

Vale of White Horse DC

Audit results report for the year ended 31 March 2014

11 September 2014

Ernst & Young LLP



Building a better
working world



Ernst & Young LLP
400 Capability Green
Luton
Bedfordshire
LU1 3LU

Tel: 01582 643000
Fax: 01582 643001
www.ey.com/uk

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Audit and Governance Committee
Vale of White Horse District Council
Abbey House
Abingdon
Oxfordshire
OX14 3JE-

11 September 2014

Ref: : 2013-14 ARR

Direct line: 07881 518875

Email: MWest@uk.ey.com

Dear Sir

Audit results report

We are pleased to attach our audit results report for the forthcoming meeting of the Audit and Governance Committee. This report summarises our preliminary audit conclusion in relation to the Council's financial position and results of operations for the year ended 31 March 2014. We will issue our final conclusion at/after the Committee scheduled for 24 September 2014.

The audit is designed to express an opinion on the 2013-14 financial statements, reach a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources, and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting scheduled on 24 September 2014.

Yours faithfully
For and on behalf of Ernst & Young LLP

Mick West

Ernst & Young LLP
United Kingdom
Enc.

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

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

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

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

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

1. Overview of the financial statement audit

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes 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.

As auditors we are responsible for:

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

We also report to the National Audit Office (NAO) under its group instructions.

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

Financial statements

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified opinion on the Council's financial statements. We did not identify any significant risks in our Audit Plan other than the general risk of management override which features in all our audit plans. A significant risk is an identified assessed risk of material misstatement that, in an auditor's judgement, requires special audit consideration.

Significant risks:

Risk of misstatement due to fraud and error: Audit findings and conclusions

- ▶ We recognised that management is in a unique position to perpetrate fraud because of its ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively
 - ▶ The work carried out by us has allowed us to conclude there is no evidence of fraud or corruption in the financial statements
-

Other financial statement risks:

Localisation of National Non-Domestic Rates: Audit findings and conclusions

- ▶ The Council complied with the new accounting treatments and presentation requirements following the localisation of business rates.
 - ▶ The Council made a provision for unsettled appeals against rating decisions lodged in and before 2013-14. We found that the basis for the estimation was reasonable, although the basis of the estimate was simplified resulting in an overstatement of the provision by approximately £0.6m.
 - ▶ We challenged the Council's assessment of the need to provide for future appeals backdated to 2013-14 or earlier, which had been treated as a contingent liability under IAS 37, as management did not believe a reasonable estimate could be made. From our review of the information available and the requirements of the standard we found that there was sufficient available information for management to make a reasonable estimate of the impact of future appeals, and management have reflected this in the financial statements.
-

Asset management – new fixed asset register: Audit findings and conclusions

- ▶ We undertook testing to confirm the integrity of the data transferred into the new fixed asset register and of the entries that were produced from the system and used in the financial statements.
 - ▶ We found that the data had been correctly transferred into the new register and that the entries produced for depreciation, additions and disposals were accurate and consistent with the Council's accounting policies.
 - ▶ Issues were identified by officers for the entries produced by the new register in relation to the revaluation of assets. Due to these issues the entries produced by the Excel based fixed asset register model was used instead. From the work that we performed we were satisfied that the entries in the financial statements are materially accurate.
 - ▶ The Council should ensure that the issues identified with the fixed asset register are resolved to enable the register to be fully utilised to produce the required financial statement entries
-

Control themes and observations

Our audit identified no control issues that we wish to bring to your attention.

Summary of audit differences

Our audit identified a number of misstatements in the accounts presented for audit, as summarised below.

-
- ▶ Misstatements totalling £0.6m have not been corrected. These adjustments if made would have no impact on useable reserves.
 - ▶ A number of minor presentational and disclosure errors, which have been corrected
-

Economy, efficiency and effectiveness

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

Whole of Government accounts

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

Audit certificate

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

2. Scope update

Our 2013-14 audit work has been undertaken in accordance with the Audit Plan that we issued on 27 February 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

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

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

3. Significant findings from the financial statement audit

In this section of our report, we outline the main findings from our audit of your financial statements, including our conclusions in relation to the areas of risk and areas of audit emphasis outlined in our Audit Plan.

Significant risk – Risk of management override

Description and conclusion

As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We:

- ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- ▶ Reviewed accounting estimates for evidence of management bias
- ▶ Evaluated the business rationale for any significant unusual transactions

We found no indications of fraud or error as a result of manipulation by management.

Other financial statement risk - Localisation of National Non-Domestic Rates

Description and conclusion

We have reviewed the action taken by the Council to provide for unsettled appeals by non-domestic ratepayers. Such appeals reduce the level of income in the collection fund which is shared between Vale of White Horse District Council, central government and Oxfordshire County Council. The Council has used information available from the Valuation Office Agency (VOA) on appeals lodged, together with information on the success or failure of appeals in the past to calculate an amount of £5,861,000 which is included in the Collection Fund as a provision.

The Council has simplified the calculation for its estimate by assuming that all appeals were made back to the start of the rating list, 1 April 2010. We identified that for 14 cases where the change in the rateable value was sought from a date after 1 April 2010, resulting in an overstatement of the full provision by £592,000, £236,800 of which relates to the Council's share. Management have not adjusted the provision. While it recognises the error in the estimation, it believes that given the level of uncertainty the existing provision remains prudent.

We have also discussed with the Head of Finance appeals which may be received by the VOA in the future and may be backdated to 31 March 2014 or earlier. The estimate of the provision did not include any assessment of un-lodged appeals and was potentially understated as a result.

Originally the Council had disclosed a contingent liability for these appeals as they did not believe that they had sufficient information on which to estimate the potential impact of these appeals. From our review of the data used to calculate the provision for appeals we found that there was sufficient information available for the Council to make an estimate of the impact. We did not agree with the assessment of IAS37 by the Council in relation to these appeals, with our view being that the criteria under IAS37 were met and a provision should be made for these appeals.

Officers have produced a further analysis of the top 50 rate payers to identify the potential impact of additional appeals. They have found that a significant number of the highest rate payers have already lodged appeals, which are accounted for in the original estimate.

Officers have additionally reviewed the appeals received in the period April to June 2014 to quantify the number of new appeals received. This identified one of the top 50 ratepayers had lodged a new appeal, and this has not been included in the provision. It was also identified that a number of new appeals had been lodged which had not been reflected in the provision.

Management recognise the potential understatement in the provision for these and other appeals, but believe due the overstatement identified the net position is that the provision remains a reasonable estimate not requiring adjustment.

We are satisfied that the provision for appeals disclosed at 31 March 2014 is materially accurate. However, the Council should ensure that it takes into account the actual date of the change in rateable value and the potential for additional appeals being received after the reporting date, when calculating the provision in 2014-15.

Other financial statement risk - Asset Management – new fixed asset register

Description and conclusion

Previously the asset register was maintained on an Excel Spreadsheet, rather than an IT based register. The Council has introduced such a fixed asset register in 2013-14 and this was to be used to produce entries in the financial statements.

We found that the data had been correctly transferred into the new register and that the entries produced for depreciation, additions and disposals were accurate and consistent with the Council's accounting policies.

Officers identified issues when the updated asset values were input into the new fixed asset register module, which resulted in the incorrect accounting entries being produced. A decision was taken to utilise the entries produced by the Excel based spreadsheet, which was updated alongside the new asset register.

From our detailed work we are satisfied that the entries disclosed in the financial statements are accurate and comply with the requirements of the CIPFA Code of Practice on Local Authority Accounting 2013-14.

Management should ensure that the issues identified with the new fixed asset module are resolved in a timely manner to enable all entries to be produced by the module for the 2014-15 financial statements.

4. Economy, efficiency and effectiveness

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

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

The table below presents the findings of our work in response to the areas of focus presented to you in our Audit Plan.

Other risks/areas of focus:	Impacts arrangements for securing:	Key findings:
Managing Finances		
<p>The current financial pressure on local authorities and the impact and necessity for continuous focus on financial resilience and use of resources represents a significant challenge over the medium term.</p>	<p>Economy, efficiency and effectiveness Financial resilience</p>	<p>The Council has;</p> <ul style="list-style-type: none"> ▶ A balanced financial plan for the period to 2019 ▶ A history of delivering savings, and came in under budget on 31 March 2014 ▶ A history of using joint working and outsourcing to deliver long term savings

5. 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 of internal control we are required to communicate to you significant deficiencies in internal control.

The matters reported below are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

5.1 Current year observations

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

5.2 Status of previous year's recommendations

Description	Impact
The Council will be moving to a computerised system for fixed asset management and accounting. The council should introduce quality checks to ensure the figures entered into the accounts, including any componentisation, is accurate.	From our work we found that the Council has put in appropriate checks to ensure that the entries disclosed in the financial statements are accurate. Some issues were identified with the new register which was identified as part of these checks, and this resulted in the previous Excel model being used to produce the relevant entries to ensure that they were accurate.

6. Status of our work

6.1 Financial statement audit

Our audit work in respect of our opinion on the Council's financial statements is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

Item	Actions to resolve	Responsibility
Letter of representation	To be tabled at Audit and Governance Committee on 24 September 2014.	Management and Audit and Governance Committee

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

6.2 Economy, efficiency and effectiveness

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

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

6.3 Objections

We have received no objections to the 2013-14 accounts from members of the public.

7. Fees update

A breakdown of our agreed fee is shown below.

	Proposed final fee 2013-14	Planned fee 2013-14	Scale fee 2013-14	Explanation of variance
Audit Fee – Code work	£61,939	£61,939	£61,939	
Certification of claims and returns	In progress	£15,488	£15,488	
Non-audit work (provide details)	None undertaken			

Our actual audit fee is in line with the agreed fee and the Audit Commission scale fee.

Our fee for certification of the housing benefits claim is yet to be finalised for 2013-14 and will be reported to the Audit and Governance Committee after we complete the programme of work in November 2014.

8. Summary of audit differences

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

We would expect to include all amounts greater than £825,000 relating to Vale of White Horse District Council in our summary of misstatements. No errors above this amount have been identified.

In addition we highlight the following misstatements which were not corrected by management.

Balance Sheet and Comprehensive Income and Expenditure Statement

Uncorrected judgemental misstatements	Liabilities current	Income	Expenses
	Debit/ (Credit)	Debit/ (Credit) Current period	Debit/ (Credit) Current period
Collection Fund - Provision for NDR Appeals			£(592,000)
Provision for Appeals (40% Council share)	£236,800		
CIES			£(236,800)
General Fund	£236,800		
Collection Fund Adjustment Account			£(236,800)
This reflects the Council's share of the £592,000 overstated Collection Fund provision for NDR appeals			

There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the financial statements for the year ended 31 March 2014.

9. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 27 February 2014. We complied with the Auditing Practice's Board's Ethical Standards for Auditors and the requirements of the Standing Guidance and in our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit and Governance Committee on 24 September 2014.

Appendix A Required communications with the Audit Committee

There are certain communications that we must provide to the Audit and Governance Committee. These are detailed here:

Required communication	Reference
Terms of engagement	The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies.
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
Significant findings from the audit	Audit results report
<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ 	
Misstatements	Audit results report
<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	
Fraud	
<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	<p>Letter to chairman of the Audit and Governance Committee 18 March 2014</p> <p>No matters to report</p> <p>Audit Results Report</p>
Related parties	Audit results report
Significant matters arising during the audit in connection with the entity's related parties including, when applicable:	No matters to report
<ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	
External confirmations	
<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	No matters to report

Required communication	Reference
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	<p>None identified</p> <p>Letter to chairman of the Audit and Governance Committee 18 March 2014</p>
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit Plan and update in section 8 of this report</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>Audit plan</p> <p>No matters to report</p>
<p>Significant deficiencies in internal controls identified during the audit</p>	<p>Audit results report</p>
<p>Fee reporting</p> <ul style="list-style-type: none"> ▶ Final, planned and scale fee broken down into the headings of Code audit work; certification of claims and returns; and any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the body). 	<p>Audit Plan and Audit results report</p>
<p>Summary of certification work undertaken</p> <ul style="list-style-type: none"> ▶ Annual report to those charged with governance summarising the certification work undertaken 	<p>To be decided</p>

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

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