

External audit

progress report

April 2012

**Oxfordshire County Council and Oxfordshire Pension
Fund**

Audit 2011/12

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Introduction

1 This report identifies the work that I will deliver as part of my 2011/12 audit plans for Oxfordshire County Council and Oxfordshire Pension Fund and progress against those plans. In addition this report also highlights key messages and challenges for the Audit Committee.

Progress on 2011/12 audit plans for Oxfordshire County Council and Oxfordshire Pension Fund

Timeline of the audits and progress to date

2 The timeline for the audit work for 2011/12 to October 2012 is attached at appendix 1. Progress for the key parts of the 2011/12 audits is set out in appendix 2.

3 The interim audit work for Oxfordshire County Council is underway. We have completed our reviews of three systems and agreed a detailed joint programme with Internal Audit for the remaining systems.

4 Each year we monitor the level of transaction passing through the financial systems into the ledger. From this review we have identified three systems that have become material for the 2011/12 accounts. These are the early years education payments system (EMS), the social services direct payments system (SWIFT) and the repairs and maintenance system (ATRIUM). The audit of these systems will be covered by our joint programme with Internal Audit. Completion of our interim work therefore will occur in tandem with the Internal Audit programme.

5 Our work on the VFM conclusion is progressing. We have identified no risks to the VFM conclusion from this work.

6 Our interim work on Oxfordshire Pension Fund is now largely complete in line with the agreed timetable.

Key messages for the Audit Committee

Key Findings

7 Where I have specific findings from my work or have identified deficiencies in internal control I will bring those to your attention. I have no such matters to raise within this report.

Independence

8 The Auditing Practices Board's issue ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. This standard requires me to report to you any threats to independence that have been identified and require a safeguard.

9 I identified two threats to independence relating to a members of the audit team.

- The audit manager, Mary Fetigan, is friends with one of the Council's social workers. Therefore I have put in place a safeguard to ensure our independence is not affected. The safeguard I have put in place is that Mary Fetigan will not carry out or review any of our work on social services expenditure.
- Principal Auditor, Adam Millward's mother is a head teacher at an Oxfordshire County Council school. The safeguard I have put in place is that Adam Millward will not carry out or review any of our work on education expenditure.

10 The following information summarises progress with recent initiatives. I have included it in my progress report as it may be useful information to you as an Audit Committee.

Government response to consultation on the future of local public audit

11 In August 2010, the government announced its intention to bring forward legislation to abolish the Audit Commission and put in place a new framework for local public audit. In March 2011 the government published a consultation paper and, in January 2012, announced its response to the consultation to which it received 453 responses, the majority from audited bodies.

12 The Audit Commission has recently announced the outcome of the procurement exercise to outsource the work currently undertaken by the Audit Practice for the period 2012/13 to 2016/17 (see 'update on the externalisation of the Audit Practice' below). The government envisages the retention of the Audit Commission as a small residuary body until the end of those contracts, to oversee them and to make any necessary changes to individual audit appointments.

13 Thereafter, the government proposes that a new local public audit regime will apply, the key features of which are as follows.

- Local government bodies will appoint their own auditor on the advice of an independent audit appointment panel, with a maximum of two terms of five years permissible.
- The audit will continue to cover arrangements for securing economy, efficiency and effectiveness, but without imposing further burdens on audited bodies. There will be further consultation on the approach to value for money.
- The power to issue a public interest report will be retained.

- Audit firms will be able to provide non-audit services to audited bodies, subject to complying with ethical standards and gaining approval from the independent auditor appointment panel.
- The National Audit Office will be responsible for developing and maintaining audit codes of practice and providing support to auditors.
- The National Fraud Initiative will continue. Discussions on how this will be achieved are ongoing.

14 The government is holding further discussions with audited bodies and audit firms to develop its proposals. The government intends to publish draft legislation for pre-legislative scrutiny in Spring 2012.

Update on the externalisation of the Audit Practice

15 The Audit Commission's Managing Director, Audit Policy wrote to audited bodies on 6 March 2012 on the outcome of the procurement exercise to outsource the work currently undertaken by the Audit Practice and on the process for making auditor appointments for 2012/13 and subsequent years.

16 The key points are as follows.

- Contracts will be let from 2012/13 on a five-year basis to the following firms.

Firm	Contract areas
DA Partnership	North East & North Yorkshire
Ernst and Young	Eastern South East (including Oxfordshire CC and PF)
Grant Thornton	North West West Midlands London (South), Surrey & Kent South West
KPMG	Humberside & Yorkshire East Midlands London (North)

Ernst and Young will be the auditors of Oxfordshire County Council and Oxfordshire Pension Fund for 2012/13 for five years.

- The Commission has been able to secure very competitive prices that will save local public bodies over £30 million a year for a minimum of five years. The savings secured will be passed back to audited bodies through significant reductions in scales of audit fees. The Commission intends to publish the final scales of audit fees for 2012/13 in April 2012.
- The Commission Board confirmed the 'interim' auditor appointments for the first five months of 2012/13 on 22 March 2012.

- The Commission will then write to all audited bodies on or shortly after 23 April 2012 to set out its proposals for 'permanent' auditor appointments for 2012/13 and subsequent years. Where a body is currently audited by an auditor from the Audit Practice, the Commission will propose as the appointed auditor the firm that was awarded the contract in each area, unless there are good reasons that to do so would be inappropriate.
- To support the consultation process, the Commission is arranging a series of introductory meetings in each contract area between 30 April 2012 and 16 May 2012. The purpose of these meetings is to give audited bodies in each area an opportunity to meet the new firm proposed as their auditor and its senior partners, and hear how the firm plans to manage its new portfolio and its approach to the audits.

17 The Commission is working with auditors to ensure a smooth transfer between the Audit Practice and the incoming firm. In particular, the new auditor will be expected to place maximum reliance on the work of the current auditor.

18 Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

19 Further details are available on the Commission's website. We will continue to keep you updated on developments.

20 Against this background, the Audit Practice's focus remains.

- Fulfilling our remaining responsibilities for delivering your 2011/12 audit to the high standards you expect and deserve.
- Managing a smooth transition from the Audit Practice to your new audit provider.

Annual fraud and corruption survey 2011/12

21 On 2 April 2012 the Audit Commission will be issuing its annual survey to collect information regarding all detected fraud and corruption for the 2011/12 financial year.

22 The electronic survey will be open for audited bodies to complete and submit between 2 April 2012 and 11 May 2012.

National Fraud Initiative consultation

23 The Audit Commission is currently consulting on its proposed work programme and scales of fees for the 2012/13 National Fraud Initiative (NFI). The NFI, which takes place biannually, has helped trace over £650 million in fraud, error and overpayments since it began in 1996 and has attracted international recognition.

24 The work programme will remain unchanged from NFI 2010/11 and in recognition of the financial pressures that public bodies are facing, the Audit Commission proposes that the scale of fees for mandatory participants will remain the same as for NFI 2010/11. For Oxfordshire County Council this is £4,500.

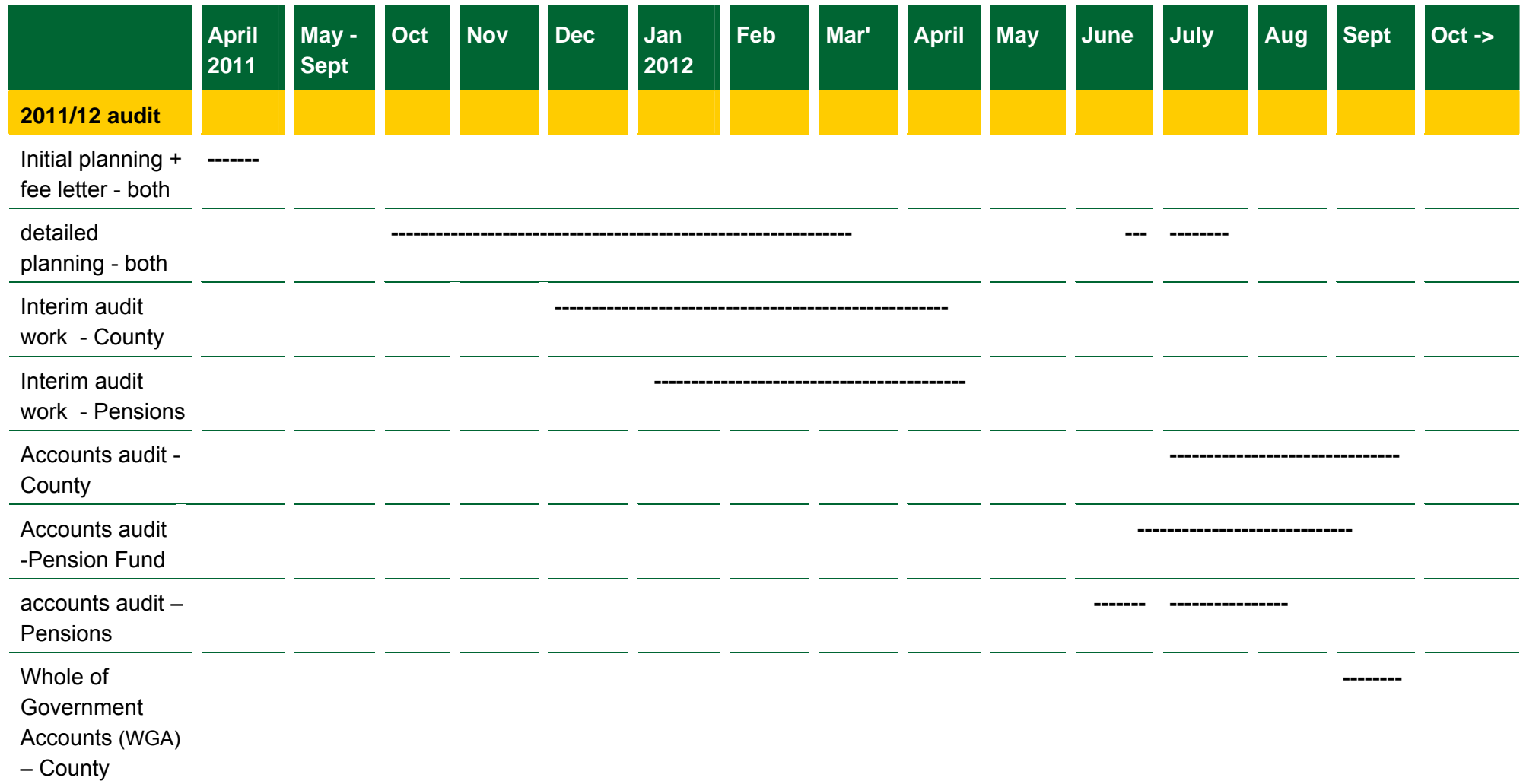
25 The consultation closed on 23 March 2012 and the final work programme and scales of fees will be published in May 2012.

Further information

26 If you would like further information on any items in this briefing, please feel free to contact either Maria Grindley or Mary Fetigan.

27 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

Appendix 1 Audit timeline



	April 2011	May - Sept	Oct	Nov	Dec	Jan 2012	Feb	Mar'	April	May	June	July	Aug	Sept	Oct ->
VFM conclusion - County					-----										
AAL - Joint															-----
Grants - County														-----	

Appendix 2 Audit progress

Period	Work planned	Delivered – County Council	Delivered – Pension Fund
Oct - Dec 2011	Update planning information and risk assessments	Updated	Updated
	Set testing strategy	Initial draft, to be updated across audit	Initial draft, to be updated across audit
	Start to document and walkthrough financial systems	In progress	In progress
	Agree overall plan and reliance with Internal Audit	Initial agreement, to be updated across audit	Initial agreement, to be updated across audit
	Initial high level VFM conclusion risk assessment	Done	<i>Not required</i>
January 2012	Draw together update of planning and risk assessments	Updated	Updated
	Issue detailed audit plan	County audit plan agreed 18 January 2012	Pension Fund audit plan agreed 18 January 2012
	Finalise report on 2010/11 grants	Agreed at Audit Committee 18 January 2012	<i>Not required</i>
January - April 2012	Document and walkthrough financial systems VFM conclusion detailed risk assessment	Some systems documented and walked through Detailed plan agreed with Internal Audit for completion of remaining systems	Documentation and walkthrough of systems largely complete
8 May 2012	Progress report Request for assurances from Audit Committee	Joint progress report delivered Joint request within papers	Joint progress report delivered Joint request within papers

Period	Work planned	Delivered – County Council	Delivered – Pension Fund
April - June 2012	Review IA files and testing where we are planning to rely on their work Complete systems documentation Complete and top up testing required Continue to review relevant reports and outcomes relevant to VFM conclusion		
4 July 2012	Progress Report to Audit Committee Receive assurances from Audit Committee (to be discussed)		
July – August 2012	Update final accounts planning Deliver final accounts audit Vfm conclusion work completed Plan and begin grants work		
September 2012	Complete and review final accounts audit and work on VFM conclusion complete WGA audit Discuss audit findings with S151 officer Prepare Annual Governance Report Sign opinions by due date 30 September Ongoing work on Grants		
19 September 2012	Present Annual Governance Report to Audit Committee		
October 2012 onwards	Prepare opinion audit report to officers (if required) Annual Audit Letter		

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Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946