanced objectives for financial reporting and the qualitative aspects of financial information. <p>The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards.</p> <p>However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.</p> | <p>It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements.</p> <p>However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p> |

A close-up photograph of a person's hand sorting through several manila-colored folders filled with papers. The folders are arranged in a row on a desk. The hand is reaching towards the second folder from the left. The background is a light-colored, textured wall.

08 Audit Fees

Audit Fees

Our fees for 2018/19 are in line with the scale fee set by the PSAA and reported in our 2018/19 Audit Plans. We note below where fees have yet to be fully agreed and the reasons for this.

| Description | Final Fee 2018/19 £ | Planned Fee 2018/19 £ | Scale Fee 2018/19 £ | Final Fee 2017/18 £ |
|---|------------------------|--------------------------|------------------------|------------------------|
| Audit Fee – Code work: Oxfordshire CC | TBC** | 84,688 | 84,688 | 109,958* |
| Audit Fee – Code work: Oxfordshire PF | TBC** | 18,563 | 18,563 | 24,108 |
| IAS 19 Work | 5,500 | 5,500 | N/A | 5,500 |
| Total Audit Fee | TBC** | 108,751 | 103,251 | 139,566 |
| Non-audit work – Claims and returns (Teacher’s Pensions) | TBC*** | 12,000 | 12,000 | 12,000 |

All fees exclude VAT

* The final fee for the 2017/18 audit included additional fees of £6,440 as reported in our 2017/18 Annual Audit Letter. This included work to address significant risks identified during the audit.

** The final fee for the 2018/19 audit has not been fully determined. When we have confirmed the final fee we will discuss the fee with senior officers and in line with requirements will need to seek formal approval from PSAA before we can invoice.

*** We have not undertaken the work for the Teacher’s Pensions 2018/19 Return. We will confirm the final fee to the Audit & Governance Committee when we have completed the work.

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