



INFRASTRUCTURE, GOVERNMENT  
& HEALTHCARE

# Annual External Audit Report

**2007/08**

**Oxfordshire County  
Council**

12 January 2009

AUDIT

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This report is addressed to the Authority and has been prepared for the sole use of Oxfordshire County Council ("the Authority"). We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled: *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG LLP's work, in the first instance you should contact June Awty, who is the engagement partner to the Authority, telephone 020 7311 1769, e-mail june.awty@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4063, e-mail trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Team, Nicholson House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SU or by e-mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

### 1.1 Scope of this report

This report summarises the work carried out by KPMG LLP ("KPMG") at Oxfordshire County Council ("the Authority") in our role as the Authority's external auditors. Our responsibilities are set out in the Audit Commission's *Code of Audit Practice* ("the Code"). Under the Code we are required to review and report on three main areas which we have used to structure this report.

- **The Statement of Accounts (section 2):** We are required to audit the Authority's statutory accounts, including its Annual Governance Statement. The findings from our work were reported previously in our *'Report to those charged with Governance'*. This section summarises the findings of the audit of the accounts and the Authority's Whole of Government Accounts (WGA) submission. We have commented by exception on the issues arising from our audit. We have also described some of the ongoing challenges as International Financial Reporting Standards (IFRS) are introduced into local government.

- **Data Quality (section 3):** Good quality data is essential to both accurate financial reporting and effective performance management. This section considers the Authority's arrangements to ensure that its data is of high quality.

Our recommendations are summarised in Appendix A. We have also summarised the status of all recommendations made in 2007 at Appendix B. Appendix C lists the reports which we have issued during the 2007/08 audit year.

### 1.2 Summary of findings

#### *The Statement of Accounts*

On 24 September 2008, we issued an unqualified opinion on the Authority's 2007/08 accounts. We also issued our certificate, confirming that we have completed all work required for the 2007/08 financial year under our statutory responsibilities.

We also reviewed the Authority's WGA submission and concluded that it was consistent with the statutory accounts. This was submitted to the Department for Communities and Local Government within the prescribed timescale.

We did not identify any issues in the course of the audit that were considered to be material or that are required to be reported to Members.

#### *Data Quality*

We identified that the Authority has good arrangements for using performance information in decision making to drive improvement. Performance is regularly reported and understood. However, internal audit identified a number of performance indicators where the calculation was not accurate or supported by sufficient evidence.

Our testing of performance indicators reviewed the arrangements for the collection and accuracy of indicators related to household waste management (recycling and composting). This testing did not identify any errors in the calculation of the indicators.

### 1.3 Looking Forward

The Authority faces a number of challenges going forward and we have discussed, risk assessed and agreed our audit plan for 2008/09 with the Authority to show how our work will respond to these risks.

In particular, we draw the Authority's attention to:

- the challenges of implementing new accounting requirements including the 2009 SORP and International Financial Reporting Standards (IFRS); and
- the new Use of Resources assessment to support the Comprehensive Area Assessment (CAA) regime.

### 1.4 Acknowledgements

We would like to take this opportunity to thank officers and members for their continuing help and co-operation throughout our audit work.

## Section 2

# The Statement of Accounts

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Our *Report to Those Charged with Governance* (ISA 260 report) set out our main findings on the Authority's 2007/08 accounts. In this report, we have summarised the outcome of the audit and provided an update on our ISA260 report, including the submission process for Whole of Government Accounts (WGA).

### 2.1 Audit of the accounts

#### *Opinion and certificate*

On 24 September 2008, we issued an unqualified opinion on the Authority's 2007/08 accounts. We also issued our certificate, confirming that we have completed all work required for the 2007/08 financial year under our statutory responsibilities.

#### *Summary of issues arising*

We did not identify any issues in the course of the audit that were considered to be material or that are required to be reported to Members.

### 2.2 Whole of Government Accounts

Whole of Government Accounts (WGA) are aggregated accounts that cover the whole of the public sector and include some 1,300 separate bodies. Each of these bodies is required to submit a consolidation pack. This is based on, but separate from, their statutory accounts.

We submitted the Authority's WGA pack to the Department for Communities and Local Government (DCLG) on 1 October 2008. This is the deadline for submission of the audited WGA pack to DCLG.

### 2.3 The governance framework

A new development for 2007/08 was the requirement to prepare an Annual Governance Statement (AGS). This superseded the previous requirement to prepare a Statement on Internal Control (SIC).

The requirements of the AGS are broader than those of the SIC and specify that the statement also needs to describe and evaluate governance processes – in other words, the role and effectiveness of members in governing the Authority.

Authorities therefore need to have explicitly identified the components of their governance framework and to have a mechanism to assess how effective each part is.

We reviewed the AGS and supporting information, and concluded that it was consistent with our understanding of the Authority.

The internal audit function is a key component of the Authority's governance framework. Because internal and external auditors are both interested in the effectiveness of the control framework, we seek to avoid duplication by reviewing and relying on the work of internal audit where possible.

In determining whether we are able to rely on internal audit work, we assess whether the service complies with the CIPFA *Code of Practice for Internal Audit*. We concluded that the service complied with the *Code* and we placed reliance on internal audit work where it was relevant to our responsibilities.

The Authority should note that our assessment of internal audit is limited to aspects of its work which are relevant to our remit. Moreover, whilst the *Code* sets out basic standards, compliance does not demonstrate that the audit service is high-performing. The Authority will, therefore, need to have an appropriate mechanism in place to assess the effectiveness of its internal audit function to inform the Annual Governance Statement.

### 2.4 The Authority's financial position

#### *Revenue*

A report to Cabinet for the 7 months ended 31 October 2008 revealed that there is a £0.567m overspend for Directorates' revenue expenditure which is offset by a £1m underspend on the ICT Investment Fund. The County Fund balance at 31 March 2008 was £24.368m, and taking into account planned use of reserves and these variances, the forecast for the consolidated revenue balances for the 31 March 2009 is £21.785m.

#### *Capital*

The original budget for capital expenditure for 2008/09 was £110.4m which has been reduced as at October 2008 to £100.7m. Actual expenditure to the end of October 2008 was £42.7m (42% of the latest budget). The current forecast for capital expenditure to the year end is £100.4m.

### 2.5 Questions and objections from electors

We have a duty under section 8 of the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to our attention in order for it brought to the attention of the public. In addition we have a range of other responsibilities under the 1998 Act, including investigating questions or objections on the accounts received from the Authority's electors. Details of electors' queries were outlined in section 4 of our 'Report to those charged with governance' presented in September 2008 and discussed with Committee members.

### 2.6 Looking forward

Over the next few years, local authorities will face a range of challenges to their accounts production processes. The 2008 SORP introduces some amendments to local authority accounting for 2008/09 which will require thorough review.

International Financial Reporting Standards (IFRS) will also be relevant. All local authorities are required to produce IFRS-compliant accounts from 2010/11, so 1 April 2009 is the date of transition to IFRS in local government.

Based on our experience of assisting companies with their IFRS conversion, the Authority should aim, by the date of transition, to have:

- established a project team;
- reviewed which standards will have the biggest impact and which will be the most complex;
- completed the information-gathering stage - for example, gathering the information on all leased assets in order to review whether they are finance or operating leases under IFRS; and
- engaged the audit team with the process.

Based on our experience the most time consuming exercise is reviewing all current leases to determine the appropriate accounting treatment under the new requirements. This is particularly challenging if documentation for long-standing leases cannot be located. Depending on the Authority's circumstances, other standards may also require a similar exercise to be undertaken.

The Authority is completing its preliminary review and high level impact analysis, and is in the process of preparing a project plan to address IFRS implementation. We will continue to work with the Authority in the new year to review the approach to IFRS conversion.

### 3.1 Summary of our assessment

Our review of data quality was performed following Audit Guides specified by the Audit Commission. These divide our work into three phases.

- **Stage 1: Review of management arrangements.** We consider the Authority's objectives and targets for data quality and the arrangements in place to ensure that they are achieved. The work considers a range of aspects of data quality, including policies, systems and training.
- **Stage 2: Comparison to other authorities.** This stage involves investigating queries raised by the Audit Commission on the Authority's data based on the Commission's analysis of historical trends and comparison to other authorities. We feed back to the Audit Commission on our findings and also notify officers if this validation process identifies any indicators which require amendment.
- **Stage 3: Data testing.** We test a sample of indicators in detail. The Audit Commission specifies some indicators based on their knowledge of where problems arise and prepares an audit guide for each of these; we perform the tests set out in the audit guide. If we identify a specific risk, we may audit an indicator which is not on this list, in which case we will perform an equivalent level of testing. The number of indicators tested depends on our assessment of management arrangements in Stage 1.

This report focuses on stages 1 and 3 of this methodology.

### 3.2 Management arrangements

We assessed the Authority's arrangements against the five areas of the data quality KLOEs and summarise our findings below.

We identified that the Authority has good arrangements for using performance information in decision making to drive improvement. Performance is regularly reported and understood. However, internal audit identified a number of performance indicators where the calculation was not accurate or supported by sufficient evidence. It is critical to the Authority that the underlying data used in decision making is accurate and can be fully supported by appropriate evidence. The Authority needs to ensure that it has a strong network of performance champions who can drive improvement in the accuracy of performance information.

### 3.3 Data testing

Indicator reference	Indicator description	Satisfactory?
BV82a	Household waste management: Recycling performance	✓
BV82b	Household waste management: Composting performance	✓

No issues were identified by our testing of performance indicators.

*Recommendation for data quality:*

#### Recommendation 1: Data Quality

The Authority needs to ensure that reported performance information is accurate and supported by adequate evidence. This will be facilitated by a network of trained performance champions for each service area.

**Appendix A: Summary of recommendations and action plan**

	<b>Recommendation</b>	<b>Priority</b>	<b>Management response</b>	<b>Officer and timescale</b>
1	<p><b>Data Quality</b></p> <p>The Authority needs to ensure that reported performance information is accurate and supported by adequate evidence. This will be facilitated by a network of trained performance champions for each service area.</p>	Medium	<p>Agreed. There is already a Performance Management Working Group (PMWG) in existence with representatives from all services and these people perform the 'champions' role. It is important that we also have partners within the network in order to deliver LAA2 and the Sustainable Community Strategy Delivery Plan. The role of the PMWG is being reviewed to ensure it meets all performance and data requirements.</p>	<p>Tracy Luck (Head of Strategy) April 2009.</p>



## Appendix B: Follow up of previous year’s recommendations

This appendix sets out the recommendations which we made in our report last year and summarises the progress that has been made in implementing them.

	Recommendation	Priority	Management response & timescale	Update
1	The Authority should consider extending the range of electronic working papers which will support the delivery of the audit of the financial statements for 2007/08.	Medium	All working papers will be provided in electronic format for 2007/08. June 2008	<b>Implemented</b> All working papers and supporting documentation were provided in an electronic format.

## Appendix C: Audit reports issued

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This appendix sets out the reports that we issued during the year of our audit.

Report title	Date issued
Annual Audit and Inspection Plan 2007/08	April 2007
Auditors' report on the Best Value Performance Plan 2007/08	December 2007
Annual Audit and Inspection Plan 2008/09	June 2008
Report to those charged with governance	September 2008
Auditors' report on 2007/08 accounts (incorporating Use of Resources conclusion)	September 2008
Whole of Government Accounts opinion 2007/08	October 2008