



INFRASTRUCTURE, GOVERNMENT
AND HEALTHCARE

**Report to those
charged with
governance
2008/09**

Oxfordshire County
Council

14 September 2009

AUDIT

Content

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This report is addressed to the Authority and has been prepared for the sole use of 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's work, in the first instance you should contact June Awty, who is the engagement partner to the Authority, telephone 020 7311 1769, email 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 236 4000, email 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 Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421



Executive summary

Scope of this report

The Audit Commission's Code of Audit Practice (the Code) requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and we report to those charged with governance (in this case the Audit Committee) at the time they are considering the financial statements. We are also required to comply with International Standard on Auditing (ISA) 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements. It summarises the key issues identified during our audit of Oxfordshire County Council's ('the Authority's') financial statements for the year ended 31 March 2009. In addition, this report summarises our assessment of the Authority's arrangements to secure value for money in its use of resources. We will be issuing a separate report in relation to our audit of the Authority's pension fund.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Summary of findings

Use of Resources

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing their adequacy and effectiveness.

We are required to conclude whether the Authority has adequate arrangements in place to ensure effective use of its resources. This assessment draws on the findings from the new use of resources assessment framework introduced by the Audit Commission in 2009.

The new use of resources framework assesses local authorities against three themes: managing finances, governing the business and managing resources. The new framework focuses on performance achievement and outcomes rather than the previous process-focussed approach. The results of our assessment are set out in Appendix 2.

Financial statements

The Authority is responsible for putting in place effective systems of internal control which ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly its financial position and its expenditure and income. It is also responsible for preparing and publishing an Annual Statement of Governance with its financial statements.

Our findings are detailed in section three and our proposed opinion on the financial statements is presented in Appendix 4.

Status of the audit

At the date of this report our audit of the financial statements is substantially complete. If there are any significant issues identified after the issue of this report we will raise these with the Chairman of the Audit Committee and the Assistant Chief Executive and Chief Finance Officer.

Executive summary (continued)

Declaration of independence and objectivity

In relation to the audit of Oxfordshire County Council for the year ended 31 March 2009, we confirm that there were no relationships between KPMG LLP and Oxfordshire County Council, its officers and senior management and its affiliates that may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 7 in accordance with ISA 260.

Exercise of other powers

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 powers under the 1988 Act. We did not exercise these powers or issue a report in the public interest in 2008/09.

Certificate

We are required to certify that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice. If there are any circumstances under which we cannot issue a certificate, then we are required to report them to you and to issue a draft opinion on the financial statements.

At present there are no issues that would cause us to delay the issue of our certificate of completion of the audit.

Fees

Our fee for the audit is £223,850 which is in line with the fees proposed in our audit plan. A further breakdown of this figure is detailed at Appendix 9. We have not performed any non-audit work.

Acknowledgements

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

Use of resources

We are required to conclude whether the Authority has adequate arrangements to ensure effective use of its resources. This assessment draws on the new use of resources assessment framework introduced by the Audit Commission.

The new framework assesses local authorities against three themes: managing finances, governing the business and managing resources.

We concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Introduction

In our *Annual Audit and Inspection Plan 2008/09* we outlined the work streams which we complete to assess the adequacy of your arrangements which ensure that your resources are deployed effectively. Our conclusion is based on these work streams, our cumulative audit knowledge and any specific local risk work, as detailed below.

The new use of resources assessment

The Audit Commission introduced a new assessment framework this year. This assesses how well organisations are delivering value for money and providing sustainable outcomes for local people. This new assessment forms part of the Comprehensive Area Assessment (CAA) framework. It defines use of resources in a broader way than previously, embracing the use of natural, physical and human resources. It also places a new emphasis on commissioning services for local people. This is wider than the previous assessment which focused on systems and processes. As a consequence it is not possible to make direct comparisons with the previous year's assessment.

The assessment is based on three Key Lines of Enquiry (KLOEs) themes which cover:

- **Managing finances** - focusing on sound and strategic financial management;
- **Governing the business** - focusing on strategic commissioning and good governance; and
- **Managing resources** - focusing on the effective management of natural resources, assets and people.

The scoring of the themes ranges from one (performing inadequately) to four (performing exceptionally).

This assessment was undertaken for both Oxfordshire County Council and Oxfordshire Fire and Rescue Service.

The findings from this process are at Appendix 2.

The scores have been quality checked by KPMG's national quality control processes, through a local area based challenge process and nationally by the Audit Commission to ensure consistency in scoring with other auditors and authorities. The overall score will be assessed by the Audit Commission and notified to the Authority on 19 October 2009.

Use of resources (continued)

Use of resources (value for money) conclusion

We are required to give an annual conclusion on the adequacy of the Authority's arrangements to ensure effective use of its resources.

For 2008/09, the KLOEs for the scored use of resources assessment directly map to the criteria for the VFM conclusion. The Audit Commission has specified which of the KLOEs will form the relevant criteria for the VFM conclusion and these are summarised in Appendix 3.

Based on our use of resources assessment we conclude that the Authority has appropriate arrangements in place to ensure the effective use of its resources. Our proposed conclusion is set out in Appendix 1.

Financial statements

The Authority is responsible for having effective systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly its financial position and its expenditure and income. It is also responsible for preparing and publishing an Annual Statement of Governance with its financial statements.

We have substantially completed our work on the 2008/09 financial statements.

We have identified no issues in the course of the audit that are considered to be material.

There are a small number of areas where our work is continuing. Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2009.

We have provided you with a review of the financial statements production process and how this can be improved in the future.

We also review your Annual Statement of Governance and report if we have any concerns.

Introduction

Our financial statements work can be split into four phases, as detailed below:

Stage	Tasks	Timing	Completed
Planning	<ul style="list-style-type: none"> Updating our business understanding and risk assessment Assessing the organisational control environment Issuing our financial statements audit protocol 	December 2008 to March 2009	✓
Control evaluation	<ul style="list-style-type: none"> Reviewing the financial statements production process Evaluating and testing controls over key financial systems Review of internal audit 	April 2009	✓
Substantive testing	<ul style="list-style-type: none"> Planning and performing substantive work Evaluating the financial statements production and audit process Concluding on critical accounting matters Identifying audit adjustments Reviewing the Annual Governance Statement 	July to September 2009	✓
Completion	<ul style="list-style-type: none"> Declaring our independence and objectivity Obtaining management representations Reporting matters of governance interest Forming our audit opinion 	September 2009	On-going

This report focuses on the substantive testing and completion stages.

Financial statements (continued)

Substantive testing – financial statements production and audit process

As part of our use of resources assessment we assess the Authority’s process for preparing the financial statements and its support for an efficient audit. We considered these against three criteria:

Element	Commentary
Completeness of draft financial statements	We received a complete set of draft financial statements on 30 th June 2009. This was in accordance with statutory and agreed timescales.
Quality of supporting working papers	Our Accounts and Audit Protocol, which we issued on 17th March 2009 and discussed with the Strategic Finance Manager (Financial Accounting & Reporting), set out our working paper requirements for the audit. The quality of working papers provided was considered to be of a high standard and met the standards specified in our Accounts and Audit Audit Protocol.
Response to audit queries	The majority of additional audit queries were resolved promptly. In some cases, we experienced some delays, specifically where staff who prepared the working papers were not available during the audit due to leave commitments. However, these queries were resolved by other officers within the Council.

Substantive testing – adjustments to the financial statements

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements in the draft financial statements.

Financial statements (continued)

We did not identify any presentational adjustments required to ensure that the financial statements are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2008: A Statement of Recommended Practice* ('SORP').

Substantive testing – Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have provided a detailed declaration in Appendix 7 in accordance with ISA 260.

Completion – management representations

Auditing standards require us to obtain from you representations on specific matters such as your financial standing and whether the transactions within the financial statements are legal and unaffected by fraud. We have included a copy of a representation letter as Appendix 8. We have provided a draft to the Strategic Finance Manager (Financial Accounting & Reporting). We require a signed copy of your management representations before we issue our audit opinion.

For 2008/09 we are seeking specific assurance that sufficient and appropriate consideration has been given to potential impairments of the assets included in the financial statements in light of the current macro economic climate and that, where any such impairment has been identified, it is reflected accordingly in the financial statements. This includes compliance with the accounting policy for periodic revaluation of assets (under FRS 15), as well as the need for management to undertake a review of assets to determine whether there is any impairment to their value in accordance with FRS 11.

Completion – other matters

ISA 260 requires us to communicate "audit matters of governance interest that arise from the audit of the financial statements" to you which includes:

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc); and
- other audit matters of governance interest.

CIPFA recently issued a revised Bulletin (82) on Icelandic bank impairments, together with a revised impairment calculator. Oxfordshire County Council had an investment with Landsbanki and this process confirms that the most realistic estimate of amounts to be repaid is 83% of the value and that claims should include interest up until 22 April 2009. Based on this the Authority has calculated that it increases the impairment on the amount invested from £0.949m to £1.389m, an increase of £0.440m. The Authority has decided that the increase is not material to its accounts and therefore it will not be treating this as a post balance sheet adjustment.

Completion – opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2009.

Our proposed opinion on the financial statements is presented in Appendix 4

Queries from electors during the Public Inspection Period

Section 15 of the Audit Commission Act 1998 gives electors the right to inspect accounting records and supporting documentation relating to items in the financial statements during the annual 'Public Inspection Period'.

In early July 2009 a request to inspect information during the 2009 Public Inspection Period was received. The Authority's officers kept KPMG informed as to arrangements being made to collate the information requested and make this available for inspection. The information was inspected by the elector in late July 2009, and queries raised were responded to by the Authority's officers by early August.

KPMG is satisfied with the procedures adopted by the Authority's officers in respect of public inspection rights during the Public Inspection Period relating to the 2008/09 financial statements.

Appendix 1: Proposed use of resources conclusion

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities and fire and rescue authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice. Having regard to the criteria for principal local authorities and fire and rescue authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, we are satisfied that, in all significant respects, Oxfordshire County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2009.

June Awty

for and on behalf of KPMG LLP

Chartered Accountants

London

23 September 2009

Appendix 2: Use of resources scores and findings (subject to review process)

This appendix summarises the scores for each of the individual KLOE's for both Oxfordshire County Council and the Oxfordshire Fire and Rescue Service.

Oxfordshire County Council

KLOE 1 – Managing Finances - Overall score 3

KLOE	Sub Score
1.1 – Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	3
1.2 – Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	3
1.3 – Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	3

KLOE 2 – Governing the business - Overall score 3

KLOE	Sub Score
2.1 - Does the organisation commission and procure quality services and supplies, tailored to local needs , to deliver sustainable outcomes and value for money?	3
2.2 - Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	3
2.3 - Does the organisation promote and demonstrate the principles and values of good governance?	4
2.4 - Does the organisation manage its risks and maintain a sound system of internal control?	3

KLOE 3 – Managing Resources - Overall score 2

KLOE	Sub Score
3.1 - Is the organisation making effective use of natural resources?	2
3.2 - Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?	3
3.3 - Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	Not applicable to County Councils

Appendix 2: Use of resources scores and findings (subject to review process)

Oxfordshire Fire and Rescue Service

The review has drawn on work undertaken in the Council's overall use of resources assessment, and updated for specific areas that are relevant to the Fire Service.

KLOE 1 – Managing Finances - Overall score 3

KLOE	Sub Score
1.1 – Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health? County score and Theme applied in part	3
1.2 – Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities? County score and Theme applied in part	3
1.3 – Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people? County score	3

KLOE 2 – Governing the business - Overall score 3

KLOE	Sub Score
2.1 - Does the organisation commission and procure quality services and supplies, tailored to local needs , to deliver sustainable outcomes and value for money? County score and Theme applied in part	3
2.2 - Does the organisation produce relevant and reliable data and information to support decision making and manage performance? Theme applied in full	3
2.3 - Does the organisation promote and demonstrate the principles and values of good governance? County score and Theme applied in part	4
2.4 - Does the organisation manage its risks and maintain a sound system of internal control? County score and Theme applied in part	3

KLOE 3 – Managing Resources - Overall score 3

KLOE	Sub Score
3.1 - Is the organisation making effective use of natural resources?	Not applicable to Fire and Rescue Service
3.2 - Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?	Not applicable to Fire and Rescue Service
3.3 - Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities? Theme applied in full	3

Appendix 3: Use of resources criteria and link to VFM conclusion

The Audit Commission has specified which of the use of resources KLOEs form the criteria for the VFM conclusion. These criteria are summarised below.

Use of resources KLOE	Relevance to the Authority
Managing finances	
1.1 – Financial planning	✓
1.2 – Understanding costs and achieving efficiencies	✓
1.3 – Financial reporting	✓
Governing the business	
2.1 – Commissioning and procurement	✓
2.2 – Data quality and use of information	✓
2.3 – Good governance	✓
2.4 – Risk management and internal control	✓
Managing resources	
3.1 – Use of natural resources	✓
3.2 – Strategic asset management	✓
3.3 – Workforce planning (not applicable to County Councils in 2009)	X

Appendix 4: Proposed audit report

Independent auditors' report to the Members of Oxfordshire County Council

Opinion on the statement of accounts

We have audited the statement of accounts, the firefighters' pension fund statement of accounts, and related notes of Oxfordshire County Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The statement of accounts comprise the Authority Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement. The firefighters' pension fund statement of accounts comprise the Fund Account and the Net Assets Statement. The statement of accounts and the firefighters' pension fund statement of accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to Oxfordshire County Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Oxfordshire County Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Oxfordshire County Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Responsible Financial Officer and auditors

The Responsible Financial Officer's responsibilities for preparing the financial statements, including the firefighters' pension fund statement of accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the statement of accounts, the firefighters' pension fund statement of accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the statement of accounts, the firefighters' pension fund statement of accounts and related notes present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year;
- the financial transactions of the firefighters' pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the statement of accounts, the firefighters' pension fund statement of accounts and related notes and consider whether it is consistent with the audited statement of accounts. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the statement of accounts, the firefighters' pension fund statement of accounts and related notes. Our responsibilities do not extend to any other information.

Appendix 4: Proposed audit report (continued)

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the statement of accounts, the firefighters' pension fund statement of accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the statement of accounts, the firefighters' pension fund statement of accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the statement of accounts, the firefighters' pension fund statement of accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the statement of accounts, the firefighters' pension fund statement of accounts and related notes.

Opinion

In our opinion:

- The statement of accounts and related notes present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- The firefighters' pension fund statement of accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the firefighters' pension fund during the year ended 31 March 2009 and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

June Awty

for and on behalf of KPMG LLP

Chartered Accountants

London

23 September 2009

Appendix 5: Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to the Audit Committee. We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

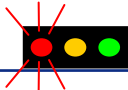

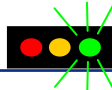
No material audit differences have been identified through our audit of Oxfordshire County Council's financial statements for the year ended 31 March 2009.

However, a small number of non material and presentational issues were identified. These included the Authority re-classifying a debtor from short to long term and amending Note 24 to include further properties that were disposed of in 2008/09.

We recommend that the Authority's financial statements are amended to include these.

Appendix 6: Recommendations

We have given each recommendation a risk rating (as explained below) and agreed what action management will need to take.

Priority rating for recommendation		
<p>Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p> 	<p>Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p> 	<p>Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p> 

No/Risk rating	Issue and recommendation	Management response Officer and due date
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Journal authorisation and review

1
●
(two)

There are a number of users of SAP who are able to process journals despite not being currently authorised to do so under the Authority's financial orders. This could result in invalid journals being entered.

The Authority's journal's policy requires Managers to review a sample of journals to assess their accuracy and reasonableness. This is undertaken through review of 5% of journals each month, as well as any individual journals over £50k. We noted that this control process is not being consistently implemented or monitored. Therefore there is a risk that unauthorised or inappropriate journals may go undetected.

Recommendation

The Authority should ensure that its journal authorisation process is implemented, through:

- only authorised users being able to raise journals; and
- The Manager review of journals being more closely monitored centrally to ensure that the control is operating effectively.

Agreed. Item 3 within the Annual Governance Statement action plan already addresses the first matter as follows: "All existing roles on SAP to be refreshed to reflect organisational changes, ensuring all roles only enable permissions to access and amend data consistent with the post holder's job requirements and delegated responsibilities".

Responsible officer: Assistant Chief Executive and Chief Finance Officer.

Due date: Timescale for completion per the action plan is 31 December 2009, however this has now slipped to March 2010.

The manager review of journals will be monitored more closely on a quarterly basis with immediate effect, and any non-compliance will be escalated as appropriate, ultimately to the Assistant Chief Executive and Chief Finance Officer if necessary.

Responsible officer: Financial Accountant (Processing and Control)

Due Date: September 2009

Devolved Formula Capital to Schools

2
●
(three)

Our testing of capital expenditure through the Devolved Formula Capital identified various items of expenditure that had been inappropriately capitalised. The total of these errors was £10,136 and was not considered material to our audit of the Authority's financial statements.

Recommendation

The Authority should improve the process by which it assesses how items are capitalised. For example it could:

- develop a review process which assesses capitalised items, for example a senior Finance Manager reviewing this area and assessing if these items are valid; and
- providing financial training to school personnel to ensure that they have the required expertise to highlight and account for capitalised items.

Agreed. The facility to check and review school expenditure in this area has been substantially enhanced by schools moving on to SAP (final phase of 227 schools due in April 2010). A number of issues were identified at year-end as part of the Technical Team's year-end review and are being followed up on both capital and maintenance, including a review of the de-minimus level for school devolved capital spend. Further in-year and year-end processes will be developed as part of the ongoing Business Process Review (BPR) in Schools Finance. As part of the BPR a dedicated compliance team is being created which will link to audit closely and posts within the team will have training and communications functions. The Corporate Capital Finance Team will assist in the preparation of information and guidance for schools.

Responsible Officer: Finance Business Partner (CYPF)

Due Date: December 2009

Appendix 6: Recommendations (continued)

No and risk	Issue and recommendation	Management response Officer and due date
<p>3</p> <p>●</p> <p>(two)</p>	<p>Year-end supporting information from schools</p> <p>The Authority's schools are required to submit to Finance documentation to support their year end bank balance.</p> <p>As part of our audit we noted that this process was not being consistently adhered to, with schools not forwarding the required information. Where no supporting information is sent through by schools the Authority must rely on bank statements which they have access to on- line. In doing so there is a risk that by relying only on these bank statements the Authority may be over-stating the schools cash balance by not including any reconciling items.</p> <p>In addition, we have noted that where these returns have been submitted by schools using SAP, they are not fully completing them in terms of identifying third party balances. As a result, the Authority's Technical Team are spending additional time at year end, identifying the correct adjustments required. This is a timely process and will not be achievable once all schools have been migrated to SAP.</p>	<p>Agreed. The Schools Finance Team is continually reviewing both reminders on all school returns and also subsequent actions. It is planned that (repeat) offenders on required submissions are to be tracked and action taken. See also recommendation 6 below.</p> <p>Responsible Officer: Schools Finance Team Manager</p> <p>Due Date: February to June 2010</p>
	<p>Recommendation</p> <p>The Authority should remind schools of the importance of submitting documentation to support their year- end local cash balance returns and that each return is fully completed identifying any third party balances.</p>	
<p>4</p> <p>●</p> <p>(two)</p>	<p>SAP to lending database reconciliations</p> <p>The Authority did not complete a monthly reconciliation between SAP and its lending database on a regular basis throughout 2008/09, (the database holds details of the Authority's borrowings). The year end reconciliation (March 2009) was not signed and dated by either the preparer or reviewer.</p> <p>Recommendation</p> <p>The Authority should reconcile all investments and borrowings to SAP to ensure that the most up-to-date records are held. This should occur on a regular basis and be signed and dated by the originator and reviewer.</p>	<p>Agreed. Reconciliation of investment records on the database to SAP is conducted on a monthly basis. Reconciliation of borrowing records on the database to SAP will be conducted on a quarterly basis as there are a very small number of transactions and it is considered to be of low risk. The latter has been agreed with internal audit following a recent review of this area. Reconciliations will be signed off by the originator and reviewer.</p> <p>Responsible Officer: Financial Manager - Treasury & Pension Fund Investments</p> <p>Due Date: October 2009</p>

Appendix 6: Recommendations (continued)

No Risk	and	Issue and recommendation	Management response Officer and due date
5 ● (three)		<p>ABACUS to SAP reconciliation</p> <p>The Authority's Abacus system is used to hold details of clients who receive social care services. It records the amounts that the clients may have to pay towards the different types of care that they receive. This database is then reconciled to SAP to ensure that data transfer is accurate.</p>	<p>Agreed. Documentation will be by way of a retained e-mail trail which will show that the reconciliation sent by the originator has been approved by the reviewer rather than hard copy documents.</p>
		<p>Our testing identified that while the reconciliation is completed, it is not documented.</p> <p>Recommendation</p> <p>The Authority should document and maintain records to support the reconciliation between Abacus and SAP. The reconciliation should be signed/dated by the originator and reviewer.</p>	<p>Responsible Officer: Financial Accountant (Data Improvement)</p> <p>Due Date: October 2009</p>
6 ● (three)		<p>School bank reconciliations</p> <p>On a monthly basis, schools that do not use the SAP system are required to send the Finance function copies of their monthly bank reconciliations with supporting evidence attached. Such reconciliations are not always received. This poses a risk that, banking discrepancies are not being highlighted and resolved and issues identified within the year are not investigated in time for year end close down.</p>	<p>Agreed. The Schools Finance Team is continuously reviewing these issues on returns and schools' duties as mentioned earlier (recommendation 3). Late in the year the team commenced some on site checks when making school visits due to similar internal audit recommendations and will be following up on this. The need for bank reconciliations will end when SAP is introduced for all schools in April 2010. See also recommendation 2 above.</p>
		<p>Recommendation</p> <p>The Authority should ensure that its Schools complete bank reconciliations on a regular basis and that these, together with supporting information are forwarded to the Finance function on a timely basis.</p>	<p>Responsible Officer: Schools Finance Team Manager</p> <p>Due Date: October 2009</p>

Appendix 7: Declaration of independence and objectivity

Declaration of Independence and Objectivity 2008/09

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

“Auditors and their staff should exercise their professional judgement and act independently of both the Audit Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired”

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s *Annual Letter of Guidance and Standing Guidance* (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (‘Ethical Standards’).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its officers and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its officers and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from this. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

KPMG’s reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm’s required independence. KPMG’s policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual (‘the Manual’). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

Appendix 7: Declaration of independence and objectivity (cont'd)

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor Declaration

In relation to the audit of the financial statements of Oxfordshire County Council for the financial year ended 31 March 2009, we confirm that there were no relationships between KPMG LLP and the Oxfordshire County Council, its officers and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

Appendix 8: Draft management representation letter

Dear KPMG LLP,

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other members of the Authority, the following representations given to you in connection with your audit of the financial statements for Oxfordshire County Council for the year ended 31 March 2009.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by Oxfordshire County Council has been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management and Board meetings, have been made available to you.

We confirm that we have disclosed all material related party transactions relevant to the Authority and that we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Authority to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2009.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with the Local Government Statement of Recommended Practice ("SORP") and wider UK accounting standards. We have considered and approved the financial statements.

We confirm that we:

- understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;
- are responsible for the design and implementation of internal control to prevent and detect fraud and error;
- have disclosed to you our knowledge of fraud or suspected fraud affecting the Authority involving:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others; and
- have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with applicable reporting standards. The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Authority where relevant to the fair value measurements or disclosures.

We confirm that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

Appendix 8: Draft management representation letter (continued)

With reference to the specific issues on which you have requested assurances from us, we confirm that:

- For 2008/09 we consider that sufficient and appropriate consideration has been given to potential impairments of the assets included in the accounts in light of the current macro economic climate and that, where any such impairment has been identified, it is reflected accordingly in the accounts. This includes compliance with the accounting policy for periodic revaluation of assets (under FRS 15), as well as the need for management to undertake a review of assets to determine whether there is any impairment to their value in accordance with FRS 11.

Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was tabled at the meeting of the Audit Committee on 23 September 2009

Yours faithfully

[Name of Executive Director signing letter on behalf of Oxfordshire County Council]

On behalf of Oxfordshire County Council

Appendices

Appendix 9: Audit Fee

To make sure that there is openness between us and your Audit Committee about the extent of our fee relationship with you, we have summarised below the out-turn against the 2008/09 agreed external audit fee:

Area	Fee (£)
Financial Statements	147,500
Use of Resources (2008/9)	72,300
Whole of Government Accounts	3,050
NFI	1,000
Total	223,850

In all areas actual fees are in line with budget. There have been no overruns in relation to the financial statements at the date of this report and no additional work has been required.

For grants we have not stated a fee as none of the grants for 2008-09 have yet been finalised.

In accordance with Audit Commission requirements, the following areas of work were undertaken. The fees for this work are in line with Audit Commission guidance notes.

- Use of Resources – Oxfordshire County Council 2009/10 - £85,000
- Use of Resources – Oxfordshire Fire and Rescue Service - £12,000
- Data Quality – Oxfordshire Fire and Rescue Service - £5,000