



INFRASTRUCTURE AND GOVERNMENT

2005/06 Interim Memorandum

Oxfordshire County Council

July 2006

AUDIT

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About this report

This report is addressed to the Council and has been prepared for the sole use of the Council. 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.

1. KPMG's responsibilities and the scope of our work

KPMG LLP is the appointed auditor of Oxfordshire County Council ("the Council"). Our audit is undertaken in accordance with the Audit Commission's Code of Audit Practice ("the *Code*").

We complete the majority of our audit work through interim and final accounts visits. We undertook our interim audit visit in April and May 2006. This report records the significant issues arising from our interim visit. We will issue a separate report following the completion of our final accounts visit in September 2006.

We have also included in Appendix 2 the results of our follow up work on our 2004/05 recommendations.

Scope of work

Our interim work has focused on reviewing the Council's arrangements and controls which ensure:

- an adequate system of internal financial control is in place, including an effective Internal Audit service;
- adequate arrangements are in place to prevent and detect fraud and corruption; and
- adequate arrangements are in place to ensure that the Council's current financial standing is soundly based.

Acknowledgements

We would like to thank all the Council's staff for their assistance during the completion of our audit work.

2. Systems of Internal Financial Control

“It is the responsibility of the audited body to develop and implement systems of internal financial control and to put in place proper arrangements to assess their adequacy and effectiveness”. (Source: Code of Audit Practice 2005).

We considered whether arrangements to ensure that the overall systems of internal financial control over the Council’s financial systems remain adequate and effective. We based this work on our cumulative knowledge of the operating arrangements in place at the Council and also a review of:

- the work of Internal Audit; and
- the overall governance and management arrangements in place at the Council.

Internal Audit

As part of the process of forming our opinion on the Council’s financial statements, we consider the Council’s systems of internal financial control. These are management’s mechanisms for obtaining assurance that major financial systems, for example, payroll or creditor payments, meet their objectives. A vital element within the Council’s control environment is the operation of an effective Internal Audit function.

In order to avoid duplication of work and maximise the effectiveness of the Council’s total audit resource, we apply the Audit Commission’s Managed Audit concept, testing and placing reliance on the work of Internal Audit wherever possible.

Our review of Internal Audit focused on two areas:

- management arrangements over Internal Audit; and
- a detailed review of Internal Audit’s work on the Council’s core financial systems.

Internal Audit’s management arrangements

Our high level review assessed the Internal Audit function against a number of criteria, including, professional requirements, independence, objectivity and delivery. We noted that while Internal Audit has made improvements in its processes, for example, reporting arrangements to the Audit Committee being defined and agreed, not all improvements could be delivered by the end of the financial year (March 2006). Further work will be required in some key areas, for example, Internal Audit has been unable to ensure that its work is completed within agreed timescales. The introduction of a performance management framework, which will involve regular monitoring of the Internal Audit function against Key Performance Indicators, is one way the Council is seeking to ensure that improvements are achieved in 2006/07.

The Council’s Internal Audit function has undergone significant change during 2005/06, with a new structure, and strategy in place to ensure it can deliver a more effective service. We noted that work has been undertaken to address the weaknesses previously identified by us, and improvements have been made that are already bearing some positive results. For example, Internal Audit have begun to introduce standardised working papers to improve the clarity of its findings. However, the full benefits of this revised approach may not be evident until 2006/07.

As part of our work in this area we followed up the recommendations which we made on Internal Audit in 2005 to assess their implementation. The results of this follow up work are detailed in Appendix 2.

2. Systems of Internal Financial Control

Internal Audit have ceased their partnership contract with Deloitte. However, it recognises the need to continue to buy-in specialist expertise to aid the completion of the 2006/07 Internal Audit Plan – in appropriate areas such as IT. This work will be subject to procurement arrangements shortly.

Internal Audit will continue to report to the Audit Working Group and to the Audit Committee each quarter as part of its overall governance arrangements.

Delivery of the Internal Audit Plan - 2005/06

After the appointment of the Assistant Head of Finance (Audit) in September 2005 a report was submitted to the Audit Committee that stated that significant amendments were required to the original 2005/06 Audit Plan. These involved reducing the number of operational audit days allocated to the plan. The reduction in days was due in part to the significant amount of days required from the 2005/06 plan to complete the remainder of the 2004/05 Internal Audit Plan. In addition, it was identified that 44% of internal audit reviews for 2005/06 had been planned to commence in the period January – March 2006. However, no resources to complete these reviews had been identified or allocated.

As a result of these amendments, and the requirement to ensure the successful completion and delivery of the 2005/06 Internal Audit Plan, changes were made to the organisation of the Internal Audit team. Additionally, further internal audit days were purchased from Deloitte to reduce the impact of the shortfall in days.

Of the 67 reviews detailed in the 2005/06 Internal Audit Plan only 50% had been completed by the end of March 2006. This figure increased to 83% by the end of May 2006 with final reports for the remaining reviews (17%) being issued in June 2006. This allowed the Assistant Head of Finance (Audit) in the Annual Internal Audit Report 2005/06 to provide positive assurance that there were no areas of major control weakness within the Council's systems of internal control. The target for completing the Internal Audit plan is the end of April of each year. Whilst this was not achieved in 2005/06, the total completed by the end of April 2006 was an improvement from the previous year (2004/05) and this has ensured a significantly lower number of audits have had to be carried forward for completion in 2006/07. We understand that due to a high number of audits carried forward from 2004/05, this impacted on the ability of Internal Audit to deliver the 2005/06 plan to the agreed timetable.

The Assistant Head of Finance (Audit) also reported in the Annual Internal Audit Report that Internal Audit Services spent more days on unplanned activity and overheads, than on actual planned audit work. This was identified as a key issue by the Assistant Head of Finance (Audit) in September 2005. To address this in 2006/07 the restructuring of Internal Audit has reduced the amount of administrative and management overhead time in the team, and introduced new posts focussed on delivering operational audit days. We understand that the Council has encountered some difficulties in recruiting two of the five posts created as part of the restructure and the Council will be re-advertising the positions shortly. However, the Council states that no material impact on the delivery of the 2006/07 Internal Audit Plan is expected. A temporary Senior Auditor has been appointed to cover the current shortfall. Should the re-advertising of the posts be unsuccessful and the vacancies remain, the external procurement process will be extended to cover both the specialist audit days required and the further shortfall of 100 days due to the posts remaining vacant.

As part of our final accounts visit in August 2006, we will revisit this area and assess the progress made by the Council in both appointing an external supplier and in the staff recruitment process.

2. Systems of Internal Financial Control

Internal Audit Plan - 2006/07

The Internal Audit Plan for 2006/07 was presented and approved by the Audit Committee in April 2006. This replaced the three year strategic plan that was approved by the Audit Committee in July 2005 and allows Internal Audit to fully focus on the areas of perceived risk and weak internal controls. As part of its enhanced audit approach for 2006/07 Internal Audit have also developed twelve performance indicators designed to benchmark their services and drive continuous improvement. The indicators will be presented to the Audit Committee each quarter and include:

- time taken to complete audits;
- percentage of recommendations accepted; and
- satisfaction results from audited departments.

Internal Audit has found it necessary to complete some of the 2005/06 audits in 2006/07. However, the Council does not envisage that there will be a material impact on its ability to deliver the 2006/07 plan to the agreed timetable. A quarterly plan is in place that provides for any “slippage” to be addressed in the fourth quarter of 2006/07.

2. Systems of Internal Financial Control

Detailed file review

In accordance with the managed audit process we reviewed the work undertaken by Internal Audit on each of the Council's core financial systems, to determine the:

- level of coverage of the key high level controls for each system and the adequacy of sample sizes tested;
- clarity of working papers and adequacy of the communication of audit issues; and
- adequacy of quality control and management review.

Work completed

We have reviewed Internal Audit's work on the Council's core financial systems except for its work on Budgetary Control and Capital Strategy. These reviews were in the process of being finalised (the completion of these internal audits were delayed due to staff illness and delays in agreeing recommendations with management). We have been informed by the Assistant Head of Finance (Audit) that the remaining reviews will be completed prior to the commencement of our final accounts audit in August 2006 and we will review, assess and report on the work at that time.

Our detailed work involved completing reviews of internal audit files, together with the working papers and final reports. Specifically, we reviewed the following areas:

- debtors/income;
- creditors/expenditure;
- payroll;
- treasury management; and
- the main accounting system.

As part of our review of the Council's internal audit files we identified a number of instances of the following:

- high level control schedules were not used to monitor and assess the level of controls in place;
- final reports were not noted as accepted; and
- audit files did not contain evidence of quality control review.

The Assistant Head of Finance (Audit) informed us that a review of the current working papers and quality assurances processes is included within the Internal Audit Strategy for 2006/07 and planned as part of the on-going change programme to deliver the improvements within Internal Audit.

Recommendation 1

The Council should ensure that standard documentation to support the findings of Internal Audit is fully completed, reviewed by management and held on file.

2. Systems of Internal Financial Control

Internal Audit has raised a number of recommendations on the Council's core financial systems which we support. For example, many directorates continue to manually raise orders rather than process these through SAP. Additionally Internal Audit reported that controls over the write-off of debts are weak. We will consider the implications of these recommendations for our audit as part of our final accounts visit in August 2006.

We are able to place reliance on the work of Internal Audit for opinion purposes on the areas which we have reviewed to date. In discussions with the Assistant Head of Finance (Audit) we have agreed a process by which completed Internal Audit files for the remaining internal audits are to be made available to KPMG for our review prior to our final accounts visit. This will enable us to fully form our conclusion on Internal Audit's review of all the Council's core financial systems as soon as possible.

Summary of other internal financial control issues

During our interim visit we reviewed a number of other key internal control processes, for example the process by which the Council raises and posts journals.

Following these reviews we identified a number of instances where journals did not have sufficient supporting documentation and/or were not authorised as illustrated in the table opposite.

As part of our 2004/05 final accounts report, which we finalised in February 2006, we noted that Internal Audit had recommended that journals should be raised and authorised in accordance with Council's procedures. We supported this recommendation and added that:

"The Authority should introduce system reports for journals, including reports of all journals posted in the period, and exception reports of journals meeting specific criteria. There should be documented, independent review of all journals meeting defined exceptions and of other journals on a sample basis".

We understand that the Council are currently considering our recommendation. Internal Audit have also followed up the implementation of its recommendation. Internal Audit confirmed that while journal input is not subject to work flow controls, a review process is undertaken on a monthly basis of journals posted by the Strategic Finance Manager within each Directorate.

As part of our final accounts visit in August 2006, we will revisit this area and re-assess the level of detailed work we are required to undertake to ensure systems are adequately controlled.

Number of journals tested	60
Number where no supporting documentation was provided	9
Number where no journal form was found	48
Number where there was no evidence of the journal being checked/ authorised prior to posting	59

3. Financial Standing

Revenue

The Council approved its 2005/06 revenue budget in February 2005. The budget increased by 6.6% from 2004/05 and was funded through the following:

- revenue support grant - £162million;
- business rates - £194million;
- council tax - £225million; and
- council tax surpluses - £3million.

Revenue outturn

The Council's provisional revenue outturn, produced in June 2006 shows a net overspend of £0.5million. The Council operates a rolling budget which allows directorates to carry forward any over or under-spends into the following year's budget. The following table provides further detail on the 2005/06 revenue outturn position:

	Net budgeted expenditure	Provisional outturn	Variance (under)/ over
	£million	£million	£million
Learning and culture	322.7	323.9	1.2
Social and Health Care	140.3	140.6	0.3
Supporting people	-	0.5	0.5
Environment and economy	58.4	56.7	(1.7)
Community safety	21.5	22.2	0.7
Resources and chief executive's office	11.5	11.0	(0.5)
Total	554.4	554.9	0.5

3. Financial Standing

Revenue outturn

The explanations for the most significant over/under spends are detailed below.

Learning and culture - £1.2million overspend (0.4% of net budgeted expenditure)

The overspend consists of a £3.2million overspend on “Resources” (which includes support services and personnel) less a £1.8million under-spend in the schools development budget. The main cause for the variation in the schools development budget is the Council’s ability to access the 2005/06 Standards Fund grant up to 31 August 2006. The main contributing factor for the budget being exceeded on resources is the predicted overspend of £3.1million revenue costs on the City Schools Reorganisation.

Environment and economy - £1.7million under-spend (3.0% of net budgeted expenditure)

The bulk of this under-spend is the sustainable development budget (£1.2m). This comprises mainly of:

- delays in implementing some elements of the eGovernment initiative (£188k);
- delays in the Council’s procurement project for waste treatment (£148k); and
- an under-spend in the waste recycling centre of £454k as final tonnage figures were lower than predicted, of which the Directorate transferred £253k in 2006/07 into the waste management earmarked reserve.

Carry forwards

Directorates are required to carry forward overspends which have arisen in the financial year. The Directorates are then required, to maintain and/or increase performance within the year in order to incorporate the overspend within their existing resources. Service Directors are only given approval to carry forward under spends after a detailed scrutiny process in which they are required to justify the requirement. The Council has stated that it has a robust approach to carry forwards and has developed this process further this year.

Recommendation 2

As part of its series of Fundamental Reviews of Services the Council should use this process to assess if, for example, underspends are due to services delivering their outcomes more efficiently or if they are due to services not achieving their stated objectives as a result of inefficient practices within the service.

3. Financial Standing

Capital

The Council's 2005/06 provisional capital outturn identifies an underspend of £7.8million. The main reasons for this underspend were due to project slippage in three main directorates and include:

1) Learning and culture

- £690k of retentions were not paid over during 2005/06 as the Council is still awaiting agreement on final account sums on a number of projects;
- the development of the Banbury cattle market was underspent by £1.2million due to legal difficulties in the purchase of the land; and
- the Council's minor works programme was underspent by £2.1million due to the complicated nature of the approval process which has resulted in delays in works being undertaken. This approval process is separate to the Council's internal approval process.

2) Social and Health Care

- due to planning irregularities, (contaminated and protected land caused additional planning considerations) the Council did not purchase the proposed sites for the Homes for Older People project. This accounts for the majority of the underspend within the Directorate (£1.2m).

3) Environment and economy

- the Council are currently in a dispute with the contractor involved in the development of Skimmingdish Lane in Bicester. The Council are disputing the final invoice of £0.8million, which is the reason for the majority of the under-spend within the Directorate.

We acknowledge the above slippage is due to areas outside the Council's direct control. However, the Council should ensure that it builds in an element of flexibility into its capital programme through effective project risk management.

This will enable the Council to reschedule projects when other elements of the capital programme slip.

	Capital programme £'000	Outturn £'000	Variance Under spend £'000
Learning and culture	37,283	32,320	(4,963)
Social and Health Care	4,568	2,801	(1,767)
Environment and economy	36,361	35,314	(1,047)
Community safety	476	427	(49)
Resources	2,478	2,459	(19)
Total	81,166	73,321	(7,845)

3. Financial Standing

Reserves

The Council has two types of reserves: general reserves and earmarked reserves.

General Reserves

Table 1 shows that general reserves increased by £4.5million to £16.4million (inclusive of City Schools) as at 31 March 2006. The most significant contributing factor for the increase in reserves was the additional £2.7million of interest earned on balances as stated in the 2005/06 budget (as a planned contribution to reserves).

This overall balance has also been affected by the anticipated £3.1million overspend on the city schools re-organisation (page 10) which has impacted on the Council's carry forward reserve.

Earmarked reserves

Earmarked reserves are set up to fund specific future expenditure proposals. Table 2 shows that the Council's significant earmarked reserves have increased from £28.7million in 2004/05 to £39.9million in 2005/06. The main causes for this movement are:

- on-street car parking accounted for £0.778million of the increase as a measure to offset any future losses as a result of the Council's decision to abolish charges for two of its park and ride car parks;
- the Council has increased its insurance reserve by £1.5million in response to information provided by the Council's insurance advisors in order to meet future claims against the Council;
- the Council has created a £4.2million reserve for the costs associated with the shared services centre; and
- the Council has added £1.5million to its capital reserve in order to support the future capital programme.

Two new reserves, individually less than £1million, but combined amounting to £1.4million, were also established during the year. The Council set aside £0.63million (non-cash reserve) of its unused landfill allowance and a modernisation fund of £0.74million to support the change management agenda.

Table 1: General Reserves

	General Reserves £'000
Balance at 31 March 2005	11,827
County Fund surplus on the Consolidated Revenue Account	2,482
Planned contributions to reserves	5,066
Movement in carry forward reserve	-3,008
Balance at 31 March 2006	16,367

Table 2: Earmarked reserves

	March 2005 £'000	Movement £'000	March 2006 £'000
Local management of schools	16,078	+98	16,176
On-street car parking	2,006	+788	2,794
Insurance	3,810	+1,459	5,269
Shared services funding reserve	-	+4,224	4,224
Capital reserve	3,554	+1,525	5,079
Other reserves individually below £1m	3,209	+3,197	6,406
Total	28,657	+11,291	39,948

3. Financial Standing

Efficiency

The Council reported performance against its 2005/06 mid-year efficiency savings target in November 2005. This showed that 47% of its planned savings had been achieved to date.

A final outturn report detailing the Council's performance against its efficiency target was compiled in July 2006. This showed that cumulatively a total of £8.686m of efficiency savings had been achieved, as against a cumulative overall efficiency target of £8.140m for 2004/05 and 2005/06.

4. Standards of Financial Conduct

“It is the responsibility of the audited body to ensure that affairs are managed in accordance with proper standards of financial conduct and to prevent and detect fraud and corruption.” (Source: Code of Audit Practice 2005).

Fraud and Corruption

The Council should have arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business. The Council does this through a number of means including:

- an anti-fraud and corruption strategy;
- financial regulations, standing orders and other procedures, policies, laws and regulations;
- awareness, understanding and training carried out by internal and external experts;
- the work of Internal Audit and through Member involvement via the Audit Working Group;
- the production of the Statement on Internal Control; and
- risk management.

International Standard on Auditing (ISA) 240 - the auditor's responsibility to consider fraud in an audit of financial statements

The financial year 2005/06 is the second year that we have applied ISA 240, where we must make enquiries of management and those charged with governance about how they manage the risk of fraud and their knowledge of actual or suspected fraud at the Council.

ISA240 does not change the relative responsibilities of the Council and its auditors. Members and management retain the primary responsibility to ensure that there are appropriate controls in place to prevent and detect fraud and corruption. Under Audit Commission arrangements External Audit reviews the Council's arrangements to deliver its responsibilities to mitigate fraud and corruption.

We have already carried out a number of discussions with key finance officers in the Council and the Council's Monitoring Officer. During these meetings we considered management's approach and measures, both preventative and detective, to deal with fraud and corruption. Our initial discussions indicated that officers had a good understanding of their role in the prevention and detection of fraud and corruption. Officers were of the view that strong internal control processes are in place, but they could be improved. However, they believed that any significant instances of fraud and corruption would be detected through existing controls. They were also not aware of any significant instances of fraud which will affect our accounts audit.

We will re-visit this area of our work, and carry out further interviews with other key officers, during our final accounts visit to identify whether any further issues have arisen.

5. Audit of Accounts

Closedown timetable

The Council developed a closedown timetable which ensured that the 2005/06 Statement of Accounts were approved by Members by the statutory deadline of 30 June 2006, one month earlier than 2004/05. To date the Council remains on track to meet its internal and external deadlines.

We have been in regular discussions with the Council's finance team on its approach to producing the 2005/06 financial statements and how they can respond to our working paper requirements. We shall continue to liaise with the Council's finance department in the lead up to the final accounts audit to ensure the Council remains on target with its closedown timetable and the production of supporting working papers. Our final accounts audit will commence in August 2006.

We shall comment on the Council's 2005/06 Statement of Accounts on the conclusion of our audit later this year.

6. Follow up of prior year recommendations

In October 2005 we finalised our 2004/05 Interim Memorandum. Appendix 2 reviews the Council's progress against the recommendations included in that report, and is divided into:

- performance planning and management;
- financial planning;
- risk management;
- review of Internal Audit; and
- the Freedom of Information Act.

The table below details our assessment on the Council's implementation of these recommendations.

Number implemented	13
Number not implemented	2
Number partially implemented	6

The following sections provide further detail on the above table:

Not implemented

Of the two recommendations not implemented, these are principally due to timing issues and are due to be implemented later this year. These recommendations relate to:

- the development of an IT system to fully support the Freedom Of Information function is due to begin in August 2006; and
- the recruitment of an Information Manager is due to commence in July 2006.

6. Follow up of prior year recommendations

Partially implemented

The Council has only partially implemented six of the prior year's recommendations. These are considered below.

1) content of service plans

The Council has stated that it has made some improvements in linking service plans to performance indicators and risks but is planning further enhancements for the 2007/08 round.

2) documenting the approach to target setting

The Council has draft guidance in place in preparation for the 2007/08 service plans and target setting process.

3) challenging the base budget

The Council through its Star Chamber and Scrutiny review process challenges its base budget. It is planning to carry out a series of fundamental budget reviews that represents a further enhancement of the challenge process for the 2007/08 and subsequent budgets.

4) use of sensitivity analysis

The Council has identified a number of key risk areas as part of the budget process, however the opportunity for formal monitoring and use of sensitivity analysis has not yet presented itself due to timing issues.

5) Internal Audit's Compliance with the CIPFA Code

A key area of non-compliance with the CIPFA Code has been addressed through the adoption of a reporting protocol. However, Internal Audit has not yet completed a follow-up review of its compliance with the Code to ensure all areas have been covered. Furthermore, a number of standard working papers are yet to be drafted to ensure a consistent quality approach is adopted in all reviews.

6) Internal Audit controls testing

Internal Audit still has a number of standardised working papers and documentation to finalise. We noted an improvement in that the terms of reference for individual internal audits, from 2006/07 onwards, now include the selection of minimum sample sizes that are consistent with the Joint Working Protocol.

Appendix 1 – Current year recommendations

	Recommendation	Management response	Officer responsible	Due date
1	The Council should ensure that standard documentation to support the findings of Internal Audit is fully completed, reviewed by management and held on file.	New standard working papers and quality processes are currently being designed and implemented by the new in house team. This includes updating the internal audit quality manual. The quality assurance process will include a fully documented file review undertaken by an Audit Manager.	Assistant Head of Finance (Audit)	August 2006
2	As part of its series of Fundamental Reviews of Services the Council should use this process to assess if, for example, underspends are due to services delivering their outcomes more efficiently or if they are due to services not achieving their stated objectives as a result of inefficient practices within the service.	The recommendation is agreed, and is already being incorporated in the draft terms of reference for reviews. It should be noted, that this process will not be carried out annually and will not replace the current review of past expenditure required when any carry forward of underspends is considered.	Head of Finance & Procurement	July 2006

Appendix 2 - Follow-up of prior year recommendations – performance planning and management

Recommendation summary	Recommendation	Management response	Officer responsible	Due date	Position as at April 2006
Long-term planning	The Authority should formalise its long-term vision and values, linking to the work of the LSP.	The new council, elected in May 2005, is reviewing the Council's vision and values and have regard to the Community Strategy. The 2006/7 Oxfordshire Plan will identify vision and values and link to other key plans including the Community Strategy and Local Area agreement.	Corporate Performance Manager	February 2006	The Council has adopted the vision of the Oxfordshire Community Partnership as its own and has restated its values. These are included in the new Corporate Plan 2006-10 which was approved by Council in April 2006.
Content of service plans	In revising its approach to service planning from 2006/7, the Authority should ensure that the template service plans adequately link all service areas and priorities to relevant performance indicators and risks.	The Service and financial Planning process being used for the development of the 2006/07 plans, requires a definition of the outputs and outcomes to be produced from each service area. This will provide a framework to ensure that all service areas have relevant performance indicators and take account of relevant risks. Risks are assessed in the development of service plans and in the determination of targets and resource allocations.	Director for Resources, Head of Finance and Procurement, Corporate Performance Manager	February 2006	The new service plans contain key indicators and targets for all services and link to the Council's objectives and strategic priorities. The plans also cross reference to service risk registers. We note that the Council will be further enhancing this process as part of the 2007/8 planning round.

Appendix 2 - Follow-up of prior year recommendations – performance planning and management

Recommendation summary	Recommendation	Management response	Officer responsible	Due date	Position as at April 2006
Development of local performance indicators	The Authority should review the coverage of its services by the existing PI set. Where there are gaps or the indicators currently in place do not meet the Authority's performance management needs, appropriate local indicators should be developed and used.	The service and financial planning approach will be used to map existing indicators with service areas and identify those indicators which do not meet our performance management needs and where gaps exist. Local indicators will be developed where such gaps are identified.	Director for Resources, Head of Finance and Procurement, Corporate Performance Manager	February 2006	The new service plans contain key indicators for service priorities which are a mix of national and local indicators. In addition the new balanced scorecard comprises a range of local and national indicators against which performance will be measured.
Documenting the approach to target setting	The Authority should develop and disseminate a document setting out its approach to target setting, providing guidance to officers involved in determining and agreeing targets.	We will be developing formal guidance setting out our approach to target setting, including guidance for officers.	Corporate Performance Manager	February 2006	Draft guidance has been developed which will be integrated with the service planning guidance for 2007/8. Guidance on target setting was included in the service planning template for 2006/7. The Council also submitted a report in June 2005 on Target Setting to Scrutiny.
Reporting on priority indicators	The Authority should review its performance indicator set to assess the appropriate number of PIs and the frequency of reporting to CCMT and Members, taking into account data availability, the level of priority and the degree of risk attached to the indicator.	We will be reviewing our approach to performance reporting including: -the performance indicator set; -timetable for reporting to CCMT and members; and -priority and risk attached to particular performance measures.	Corporate Performance Manager	February 2006	This has been addressed through the development of the balanced scorecard which will be operational from quarter 1 of 2006/7.

Appendix 2 - Follow-up of prior year recommendations – financial planning

Recommendation summary	Recommendation	Management response	Officer responsible	Due date	Position as at April 2006
Challenging the base budget	In developing the revised approach to service and financial planning from 2006/7, the Authority should ensure that directorates' base budgets are challenged to bring about a closer linkage between resources and service priorities.	The Service and Financial Planning process being used for the development of the 2006/07 plans requires a definition of the outcomes to be produced from the available resources. This will have the impact of providing data which can be used to challenge base budgets and enable better benchmarking and performance management and review.	Director for Resources, Head of Finance and Procurement, Corporate Performance Manager	February 2006	<p>Heads of Service have defined their outputs and outcomes and the 2006/07 Service Plans include Medium Term Financial Plans.</p> <p>A series of Fundamental Reviews will commence shortly as planned, using output and outcomes against available resources as a first point of challenge.</p> <p>Guidance has just been issued to Heads of Service for the 2007/08 Service & Resource Planning process which includes the requirement for all services to include benchmarking information and show how they achieve value for money. It also sets out the requirement for new business plans at Service Manager level which will include defined outputs and outcomes at an operational level enabling a direct link with resources.</p>

Appendix 2 - Follow-up of prior year recommendations – risk management

Recommendation summary	Recommendation	Management response	Officer responsible	Due date	Position as at April 2006
Linking financial and performance monitoring	The Authority should consider how best to integrate performance and financial monitoring to ensure that decisions taken reflect consideration of all their implications.	The above process will form the basis for future improvements in monitoring. However, it should be noted that the financial monitoring is already very robust, and has been improved further during 2005/06 with the introduction of profiled budgets.	Director for Resources, Head of Finance and Procurement	2006/07	During 2006/07 the use of SAP to monitor key cost drivers is being piloted. It is intended that this information will then be reported in the Financial Monitoring reports on a quarterly basis. The 2006/07 Medium Term Service & Financial Plan will include more activity information alongside the budget which can be used as a basis for monitoring in year.
Use of sensitivity analysis	The Authority should consider performing sensitivity analysis on budget forecasts through completing a systematic assessment of how the outturn might vary depending upon how the assumptions change.	Further improvements will be considered to the monitoring framework, including sensitivity analysis and improved integration with risk management.	Assistant Head of Finance (Financial Accounting)	2006/07	The key risk areas identified as part of the budget process will be forming the basis for monitoring in 2006/07 – the first report of which is due in June. As budget changes develop the Council will consider sensitivity analysis in order to ensure they are highlighting the key issues.

Appendix 2 - Follow-up of prior year recommendations – risk management

Recommendation summary	Recommendation	Management response	Officer responsible	Due date	Position as at April 2006
Defining risk appetite	The Authority should define its risk appetite in future as part of the Oxfordshire Plan.	Whilst the 2005/6 Plan does not explicitly state that the Council's attitude is risk averse or risk taking, it can be seen through the values and the statement by the Chief Executive that the tone is more towards exploring innovative ways of working in improving services for the public. This will be made more explicit in the 2006/7 plan.	Director for Resources, Corporate Performance Manager	February 2006	The Council's risk appetite is defined in the Corporate Plan approved by Council in April 2006.
Resources for risk management	The Authority should review the current resource allocated to risk management within the Authority, including the level of assistance required by directorates and the time implications of greater member involvement.	The thrust of the risk management strategy has been to embed responsibility and action for risk management within operational management and the Business Managers have key responsibilities in implementing the risk management strategy in their directorate. The central resource is dedicated to on-going strategy development, monitoring the application of corporate disciplines and providing support where necessary. The current level of resource is regarded as effective by the authority and demonstrates an efficient use of resource, particularly as our views are constantly being sought by other authorities.	Completed	Completed	N/A

Appendix 2 - Follow-up of prior year recommendations – risk management

Recommendation summary	Recommendation	Management response	Officer responsible	Due date	Position as at April 2006
Creation of a corporate risk map	The Authority should compile an overall strategic risk map, detailing the high-level corporate risks facing the organisation.	The strategic risk map has been defined in the risk management strategy under the report arrangements for escalating risks. This defines three main sources of information about risks that needs to be reviewed by CCMT and the Audit Working Group. An assessment of the corporate risks facing the Council is planned for September 2005 which will involve CCMT and then will be reviewed by Cabinet members before being presented to the Audit Working Group.	Director for Resources, Risk Manager	November 2005	The County Council now has a strategic risk register which reflects discussion at CCMT and with the Informal Cabinet. It has also been discussed with the Audit Working Group. The Strategic Risk Register will be reviewed every six months. The first review took place on 10th May 2006 (by CCMT).
Updating service risk registers	The Authority should ensure that all service risk registers are updated and reported promptly in accordance with agreed timescales.	Agreed.	Head of Legal Services	Ongoing	Heads of Service are required to complete written Assurance Certificates that risk registers have been regularly updated on a quarterly basis. Directors are also required to sign that they are aware of all significant risks. In addition, there are specific questions relating to updating Risk Registers in the Internal Control Checklist completed by Business Managers bi-annually and an Assurance Certificate is similarly signed by both Business Managers and Directors in relation to the contents of the Internal Control Checklist. The Risk Manager receives updated Risk Registers on a quarterly basis and will report significant risks to CCMT and the Audit Working Group.

Appendix 2 - Follow-up of prior year recommendations – review of Internal Audit

Recommendation summary	Recommendation	Management response	Officer responsible	Due date	Position as at April 2006
Compliance with the CIPFA Code	The result of Internal Audit's review of its compliance with the CIPFA <i>Code of Practice for Internal Audit in Local Government</i> should be reported to the AWG as soon as possible.	The result of Internal Audit's review of its compliance with the Code will be reported to the Audit Working at its next meeting in October.	Assistant Head of Finance (Audit)	October 2005	<p>Internal Audit's self assessment was reported to AWG in October 2005. A protocol is in place formalising the accepted arrangement that should it be required the Assistant Head of Finance (Audit) has direct access to the Chief Executive, Chair of the Audit Committee, and Leader to report any issues or concerns.</p> <p>A new structure has been introduced in Internal Audit with an increase to the in house establishment. The use of a contractor providing the majority of the audit plan work has ceased, and as a result the automated risk based auditing tool will no longer be used. In compliance with the Code of Practice new working papers and report formats are currently being designed for use on all 2006/07 audits. The audit manual is also being updated and is identified as a task to be completed by the end of the first quarter in 2006/07.</p>

Appendix 2 - Follow-up of prior year recommendations – review of Internal Audit

Recommendation summary	Recommendation	Management response	Officer responsible	Due date	Position as at April 2006
Links between audit risk assessment and corporate risk management	The Authority should review how the audit risk assessment can best inform, and be informed by, the corporate risk management framework to ensure that the use of internal audit resource reflects those areas of strategic risk where internal audit assurance is most needed.	This will be part of the review and restructuring to be carried out by the new Assistant Head of Finance (Audit).	Assistant Head of Finance (Audit)	October 2005 and ongoing	The 2006/07 Internal Audit Plan has been informed by the strategic risk register and the Service Risk Registers. Additional time has been allocated to audit activity relating to risk management in 2006/07. This will enable the further development of the integration with risk management in directing the priority of work for Internal Audit.
Approach to schools audits	The Authority should consider the level of controls assurance it requires from its schools internal audits and ensure that this area of audit work is adequately resourced, planned and performed so as to deliver this coverage.	This will form part of the review and restructuring of resources (which have already been increased in recognition of the shortfall).	Assistant Head of Finance (Audit)	October 2005 and ongoing	A schools plan has been devised to audit all secondary schools over a three year period, with primary schools audited on a risk basis, (with the sample identified annually in consultation with the Schools Finance Support team). The audit activity will focus on the governance, finance and Human Resource processes. This strategy is in line with the new requirement for the S151 Officer to sign the annual section 52 statements, and will support the DfES requirement for schools to complete a controls self assessment.

Appendix 2 - Follow-up of prior year recommendations – review of Internal Audit

Recommendation summary	Recommendation	Management response	Officer responsible	Due date	Position as at April 2006
Assessment of Internal Audit resources	The Authority should review the current resources allocated to Internal Audit to ensure it is sufficient to enable an efficient and effective audit service to be delivered.	The resources required for Internal Audit were reviewed last year, and additional resources obtained as part of the budget process. The restructuring is underway, with the appointment of the new Assistant Head of Finance (Audit) complete, and other changes imminent. Once the restructure is complete <u>and tested</u> , it will be reviewed again for adequacy.	Assistant Head of Finance (Audit)	June 2006	The restructure has been completed, and a resource plan is in place for discharging the 2006/07 Internal Audit Plan. There are two unfilled posts but a contingency plan is in place to deliver the required days. The posts are to be re-advertised in June. The resourcing of Internal Audit and the Internal Audit Plan have been fully discussed at the Audit Working Group and the Audit Committee and the approach has been endorsed.
Monitoring the performance of Internal Audit Services	The Authority should: <ul style="list-style-type: none"> • develop key performance indicators to measure the work of Internal Audit Services • monitor Directors' satisfaction with the internal audit work within their directorate; and • periodically seeking the views of members on Internal Audit's overall contribution to the organisation. The findings of each of these processes should be reported to the Audit Committee.	A comprehensive set of targets and measures will be derived and presented to the Audit Working Group and Audit Committee for agreement.	Assistant Head of Finance (Audit)	March 2006	A set of 12 performance indicators were agreed by the Audit Working Group and Audit Committee in November 2005. Since January 2006 quarterly performance reports have been presented to the Audit Committee. In addition Internal Audit have subscribed to the CIPFA benchmarking club to compare performance with other similar authorities using cost and activity indicators. The results will be reported to the Audit Committee in Autumn 2006/07.

Appendix 2 - Follow-up of prior year recommendations – review of Internal Audit

Recommendation summary	Recommendation	Management response	Officer responsible	Due date	Position as at April 2006
Internal audit controls testing	The Authority should ensure that internal audit testing on controls meets the requirements set out in the <i>Joint Working Arrangements</i> protocol.	Discussions will be held with KPMG concerning the coverage of the controls and other issues in the Joint Working Arrangements.	Assistant Head of Finance (Audit)	December 2005	<p>Since October 2005 we have held three meetings with the Assistant Head of Finance (Audit) to discuss the internal audit strategy, including joint working arrangements.</p> <p>As part of our Interim Report 2005/06 we have raised some issues in respect of the documentation held on file to support Internal Audit's findings.</p>

Appendix 2 - Follow-up of prior year recommendations – freedom of information

Recommendation summary	Recommendation	Management response	Officer responsible	Due date	Position as at April 2006
Development of IT system to support FOI	The Authority should proceed with the testing and deployment of the FOI module of the new system and monitor it after implementation to ensure that potential benefits are realised in practice.	Agreed.	Head of ICT	December 2005	The final phase for sign-off for FOI module tailored to the Council's needs occurred in May 2006. The Council estimates it will be ready for testing around June 2006 with the aim to implement the module from August 2006 onwards.
Information manager role	The Authority should consider giving overall responsibility for information management to a appropriately qualified and experienced senior officer.	Agreed.	Head of ICT	December 2005	This role has now been incorporated into the updated role description for the Head of the Corporate Information Management Unit (formerly known as the Information Development Officer) with the aim to recruit in July 2006.
FOI policy	The Authority should prepare and publicise a FOI policy detailing the requirements of the Freedom of Information Act and what is required of staff for it to be successfully implemented at Oxfordshire.	Agreed.	Information Management Development Officer	November 2005	The Council published a FOI policy in June 2006.