

Oxfordshire County Council

Annual Audit Letter for the year
ended 31 March 2018

August 2018

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

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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)

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.



1 - 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 2018.

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:	Unqualified - the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2018 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 Annual Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council
▶ Public interest report	We had 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	<p>There have been no objections raised in 2017/18, but we have also been considering the objections raised in prior years:</p> <p>An objection was made in 2016/17 to the Pension Fund accounts 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 have made initial enquiries of the Council, and have followed up on a number of their responses. We are currently considering additional responses from the Council. It is our view that even if the objection was subsequently resolved in the objector's favour, this would not affect the Statement of Accounts.</p> <p>An objection was made in 2015/16 to the 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 prepared a statement of reasons supporting our determination of the objection and this is currently subject to consultation ahead of being issued.</p> <p>We cannot formally conclude the audit and issue an audit certificate for 2015/16, 2016/17 or 2017/18 until we have completed the work necessary to conclude these two matters.</p> <p>During 2017/18, a matter was raised from a member of the public with regards to the Council's charging for DIY waste and whether this is in line with appropriate laws and regulations. We made enquiries of the Council and concluded that the Council was not in breach of any laws or regulations.</p> <p>We have no other matters to raise with the Audit & Governance Committee.</p>

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 had no matters to report.

1 - Executive Summary (continued)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council and Pension Fund communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 25 July 2018
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>An objection was made in 2016/17 to the Pension Fund accounts 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 have made initial enquiries of the Council, and have followed up on a number of their responses. We are currently considering additional responses from the Council. It is our view that even if the objection was subsequently resolved in the objector's favour, this would not affect the Statement of Accounts.</p> <p>An objection was made in 2015/16 to the 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 prepared a statement of reasons supporting our determination of the objection and this is currently subject to consultation ahead of being issued.</p> <p>We cannot formally conclude the audit and issue an audit certificate for 2015/16, 2016/17 or 2017/18 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

2 - 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 2017/18 Audit Results Report to the 25 July 2018 Audit & Governance Committee, representing those charged with governance. 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 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued in March 2018 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 2017/18 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 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. [The extent of our review and the nature of our report are specified by the NAO]

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. 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.



3 - 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 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 Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 25 July 2018

Our detailed findings were reported to the 25 July 2018 Audit & Governance Committee.

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

Significant Risk

Conclusion

Misstatements due to fraud or error

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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 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.

Pension Fund Only

The Fund's investments include unquoted investments such as private equity. Judgements are taken by the Investment Managers to value those investments whose prices are not publically available. Management may be able to influence these judgements and thus the valuation. This especially applies to the private equity portfolio managed in-house.

We have considered the risk of management override and the areas of the financial statements that may be most susceptible to this risk. We have concluded that the judgements we are focused on are items of non-routine income and expenditure, involving management estimation and judgement, rather than transactions created through routine invoicing processes.

Our work on the risk of management override therefore focussed on reviewing manual journal entries, through the use of our data analytics tools, as this is the way in management would most easily be able to manipulate accounting records

We addressed the residual risk of management override through the following procedures:

- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- We reviewed accounting estimates for evidence of management bias (as noted above relating to revenue and expenditure recognition);
- We considered the completeness of the minimum revenue provision (MRP) Charge;
- We evaluated the business rationale for any significant unusual transactions; and
- We reviewed accounting policies with particular focus on changes made or where policies are different to those suggested by the CIPFA Code.

For the Pension Fund, we undertook the following procedures:

- Undertook a review of reconciliations to the fund manager and custodian reports and investigated any reconciling differences;
- Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports; and
- For level 3 investments we agreed information to source reports and the financial statements of the individual funds. We did this as part of our fair value hierarchy testing which covered the Fund's investments at all 3 levels.

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 did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business. We did not identify any issues from our testing of the MIRS adjustments note.

3 - Financial Statement Audit (continued)

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

Other Key Findings	Conclusion
<p><u>Valuation of Land and Buildings</u> The fair value of Property, Plant and Equipment (PPE), including land and buildings, represents significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>	<p>Our approach has focused on:</p> <ul style="list-style-type: none"> ▶ Consideration of the work performed by the Council's valuer, including the adequacy of the scope of the work performed, professional capabilities and the results of their work. This includes the use of our EY estates specialists who undertook a review of assumptions used by the valuers; ▶ Review and sample testing over the key asset information used by the Council's valuer in performing their valuation; ▶ Consideration of the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; ▶ Review of the desktop review and valuations performed by the Council's valuer over assets not subject to formal valuation in 2017/18 to confirm that the remaining asset base is not materially misstated; ▶ Tested that the accounting entries have been correctly processed in the financial statements, including the treatment of impairments. ▶ Consideration of the Council's revaluation of the Oxfordshire Museum in 2017/18.
<p><u>Pension Liability Valuation</u> The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Oxfordshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £980.3 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. 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 experts and the assumptions underlying fair value estimates.</p>	<p>As a result of the testing above we did not identify any material issues in the valuations based on our work performed.</p> <p>Our approach has focused on:</p> <ul style="list-style-type: none"> ▶ Liaising with the audit engagement team of the Oxfordshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Oxford City Council; ▶ Assessing the conclusions drawn on the work and assumptions used by Hymans Robertson LLP (the Pension Fund actuary) by using and reviewing the work of the Consulting Actuary commissioned by Public Sector Auditor Appointments Ltd for all Local Government sector auditors (PwC); and ▶ Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. <p>Assumptions used by the actuary and adopted by the Council are considered to be generally acceptable. However, the audit engagement team of the Oxfordshire Pension Fund did identify that the estimated valuation of plan assets used by Hymans Robertson, £2,327m, was smaller than the actual plan assets at year end of £2,355m by £28.4m. The Council's share of this difference is £14.3m.</p> <p>While not material, this is above our uncorrected misstatement threshold, and as such has been reported as an unadjusted misstatement in this report.</p>

3 - Financial Statement Audit (continued)

Other Key Findings	Conclusion
<p>Accounting for Service Concessions As part of our audit in 2016/17 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 was a difference of opinion in the application of the accounting treatment between the Council and our expert.</p> <p>This resulted in an unadjusted audit difference of £936k in 2016/17.</p>	<p>We engaged with management and our EY expert about the treatment of service concessions. We have reached an agreed position as a result of this engagement. We have reviewed the accounting entries and disclosures arising from this agreement in the 2017/18 accounts, with a focus on any significant changes since 2016/17.</p> <p>As a result of the testing above we did not identify any material issues in our work performed on service concessions.</p>
<p>Earlier deadline for production of the financial statements The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial 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 accounts by 31 July.</p> <p>These changes provide risks for both the preparers and the auditors of the financial statements.</p> <p>The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include slippage in delivering data for analytics work in format and to time required, late working papers and internal quality assurance arrangements.</p> <p>As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.</p> <p>To mitigate this risk we require:</p> <ul style="list-style-type: none"> • good quality draft financial statements and supporting working papers by the agreed deadline; • appropriate Council staff to be available throughout the agreed audit period; and • complete and prompt responses to audit questions. 	<p>We</p> <ul style="list-style-type: none"> ▶ Engaged early with the Council to facilitate early substantive testing where appropriate and lessen pressure at year-end; ▶ Discussed with the Council consideration of streamlining of the Statement of Accounts where non-material disclosure notes are removed; ▶ Facilitated faster close workshops providing an interactive forum for Local Authority accountants and auditors to share good practice and ideas for a successful faster closure of accounts; ▶ Worked with the Council to implement EY Client Portal. This: <ul style="list-style-type: none"> ▶ Streamlined our audit requests through reducing emails and improving communication; ▶ Provided on-demand visibility into the status of audit requests and the overall audit status; ▶ Reduced risk of duplicate requests; and ▶ Provided better security for sensitive data. ▶ Agreed the team and timing of each element of our work with you; and ▶ Agreed the supporting working papers needed to complete the audit.

3 - Financial Statement Audit (continued)

Other Key Findings	Conclusion
<p>Pension Fund Only Change of Custodian There is a risk that, during transition, the data was not transferred over correctly, i.e. the values transferred are incorrect or the list of the assets is incomplete.</p>	<p>We focused on aspects of the financial statements where the assets could be incorrect because management could inappropriately allocate assets other than to the Pension Fund, dispose of them, or under/ over-value them e.g. by giving such instructions to the custodian.</p> <p>In response to the risk, we:</p> <ul style="list-style-type: none"> ▶ Obtained third party confirmation directly from both custodians of the assets transferred. ▶ Reconciled the closing position with BNP Paribas to State Street's opening position. ▶ Reviewed the valuation of each individual asset and investigate any differences. ▶ Reviewed the procedures the Pension Fund had in place over the transition. <p>We also engaged EY internal specialists on year-end investment valuations as part of our work over investment valuations.</p> <p>Our testing did not identify any material misstatements from the change of custodian. Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Pension Fund's financial position.</p>

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 (County)	<p>We determined planning materiality to be £19.4mn (2017: £9.7mn), which is 2% of gross expenditure on the provision of services reported in the accounts of £971.9 million.</p> <p>We consider gross expenditure on the provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold (County)	<p>We agreed with the Audit & Governance Committee that we would report to the Committee all audit differences in excess of £0.9mn (2017: £0.5mn)</p>

Item	Thresholds applied
Planning materiality (Pension Fund)	<p>We determined planning materiality to be £47.1mn (2017: £45.1m), which is 1% net assets.</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 (Pension Fund)	<p>We agreed with the Audit & Governance Committee that we would report to the Committee all audit differences in excess of £2.2mn.</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:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits: Any error over £1k
- ▶ Related party transactions. Any error over £1k

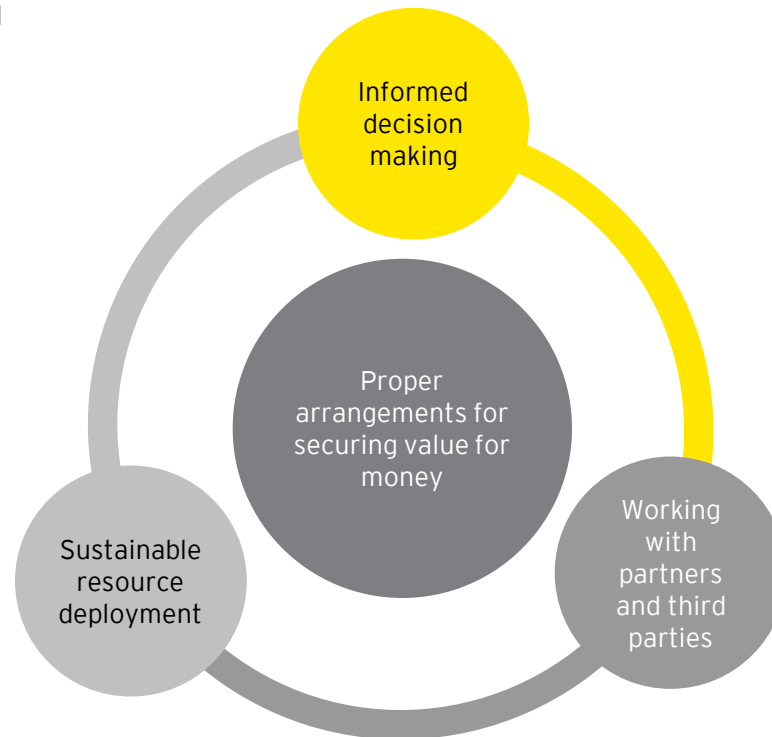
We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

£ 4 - 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 identified 1 significant risk in relation to these arrangements. The tables below present the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

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.

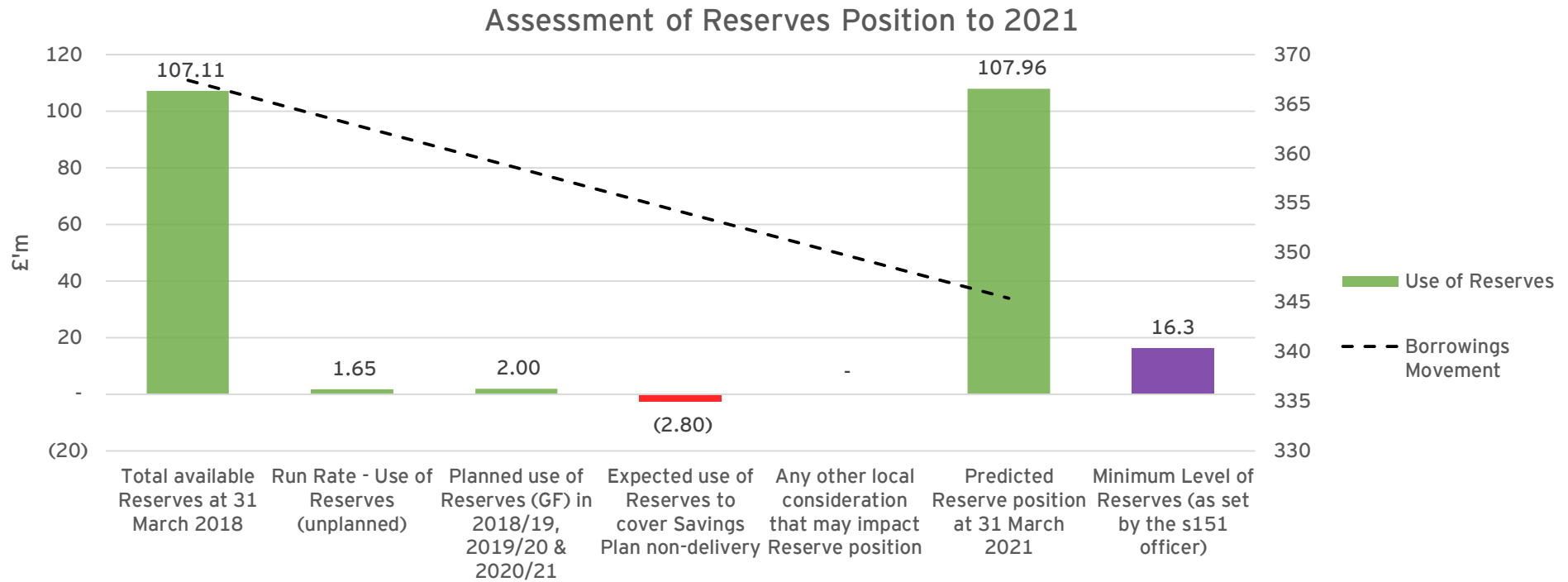
4 - Value for Money (continued)

We therefore issued an unqualified value for money conclusion on 25 July 2018

Significant Risk	Conclusion
<p>▶ Working with partners and other third parties - Carillion</p> <p>In 2012, Oxfordshire County Council entered into a contract with Carillion LGS Ltd to provide building works, property services, maintenance of council buildings, school meals and cleaning.</p> <p>In December 2017, the Council reached an agreement with Carillion to terminate this contract early and to cease receiving all services except for maintenance, school meals and cleaning. The ending of this contract was set for June 2018.</p> <p>In January 2018, it was announced that Carillion were being put into liquidation. As a result the original agreement to end the contract was accelerated to February 2018. In addition all services have now been brought in house, including those that were planned to remain with Carillion.</p> <p>There are several areas of the Council's arrangements to consider:</p> <ul style="list-style-type: none">• The agreement made in December between Carillion and the Council.• The provision of services in the transitional period between bringing services from Carillion to the Council.• The arrangements for determination of residual issues following Carillion being put into liquidation.	<p>We:</p> <ul style="list-style-type: none">▶ Reviewed the agreement made in December 2017 between the Council and Carillion.▶ Assessed the Council's arrangements to provide for the transition of services from Carillion to ensure continuity of service provision.▶ Reviewed the work performed by the Council to reach a 'steady state' of service provision in these new areas.▶ Reviewed of the agreements in place and the arrangements between the Council and Carillion (or the liquidator) for areas which were still with Carillion at the time of their liquidation, such as building defects resolution. <p>As a result of the procedures performed, we have been able to gain assurances that the Council had proper arrangements in place to work with partners and other third parties.</p>

£ 4 - Value for Money (continued)

Financial Position and Medium Term Financial Plan Assessment



While not identified as a significant value for money risk for 2017/18, the financial position of Local Authorities and their future plans is in focus. We have undertaken an assessment of the Council's medium term financial plan to ensure planned savings are achievable and the usable reserves position is appropriate. The diagram above confirms that the Council are in a position to achieve their medium term financial plans.



5 - 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, 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.



5 - Other Reporting Issues (continued)

Objections received and matters raised by members of the public

We did not receive any objections to the 2017/18 financial statements from members of the public.

We have also been considering the objections raised in prior years:

An objection was made in 2016/17 to the Pension Fund accounts 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 have made initial enquiries of the Council, and have followed up on a number of their responses. We are currently considering additional responses from the Council. It is our view that even if the objection was subsequently resolved in the objector's favour, this would not affect the Statement of Accounts.

An objection was made in 2015/16 to the 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 prepared a statement of reasons supporting our determination of the objection and this is currently subject to consultation ahead of being issued.

We cannot formally conclude the audit and issue an audit certificate for 2015/16, 2016/17 or 2017/18 until we have completed the work necessary to conclude these two matters.

During 2017/18, a matter was raised from a member of the public with regards to the Council's charging for DIY waste and whether this is in line with appropriate laws and regulations. We have made enquiries of the Council and were able to establish that the Council approach was in line with appropriate laws and regulations.

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 25 July 2018. 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 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.



6 - Use of Data Analytics in the Audit

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 2017/18, our use of these analysers in the Council'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 the Council's 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.



7 - 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 9 Financial Instruments	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none">▶ How financial assets are classified and measured;▶ How the impairment of financial assets are calculated; and▶ The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none">▶ Reclassify existing financial instrument assets▶ Re-measure and recalculate potential impairments of those assets; and▶ Prepare additional disclosure notes for material items.
IFRS 15 Revenue from Contracts with Customers	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none">▶ Leases;▶ Financial instruments;▶ Insurance contracts; and▶ For local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The Council will need to consider the impact of this on their own group accounts when that trading company is consolidated.</p>



7 - Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 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 2019/20 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 2019/20 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>

8 - Audit Fees

Our fee for 2017/18 is in line with the scale fee set by the PSAA and reported in our 25 July 2018 Audit Results Report.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee - Code work	116,398*	109,958	109,958	109,958*
Total Audit Fee - Pension Fund	26,396**	24,108	24,108	24,108
Fee for IAS 19 work	5,500	5,500	N/a	5,500
Fee for objections	TBC***	0	N/a	0
Certifications - Teachers Pensions	TBC	£12,000	N/a	£12,000
Total Fees	TBC	£151,566	£134,066	£151,566

The audit fee covers the:

- ▶ Audit of the financial statements
- ▶ Value for money conclusion
- ▶ Whole of Government accounts.

We confirm we have not undertaken any other non-audit that has not been detailed above.

For Oxfordshire County Council our planned fee was set at the scale fee level. This planned fee was based on certain assumptions, including:

- ▶ The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ The operating effectiveness of the internal controls for the key processes identified within our audit strategy;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Authority;
- ▶ There is an effective control environment; and
- ▶ Prompt responses are provided to our draft reports.

* We propose to charge an additional fee of £6,440 for the Oxfordshire County Council audit in as a result of:

- ▶ The involvement of EY experts in revisiting the valuation of the Museum and the accounting treatment for Service Concessions (£1,294)
- ▶ Additional procedures being performed to gain assurances over the significant value for money risk (£3,039)
- ▶ Issues in obtaining appropriate analytics information for the general ledger, where the Council provided incomplete information. This resulted in the tool needing to be re-run. (£783)
- ▶ Consideration of correspondence from the public (£1,324)

** We propose to charge an additional fee of £2,288 for the Oxfordshire Pension Fund audit in as a result of:

- ▶ Additional work undertaken in respect of the change in custodian (£1,672)
- ▶ Issues in obtaining appropriate analytics information for the general ledger, where the Council provided incomplete information. This resulted in the tool needing to be re-run (£616)

*** 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.

Any additional fees are also subject to review and agreement by PSAA Limited.

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