

Annual governance report

Oxfordshire County Council

Audit 2011/12



Contents

Key messages	3
Before I give my opinion and conclusion	4
Financial statements	6
Value for money	10
Fees	12
Appendix 1 – Draft independent auditor’s report	13
Appendix 2 - Draft letter of management representation	17
Appendix 3 – Glossary	19

Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

As at 4 September I expect to issue an unqualified audit opinion subject to satisfactory completion of outstanding issues. The Accounts were of particularly good quality again with no material amendments required and a low number of other errors. Officers responded to queries promptly and accurately.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Certificate

I expect to complete the outstanding work and report my findings to management by 30 September 2012. I plan to issue my certificate by the same date.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am aware of the following relationships that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguards to reduce the threat.

Table 1: **Threats and safeguards**

Threat	Safeguard
The audit manager, Mary Fetigan, was friends with one of the Council's social workers	Mary Fetigan has not carried out or reviewed any of our work on social services expenditure
Principal Auditor, Adam Millward's mother is a head teacher at an Oxfordshire County Council school	Adam Millward has not carried out or reviewed any of our work on education expenditure

During the year the Audit Commission's Audit Practice undertook non-audit work on severance cases for the Authority for a fee of £1,000.

I ask the Audit and Governance Committee to:

- take note of the adjustments to the financial statements included in this report; and
- approve the letter of representation (appendix 2), on behalf of the Authority before I issue my opinion and conclusion.

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Uncorrected errors

You corrected all errors that I identified.

Corrected errors

You made no material errors and only a few non trivial errors within the statements. You amended your note on exit packages for a number of errors:

- 2011/12 values included payments in 2011/12 on cases agreed in 2010/11.
- Adjustments to these values for amounts agreed in 2010/11 were made to bandings based on the 2010/11 agreed amounts rather than the actual payment bandings they were in in 2011/12. This caused some distortion; and
- The approach to the calculations on higher bandings was incorrect.

You amended the 2011/12 note to remove all amounts related to 2010/11 cases and disclosed the differences between the accruals made in 2010/11 for these cases and actual payments in 2011/12 in the narrative.

You also identified that you had double counted pension strain figures with a resulting error of £1.2 million which you amended.

Significant risks and my findings

I reported to you in my January 2012 Audit Plan that I had identified no significant risks relevant to my audit of your financial statements. I have updated my assessment across the course of the audit and have not identified any relevant significant risks.

Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I identified no significant weaknesses during the audit that are relevant to preparing the financial statements.

Internal Audit

I have worked closely with Internal Audit across the year to agree a detailed programme for areas where I have relied on their work:

- testing of in-year journal controls;
- control accounts testing;
- IT risk assessment work; and
- review of severance packages.

I also agreed to rely on information obtained by Internal Audit in their system review meetings to ease the burden on key officers and to ensure a joint understanding of system issues.

Whilst some of these areas are traditional areas for reliance others represent a particular success and have required commitment from both sides and ongoing discussions. There were delays in the provision of some information with some work only received recently This highlights a delay in getting this work delivered to us for our reliance. Whilst we acknowledge that Internal Audit have had resourcing difficulties it is important to prioritise work on key financial systems.

I am grateful to Internal Audit for the commitment they have shown to both the spirit and the detail required for effective co-ordination.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

I have set out the other matters in the table below

Table 2: **Other matters**

Issue	Finding
Capital Receipts in advance	I have tested your note on capital receipts in advance. The note includes £8 million of Growing Places grant money that you have received as the accountable body. However the money is not due to you but will be due to the lead partners on projects when agreed. Because the projects have not yet been agreed it is not appropriate or in cases not possible to set up creditors for these amounts. The treatment adopted is reasonable. I asked you to disclose the nature of the items and the uncertainties in more detail to give the reader a clearer picture of the nature and uncertainty of this item.
Related party transactions	I have evaluated the Authority's arrangements for identifying and disclosing related parties within its financial statements. I noted that one officer did not complete a declaration as he left in March 2012. You should ensure that all required documentation is completed before a councillor leaves
Severance	I have yet to complete my work on the severance cases. I have no issues to raise with you at this stage. There will be an estimated £1,000 additional fee for completion of this work.

Whole of Government Accounts

Alongside my work on the financial statements, I have also reviewed and reported to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. My work is substantially complete. I have no matters to report.

Value for money

I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. In my January 2012 Audit Plan I reported to you that I had identified no significant risks relevant to my conclusion. In April 2012 I confirmed that my detailed risk assessment work had also identified no significant risks. I have set out below my conclusion on the two criteria.

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 3: **Value for money conclusion criteria and my findings**

Criteria	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>Your Medium Terms Financial Plan (MTFP) sets out a budget and savings up to 2015/16 that deliver a sustainable financial position. The savings required are challenging but supported by detailed assessment and challenge processes to ensure they are realistic and will deliver financial stability. The savings are assessed for risk and the risk assessment is reported. You have shown an ability to be flexible and react to in year changes or overspends by identifying other achievable savings. You achieved your budget in 2011/12 with a small underspend. Financial monitoring is clear and robust and improvements have been made to this during 2011/12.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p>	<p>You have arrangements in place to prioritise resources and drive efficiency. These include consultation with stakeholders that has impacted on the savings plans as well as projects to identify efficiencies and ensure effective use of assets. You have also implemented a broad restructuring programme that is designed to save money whilst improving the focus on service delivery. You have used outsourcing to improve</p>

Criteria

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Findings

value for money.

Fees

I reported my planned audit fee in the January 2012 Audit Plan.

I will complete the audit within the planned fee.

Table 4: Fees

	Original scale fee (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	244,350	244,350	244,350
Claims and returns	-	11,000	1,600
Non-audit work	-	0	1,000 est
Total	244,350	255,350	246,950

The claims and returns fee is lower than expected as only one of the three claims will be completed prior to transfer of the audit to Ernst and Young. Ernst and Young will undertake the work for the other 2011/12 claims.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF OXFORDSHIRE COUNTY COUNCIL

Opinion on the Authority and fire-fighters’ pension fund accounting statements

I have audited the financial statements and the fire-fighters’ pension fund financial statements of Oxfordshire County Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The fire-fighters’ pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Oxfordshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Assistant Chief Executive and Chief Finance Officer and auditor

As explained more fully in the Statement of the Assistant Chief Executive and Chief Finance Officer’s Responsibilities, the Assistant Chief Executive and Chief Finance Officer is responsible for the preparation of the Authority’s Statement of Accounts, which include the Authority financial statements and the fire-fighters’ pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Pension Fund’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Chief Executive and Chief Finance Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Oxfordshire County Council as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the fire-fighters' pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Oxfordshire Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Assistant Chief Executive and Chief Finance Officer and auditor

As explained more fully in the Statement of the Assistant Chief Executive and Chief Finance Officer's Responsibilities, the Assistant Chief Executive and Chief Finance Officer is responsible for the preparation of the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Chief Executive and Chief Finance Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

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

Respective responsibilities of the Authority and the auditor

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 to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Oxfordshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

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

Maria Grindley
District Auditor

Unit 5 Isis Business Park
Horspath Road
Cowley
Oxford
OX4 2RD

September 2012

Appendix 2 – Draft letter of management representation

Audit of Oxfordshire County Council for the 2011/12 year ended 31 March 2012

I understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of the County Council, the following representations given to you in connection with your audit of the County Council's financial statements for the 2011/12 year ended 31 March 2012. All representations cover the County Council's accounts, the Local Government Pension Fund accounts and the Fire-fighters Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 which give a true and fair view of the financial position and financial performance of the County Council, for the completeness of the information provided to you and for making accurate representations to you.

Uncorrected misstatements

There are no errors that have not been corrected.

Supporting records

All relevant information and access to persons in the County Council have been made available to you for the purpose of your audit and all the transactions undertaken by the County Council have been properly reflected and recorded in the financial statements.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;

- my knowledge of any allegations of fraud, or suspected fraud, affecting the County Council's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Laws, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance, with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The County Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of County Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Oxfordshire County Council.

I confirm that this letter has been discussed and agreed by the Audit & Governance Committee on 19 September 2012.

Signed:

Name	Sue Scane
Position	Assistant Chief Executive and Chief Finance Officer
Date	September 2012

Appendix 3 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



www.audit-commission.gov.uk

September 2012