



Oxfordshire County Council

Annual Audit Plan

2004/05

February 2005

KPMG LLP

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Contents

1	Nature and purpose of this plan	2
2	Overview of the plan	3
3	Key risks facing the Council	7
4	Audit of the accounts	8
5	Financial aspects of corporate governance	11
6	Performance Management	14

Appendix A **Results of the audit risk assessment exercise**

Appendix B **Helping us to meet your expectations**

1 Nature and purpose of this plan

This is the first audit plan we have prepared for Oxfordshire County Council (OCC) in accordance with the Audit Commission's *Code of Audit Practice*. It stems from our assessment of the operational and financial risks that we consider to be relevant to our responsibilities as external auditors to the Council. We will carry out our work in accordance with this plan.

We have provided details of our risk assessment throughout this plan and this is summarised within Appendix A. We have used the *National Risk Assessment Tool for Local Government Audits* (NRAT) developed by the Audit Commission to inform the planning process. Our plan has also been developed to comply with the *Annual Letter of Guidance* issued by the Audit Commission in November 2003.

The Audit Commission has provided guidance on auditors' work for the 2004/05 financial year – ie. covering the period April 2004 to March 2005. This plan therefore provides a proposed audit fee and summary of work for 2004/05.

We may need to amend this plan in response to matters that come to our attention as work proceeds and issues raised by the Audit Commission's Relationship Manager. In light of this, the Audit Commission's Local Government Programme Board has developed a "package" of inspection and audit, which in essence sets out the "core" audit, which we must perform regardless of a council's CPA category. We discuss this in more detail in the following section.

We will discuss and agree the plan with the OCC's Best Value and Audit Committee and the Audit Commission's Relationship Manager.

The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This briefly summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

This plan is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any officer acting in their individual capacities, or to third parties.

2 Overview of the plan

Guidance on content

In framing our first audit plan for the audit year 2004/05 we have taken account of:

- the requirements placed on us by the *Code of Audit Practice* and *Letter of Guidance* to auditors as prepared by the Audit Commission;
- discussions at the risk workshop in April 2004 considering the national risk assessment tool (NRAT) and its local application, as well as local risks;
- our current knowledge of the OCC's systems, procedures and controls and other governance arrangements; and
- CPA assessment, discussions with your out-going external auditors and discussions with the Audit Commission's Relationship Manager.

The "Core" external audit and post CPA support work

The potential risk of overlap between audit and inspection prompted the Audit Commission to develop a more differentiated programme of audit and inspection as set out in its publication, *Delivering Improvement Together*. The Commission considered what a combined package of inspection and audit would comprise depending upon a council's CPA rating and concluded that, irrespective of the rating, there would be a minimum level of external audit that would need to be performed at all local authorities. In essence, this minimum work represents the work we are required to perform in accordance with our statutory duties as set out in the Code of Audit Practice, including work we undertake on the Best Value Performance Plan and arrangements underpinning its production.

Table 1 summarises our responsibilities under the various arrangements.

Table 1 – External audit - minimum audit work and post CPA support work

"Core" financial audit	CPA support work
<i>Audit</i>	<i>Audit and Inspection</i>
<i>Planning and control including risk assessment</i>	<i>Monitoring the CPA improvement plan</i>
<i>Financial statements audit</i>	<i>BVPP and BVPI support work</i>
<i>Financial aspects of corporate governance</i>	<i>Liaison with inspectors</i>
<i>BVPP and BVPI opinion work</i>	<i>Selected "Use of Resources" reviews as determined with the Council, the Audit Commission's Relationship Manager and other inspection services as appropriate</i>
<i>Liaison with inspectors</i>	
<i>Reporting</i>	

Products and timing

We will work closely with officers to ensure that the audit is delivered smoothly. We have provided a summary of the principal products and timing of our work within *Table 2*. This shows that for 2004/05 the following work will be completed:

- A risk assessment exercise in April 2004 to ensure that the indicative audit plan appropriately reflects the issues facing OCC;
- Interim audit visits between March and April 2005 to review and report on: the financial aspects of corporate governance (FACG) objectives; preparations in place for the accounts process; work underpinning the compilation of the Best Value Performance

Indicators and completion of the compliance checklist for the Best Value Performance Plan for 2004/05; and

- Selected Use of Resources reviews. The amount, nature and timing of these reviews will be determined by the issues the Council is seeking to address. The Audit Commission's Relationship Manager will coordinate the work in respect of the CPA Improvement Plan.

It is important to emphasise that any reviews planned to be undertaken under our FACG or Use of Resources code objectives and which have a direct bearing on our accounts opinion objective (e.g. our review of the Council's financial systems) will need to be completed before we are able to sign off the accounts and therefore, these reviews will be undertaken as shown in Table 2.

Table 2: Products and Due Dates

Product	Due Dates
	2004/05 audit
Risk Assessment	<i>April 2004 (refreshed December 2005)</i>
Annual audit plan	<i>April 2004 (refreshed January 2005)</i>
Interim	<i>March to April 2005</i>
Final audit work	<i>July to October 2005</i>
Accounts audit opinion	<i>October 2005</i>
BVPP opinion	<i>December 2004 (achieved)</i>
BVPI opinion	<i>September 2004 (achieved)</i>
Annual Audit Letter	<i>October 2005</i>

Proposed audit fee

The audit will be carried out on a "fee for the audit" basis in accordance with the Audit Commission's fee letter issued in January 2004, which sets out a formula based on the Council's gross expenditure and upon our assessment of risk.

The revised audit fee proposed for the 2004/05 year is **£285,000** excluding VAT. The way in which this audit fee can be linked to our work under the *Code of Audit Practice* is summarised below:

Year and area of audit work	PM (Section Two)	FACG (Section Three)	Accounts (Section Four)	Total
2004/05: Core audit + BVPP/BVPI + CPA work	£85k	£95k	£105k	£285k

In this version of the Plan, we have reappraised the risks based on our current understanding of the Authority. This has led to an increase in the fee for the year. The audit fee is within the fee scales mandated by the Audit Commission and includes an 11% contribution payable to the Audit Commission. The Audit Commission's guidance states that a fee for an authority of Oxfordshire's size can range from a base fee of £261,000 up to an upper range of £339,000.

The reassessment process took into account a range of factors which have come to our attention since issuing the original plan. These include:

- the Audit Commission's opinion on the 2002/3 accounts;
- the findings of the 2003/4 external audit;



- the findings of Robson Rhodes' review of financial management;
- the ongoing work of the SAP revitalisation project; and
- the outcome of our audit of BVPIs and the BVPP.

The fee is also based on the following:

- the risks identified at the risk workshop with the County's Business Managers and from discussions with OCC's Management Team (CCMT), your out-going external auditors and the Audit Commission's Relationship Manager; and
- OCC's CPA rating and improvement planning agenda, which has a bearing on our risk assessment of the Council.

Our fee excludes the cost of certifying grant claims. This work will be charged according to the grade of staff and time taken to carry out the work, as required by the Audit Commission. We will advise the Council of the costs for each grant claim that we certify. The Audit Commission has, from 2003/04, prescribed a de-minimis level for grants to be audited and we will inform the relevant officers at the Council on the prescribed levels and the potential impact on the audit fees for grants.

Our fee excludes work required for responding to queries or questions from members of the public or elected Members. If this time is required we will advise the Council accordingly and bill on a skill related fee basis.

The audit fee assumes that we are able to undertake the audit in accordance with the principles of the managed audit. Where additional work is deemed necessary or requested by the Council we will agree a separate fee over and above the amount referred to above.

Your audit team

Your audit team has been drawn from our specialist public sector assurance department and consists of three key members of staff (summarised below) who will be assisted by other KPMG staff, including specialists as necessary.

Will Carr (Appointed Auditor)	Andy Cardoza (Senior Manager)	Mukhtar Khangura (Manager) and Tim Pearce (Assistant Manager)
Will is responsible for quality assurance of the overall KPMG audit.	Andy is responsible for the management and delivery of all our audit reviews.	Mukhtar and Tim are responsible for the on-site delivery of our audit work.

In line with SAS 240 *Quality Control for Audit Work* we have reviewed the adequacy of the arrangements in place to safeguard against any significant conflicts of interest in respect of this audit and are satisfied that there are no threats to our independence and objectivity. Furthermore, where there are any issues arising, which may impact upon our independence and objectivity, we will, in accordance with SAS 610 *Communication of Audit Matters* provide written confirmation to Members that our independence has been preserved and that our objectivity has not been impaired.

Working with others

We plan to work closely with the Audit Commission's Best Value Inspectors and other Inspection Services in the course of this year's audit, particularly on a 'refreshed' corporate performance assessment.

The Audit Commission's Relationship Manager is responsible for coordinating and managing the coordinated and proportionate audit and inspection programme for 2004/05. This programme is based around the Council's CPA Improvement Plan and has been discussed with the



Council to agree how best to deliver the work. As part of the ongoing partnership with inspection agencies we will ensure that we work closely with them.

Under the *Code of Audit Practice*, we consider the Council's management arrangements for establishing sound internal controls. We will also work with the Council's Internal Auditors to maximise the level of co-operation between us.

Internal Audit is a key function which management rely upon for assurance that internal controls are soundly designed and operating reliably. We will therefore review Internal Audit's work as part of the overall control framework within the Council.

As part of the managed audit process we will ensure we remain up to date with the findings of Internal Audit so that we do not duplicate Internal Audit's work or complete unnecessary audit work ourselves.

Complaints

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Will Carr, who is the engagement partner to the Authority, tel 0121 232 3392, email will.carr@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 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, Audit Commission, 1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ or by email to complaints@audit-commission.gov.uk. Their telephone number is 020 7166 2349, textphone (minicom) 020 7630 0421.

3 Key risks facing the Council

This section outlines what is of particular concern to the Council this year that could affect the nature of our audit.

In accordance with the Code of Audit Practice, we demonstrate a risk focus in our audit planning and subsequent work. We have assessed the OCC's risks through:

- a risk workshop with the Business Manager Group, informed by the Audit Commission's National Risk Assessment Tool;
- ongoing discussions with Council officers and the relationship manager;
- review of documentation including Council papers, Audit Commission guidance; and
- our knowledge of the Council.

Our work has identified a number of risks facing the Council, which have been considered in planning our audit.

Identified risks/challenges

Appendix A summarises our assessment of the audit risks facing the Council in 2004/05. As a result of our approach outlined above, the issues in the Appendix represent a joint understanding of the main risks faced by the Council, which will impact on our audit.

We have attached ratings to the risks according to our interpretation of their relative priority. Our audit work will focus on the high and medium priority issues.

Summary of key audit risks

The high audit risks facing the Council in 2004/05 are:

- strengthening internal financial controls – in particular, the Council's progress in the area of the Social and Health Care Directorate's finances – and the role and functioning of Internal Audit in reviewing them;
- the "revitalisation" of SAP, and the improvements to its management information systems within the Council;
- Information Technology developments – including attaining national e-Government targets by the end of 2005;
- the ongoing implementation and delivery of its CPA improvement plan;
- the ongoing development of the Council's Performance Management framework and systems, including the attainment of the Council's LPSA targets and the calculation of BVPIs which accord with statutory requirements;
- the ongoing development of partnership arrangements (including working with other local authorities and the local PCTs);
- the ongoing enhancement of corporate and departmental risk management; and
- the implementation of recommendations detailed in the Bain report.

4 Audit of the accounts

Systems of internal financial control

We rely in part on the Council's system of internal control in order to give an opinion on the accounts. We will assess whether these systems are reliable by reviewing the work of Internal Audit and performing our own systems work where this is considered necessary.

Timetable

The Council is required to have its financial statements approved by Members by July 2005. A draft set of accounts will need to be produced in advance of this deadline and we have already begun discussions with officers about the detailed closedown and audit timetables.

Accounts production

The Council needs to produce an adequate set of draft financial statements and to devote appropriate resources to accounts closure. This will enable us to deliver an efficient audit that can be finalised by the agreed deadlines. This is of particular importance in the light of changes to the Accounts and Audit Regulations, which will require authorities to approve and publish their statement of accounts incrementally earlier each year in response to the Whole of Government Accounts programme.

During 2004/05 we will need to consider the Council's response to the following accounting developments:

- *Prudential code:* the introduction of the Prudential Code in April 2004 (see section 5) will potentially have an impact on the relative levels of general balances and earmarked reserves. It is envisaged

that there will be a shift to maximising the former in order to support any plans to borrow additional funds;

- *FRS 17 - Retirement Benefits:* For the 2003/04 accounts full disclosure will be required in the Council's accounts for FRS 17 (i.e. revenue and balance sheet impact). As part of our audit will assess OCC's compliance with the FRS;
- *BVACOP* - we will review the arrangements the Council has in place for it to fully demonstrate the apportionment of total costs and the retention of central un-apportionable overheads;
- *Pooled budgets* – we will monitor the Council's arrangements in relation to pooled budgets and will consider the accounting implications for the existing pooled budgets; and
- *Code of Practice on Treasury Management* – We will maintain a watching brief in this area and discuss the Council's progress on an ongoing basis.

We will ensure that our interim and final accounts work focuses on these key areas accordingly, in order that any potential issues are understood and worked through with the Council to facilitate a smooth audit.

Preparing for the audit

We will share with Finance staff our requirements regarding the working papers needed for our audit purposes and will continue to liaise closely with the Council during the closedown period. We will produce a list of principal documents and schedules which we require before our audit work can begin.

The Council will need to assign responsibility for the timely preparation of these schedules, to facilitate the audit and minimise its cost. We will



discuss our draft “Prepared by Client List” with the finance team during 2004.

We will meet regularly with Finance staff to monitor the audit timetable and working paper production.

The Local Government Pension Scheme

Given the extent of the funds managed by the Council as the Pension Fund’s (the “Fund”) administering authority, we undertake a tailored audit specific to the Fund and issue a separate audit opinion. As with the audit of the Council, we take a risk-based approach to auditing the pension fund, in accordance with the Code of Audit Practice (the Code) and the revised Letter of Guidance issued by the Audit Commission. This means that audit testing will be devised to address the key risks faced by the Fund whilst also ensuring that sufficient audit coverage is achieved, as part of the managed audit process, in order for us to fulfil the Code objectives pertaining to the local government pension scheme.

The factors affecting audit risk are considered as they arise during the audit. The factors impacting upon our risk assessment for the 2004/05 will be discussed with OCC in separate meetings designed to address the risks specific to the Fund. This will be in keeping with the approach set out above whereby we treat the Fund as a separate entity. The broad areas we would wish to discuss with OCC will centre on:

- Overall governance arrangements – i.e. constitutional arrangements in place to oversee investment decision-making; compliance with the Local Government Pension Scheme Regulations; and
- The pensions administration system, focusing on the key transaction streams such as pensions payable, transfers in and out and contributions. With regard the latter we intend to consider the adequacy of checks to ensure that the contractual hours as recorded

on the pensions administration system are up to date and agree to records held by the employing body.

We will discuss with you also the possibility of using specialists from our Pensions and Actuarial Service team to undertake a check of a sample of calculations generated by the system in order to provide with you with the added layer of assurance that the calculations are accurate and complete.

Timing

We will liaise with the Council’s finance staff over the timing of the pensions audit and the working papers that will be required for our audit purposes.

We will also continue to maintain a watching brief on the performance of the pension fund as part of our wider performance management work.

Grant claims

New Grant Regime

The Audit Commission has introduced a new grant regime which we will follow as part of our audit of the Council’s grants. This regime can be summarised as follows:

- Claims under £50k will not be certified by the auditor;
- Claims between £50-100k will be certified but only based on limited tests (these will be ensuring that stated amounts agree to the underlying account records but will not involve detailed testing of individual items); and
- Claims over £100k are subject to a 2-step process: first we will assess the control environment, then, depending on findings, either



perform all the detail tests, or just limited ones as for £50-100k claims.

Note that the changes apply for 2003/4 grant claims onwards.

Previous review of OCC grants

Over the past few years a number of ongoing issues relating to grant claims have been raised by your out-going external auditors, including:

- the late preparation of claims;
- procedures for the preparation of each grant claim not being fully documented; and
- the number of claims that have required amendment due to errors on the claim forms.

We will work closely with the Council's staff involved in the co-ordination of grants claims to gauge the level of grants for audit in 2004-05 and facilitate a more efficient and effective audit process.

5 Financial aspects of corporate governance

This section explains the risks to the system of corporate governance in the coming year and the audit work we will perform to assess how far the Council has addressed these risks.

Our approach to the financial aspects of corporate governance is based upon a risk assessment of the Council's operations. This assessment has been completed primarily through the risk workshop supported by ongoing discussions with the Council's Officers, staff and our discussions with your out-going external auditors.

Financial standing

We are required to review the adequacy of arrangements that the Council has in place to ensure that its financial standing is soundly based. As part of our work we will consider the issues identified in Appendix A and will specifically review:

- the financial performance in the year to date and future forecasts. This will include a review of any areas of overspend and how such areas are to be resourced;
- the continuing financial management in Social and Health Care including financial control and the management of specific initiatives and risks, such as the legislation on delayed discharges;
- the impact of emerging local and national issues, for example maintaining affordable housing within the County and the new Children Act and the extent to which such issues have been incorporated into the Council's financial strategy for revenue and capital;
- the use of reserves and provisions and the extent to which they reflect the Council's Medium Term Financial Strategy; and

- the Council's arrangements for budget setting and monitoring and subsequent reporting and monitoring to Members.

Risk management

The Council has a risk management strategy. The County's Risk Manager has held risk management sessions with managers and has developed the strategic and service risk registers, though the refinement of these will continue. This process will identify the Council's key risks and assess to what extent there are adequate measures in place to mitigate these risks.

We will liaise with the Risk Manager and the Audit Services Manager on progress, including reviewing the risk register to assess the process for identifying key risks and the controls put in place to address these. We will subsequently monitor the process and the appropriateness and effectiveness of any action taken as a result of the reviews. We will maintain an ongoing "critical friend" relationship as the Council develops risk management strategies and sharing best practice in risk management.

Systems of internal financial control

We are required to consider whether the Council has adequate arrangements in place to satisfy itself that its systems of internal financial control are both adequate and effective. These include:

- the overall control environment, including tracking the resolution of the control weaknesses identified through Robson Rhodes' review of financial management;
- the adequacy of the system controls over the core financial systems, including ongoing monitoring of the SAP revitalisation project;
- the identification, evaluation and management of operational and financial risks;

- budgetary control and monitoring arrangements;
- financial regulations and supporting procedure notes; and
- the Internal Audit coverage of these areas, including assessing the work and effectiveness of Internal Audit.

An adequate internal audit function is a key source of assurance to the Council that its maintenance of an adequate system of internal control. Internal audit performs work on the key financial controls of the Council as part of the managed audit.

To assess whether the Council continues to meet the managed audit requirements, our work will focus on whether Internal Audit (IA), have as a minimum completed sufficient audit work on the high level controls operating over the key financial systems. We will complement this work by assessing the robustness and effectiveness of the Council's financial systems during the year by drawing on the work undertaken by both IA and ourselves. As part of our final accounts work, we will review the Council's Statement of Internal Control and determine whether it is consistent with evidence retained by the Council; our knowledge and experience; and the conclusions from internal audit reviews. Our fees are based on the assumption that a Managed Audit approach is working to our satisfaction.

The Council is currently developing a framework of internal control. This is an area where we will continue to liaise with the Council and will share best practice and knowledge gained at other local authorities.

Standards of financial conduct and the prevention and detection of fraud and corruption

It remains management's responsibility to ensure that there are appropriate controls in place to prevent loss through fraud and error and to ensure that appropriate governance arrangements are in place. We will update our assessment of the Council's arrangements through

discussions with Officers. In previous years the Audit Commission (District Auditor) has not identified any areas of significant concern in relation to standards of conduct and the arrangements for the prevention and detection of fraud and corruption.

We will complete our assessment of the overall arrangements that the Council has in place to ensure proper standards of financial conduct and to prevent and detect fraud and corruption. This will be achieved through discussions with officers, Internal Audit and by applying the Audit Commission's Fraud and Corruption modules.

Legality

We are required by the *Code of Audit Practice* to assess the adequacy of the Council's arrangements for ensuring the legality of transactions and contracts that might have a financial consequence. This year the Council will need to ensure that it addresses the following specific issues:

- in view of the increasing incidence of partnership working, the Council will need to ensure that it has the appropriate expertise and sound controls in place to address the increased risks it faces when it works with organisations whose culture of "doing business" is different. In particular, the Council will need to assess how it manages any residual risks that may emerge as part of its partnership arrangements, so effective risk management will be critical;
- given the above, both the role of the Council's Monitoring Officer and the capabilities of scrutiny Members to assess decisions and transactions will represent important high-level controls for the Council. We therefore intend to review the role of the Monitoring Officer and issue a short report or letter setting out our findings as well as tracking the Council's progress in providing adequate and up-to-date training to its Members; and



- that Members understand their role and responsibilities in ensuring that the S151 Officer and Monitoring Officer are discharging their duties accordingly.

As well as focusing directly on the above specific issues we will also:

- keep your existing procedures for assessing the legality of any other new or changed activities under review;
- review the Council's minutes as a means of identifying issues with possible 'legality' implications;
- review management arrangements for identifying and disclosing related party transactions; and
- liaise with the Section 151 Officer and the Monitoring Officer to discuss the extent, if any, of topical legal issues affecting the Council.

We should not be relied upon by the Council to identify all the legal issues that may affect its business and we would expect to be informed of any contentious legal issues during the course of our work. We will report back to the Council setting out the results of our work on the financial aspects of corporate governance and those areas above, within our combined final accounts and systems memorandum.

6 Performance Management

This section summarises the performance management work that we will undertake at the Council.

Our performance management work is based upon a risk assessment of the operations of the Council. Under the Code of Audit Practice our work in this area covers the Best Value Performance Plan (BVPP), corporate assessment, performance information and use of resources.

Comprehensive Performance Assessment and Best Value

Comprehensive Performance Assessment (CPA)

As mentioned in section 2, our work with regard to CPA will centre on monitoring the Council's progress against its Improvement Plan, which was produced in response to the CPA findings. In addition to this "core" requirement we will discuss with the Council and the Audit Commission's Relationship Manager any additional work that would be useful in assisting the Council in addressing its priority areas for improvement. All our CPA related work is summarised in Appendix B.

Best Value Performance Plan (BVPP)

We have reviewed compliance against the BVPP guidelines and issued our opinion within the prescribed deadline.

The main implications of the recently published draft circular on Best Value and Performance improvement for 2004/05 are that the publication of the following information is now discretionary:

- CPA scores;
- summary financial information;

- reporting progress in implementing improvement measures over the last three years and the outcome or impacts arising from those measures; and
- progress against Local Public Service Agreements.

Best Value Performance Indicators (BVPs)

We have undertaken detailed testing of the accuracy of a sample of indicators and reviewed the operation of the systems which support the production of a selection of CPA BVPs.

The audit fieldwork was undertaken between June and September 2004. The opinion on the BVPs will be issued in September 2004. There were significant issues arising from this audit, both in terms of the accuracy of the calculated performance information and the processes followed internally for the calculation and collation of the BVPs. We have discussed these issues with the relevant Authority officers and will shortly report formally to the Authority.

Use of resources

We are required to consider the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

This will include carrying out watching briefs using our knowledge of the Council and the checklist in the Audit Commission's National Risk Assessment Tool to review and monitor the Council's response to the key risks identified. We will also apply our experience of best practice elsewhere as appropriate.

We will carry out review work and monitor the Council's on-going progress in the areas detailed below and will report our findings as appropriate during the audit and/or in our 2004/05 Annual Audit and Inspection Letter (AA&IL).

Our work in respect of use of resources will address some of the issues identified in Appendix A. In particular we will consider:

- **Partnership arrangements** – we will track and review how the Council is progressing with setting up various partnership working strategies and ensuring that these arrangements contribute towards the Council achieving its aims. We will also need to ensure that the Oxfordshire Community Plan clearly defines targets and has a timetable that is central to developing the Council's corporate priorities. We will review the Council's arrangements for compliance with the plan, and ensure that it is monitored to confirm targets are being achieved;
- **Performance management framework** – we will review the Council's progress in implementing revised performance management arrangements, in line with our audit code objectives;
- **CPA improvement plan** – we will hold ongoing improvement planning meetings with regulators to monitor progress of the Council in the delivery of its improvement agenda. We will also maintain a critical friend relationship in specific & requested areas;
- **e-Government** – The Council fully embraces and delivers the Government's e-Government targets and introduces more appropriate and efficient customer focused services. As part of our computer audit work, we will carry out a review of the progress being made and consider whether the Council is achieving its aims;
- **Procurement** – We will continue to monitor the Council's arrangements with regard to procurement, and evaluate its effectiveness to support such initiatives as Partnership working with the other local authorities and organisations within the County area, whilst also illustrating a transparent value for money process;
- **Financial planning and performance management** – OCC has continued to develop and refine its Medium Term Financial

Strategy. In response, we will need to consider how this links to the performance management framework and how resources are directed to the Council's stated priority areas; and

- **Ongoing development of Overview and Scrutiny function** – this is critical to the monitoring and management of the Council's performance. We will review the systems and structures in place and assess their effectiveness to support the objective of performance improvement.

Appendix A

Results of the audit risk assessment exercise

Risk level	Risk title	Risk description	Relevant code objectives and indicative timing of work	Our work
High	SAP and other financial systems	The Authority has implemented a SAP general ledger system, but has experienced problems in its use, including difficulties in extracting management information, and weaknesses in account mapping. There are also difficulties associated with the other financial systems which are still in use around the Authority. If these systems are not fully implemented and tested there is a risk that management information may not be sufficiently detailed for decision making.	Financial Aspects of Corporate Governance; Audit of Accounts (October 2004-May 2005)	Staff from our Information Risk Management team will evaluate the systems in place, both to identify potential improvements in the systems and to identify any internal control weaknesses which we need to consider in forming our opinion on the financial statements.
High	Systems of internal control	An authority's systems of internal control form the core of its governance and risk management arrangements, and as such must be self-assessed in the form of a Statement of Internal Control in the annual accounts. The equivalent statement in 2002/3 was qualified by the external auditors because of identified weaknesses in internal financial control.	Financial Aspects of Corporate Governance; Audit of Accounts (January – April 2005)	We will (depending on the scope of IA) review the controls over the core financial systems as part of our preparations for the audit of the accounts for 2004/5 and will report to management on our findings. We will review the Statement of Internal Control for consistency with our understanding of the controls in place gained from our financial systems review, and from our wider work on risk management and performance management in the case of non-financial controls.

Risk level	Risk title	Risk description	Relevant code objectives and indicative timing of work	Our work
High	Partnership working	The need to link more closely with other public services and to extend management capacity underpins increased use of partnership working across local government. OCC has identified specific risks in managing pooled budgets with the local health economy and developing joint working with the district councils in its area.	Performance Management; Financial Aspects of Corporate Governance (April – October 2005)	Our work will focus on the two highlighted areas, where we will examine arrangements in place and compare them to best practice and our experiences of other authorities.
High	Bain Review – Fire verification study	Following the Bain Review of the Fire Service, external auditors of fire authorities are required to review the steps taken to implement the recommendations of the review. This is a key risk area since it drives the pay settlement for fire staff.	Performance Management (January – June 2005)	Our reports from the two rounds of the review have now been completed and sent to the Authority and the Audit Commission.
High	Performance management framework	The Authority's performance management framework is the mechanism through which it maintains and improves service delivery through measuring and monitoring of performance and taking corrective action where necessary. If the framework is inadequately designed or does not function effectively across the Authority, service improvement may be jeopardised. Related to this is the need for the Authority to produce high-quality performance information according with ODPM requirements.	Performance Management (May 2004 – October 2005)	We will undertake a 'high level' review of OCC's performance management framework, making recommendations for improvement where we identify them. In addition, we will focus on how identified poor performance is managed and improved – the Authority has acknowledged this as an area of weakness. We have already assessed the Authority's BVPIs and BVPP and will continue with this review for the 2005 BVPP as part of our 2005/6 audit.

Risk level	Risk title	Risk description	Relevant code objectives and indicative timing of work	Our work
High	CPA improvement plan	The Authority was rated Fair in the first round of Comprehensive Performance Assessments, but strives to be rated excellent by 2005. An improvement plan is in place. Delivery of this plan is essential to achieve the desired improvements in grade at the next CPA inspection.	Performance Management (April – October 2005)	We will maintain a watching brief over the implementation of the improvement plan as a whole, completing more detailed work where necessary. Where requested by management, we will act as a ‘critical friend’ in helping the Authority understand its own progress.
High	e-Government	Local authorities continue to face a challenge to meet the Government’s target to deliver 100% of selected services through electronic means by December 2005. OCC has now received funding for this, but the challenge remains to meet public demand within the ambitious timescale.	Performance Management (April – October 2005)	Experienced staff from our Information Risk Management department will assess the Authority’s plans for implementing e-government and will make recommendations based on their experience of other authorities’ arrangements and practices.
High	Risk management	The Authority has made a positive start to embedding risk management through the organisation – the risk management policy statement was praised in the Commission’s CPA report. However, for this policy to operate effectively in practice, risk management needs to be understood by service managers and their front-line staff.	Financial Aspects of Corporate Governance (April – October 2005)	We will consider the Authority’s overall approach to risk management, focusing in particular on the understanding of Business Managers and the next tier of service managers.
High	Role of the Monitoring Officer	The Local Government Act 2000 established a new Ethical Framework for local government. Amongst other changes, this reinforces the importance of the Monitoring Officer role in the Authority with new responsibilities.	Financial Aspects of Corporate Governance: Financial Standing (October 2004 – March 2005)	We will review the delivery of the Monitoring Officer role at Oxfordshire to ensure that the capacity exists to deliver effectively on the new statutory responsibilities.

Risk level	Risk title	Risk description	Relevant code objectives and indicative timing of work	Our work
High	Delayed discharges	From 2004, social services authorities can be penalised financially where discharges of patients into local authority care is delayed. OCC believes that a large majority of cases in the county are due to problems within the health service, though the Authority remains liable for penalties even in these cases. These penalties could affect the Authority's financial standing and implementation of its medium term financial strategy.	Financial Aspects of Corporate Governance (April – October 2005)	The Authority has identified the need to work more closely with the local health community to reduce this problem. We will examine the progress to introduce these arrangements and consider the effects of the financial penalties during our work on the Authority's financial standing.
Medium	Medium term financial strategy	A key area for OCC is to plan its finances over a 3-5 year period, through the use of its medium term financial strategy. The use of such a strategy helps address financial issues, such as how the Authority's reserves will be increased from their present low level, as well as acting as a vital ingredient in converting high-level strategies into practical plans for services.	Financial Aspects of Corporate Governance (April – October 2005)	We will consider the Authority's procedures for producing and monitoring a robust financial strategy and how this contributes to its financial standing. We will also assess the linkage of financial plans with service plans against best practice.
Medium	Emergency planning and business continuity	The Civil Contingencies Act places extra responsibilities on local authorities to produce plans for the event of a natural or man-made disaster. Allied to this is the need for business continuity procedures which ensure that the Authority's routine functions could continue to run in the event of such a disaster occurring.	Performance Management (April – October 2005)	We will assess the implementation of the Authority's current plans and make recommendations based on our findings and on our observations of good practice at other authorities.

Risk level	Risk title	Risk description	Relevant code objectives and indicative timing of work	Our work
Medium	Prudential Code	The <i>Prudential Code for Capital Finance in Local Authorities</i> takes effect from 1 April 2004. It prescribes minimum requirements for financial planning to help demonstrate that expenditure plans are affordable, but also sets out broader principles for treasury management and capital and revenue expenditure. There is a risk to the Authority that it does not comply fully with the code and will need to ensure that it complies with relevant legislation.	Financial Aspects of Corporate Governance (April – October 2005)	We will assume a watching brief over general aspects of the implementation of the <i>Code</i> . Business case procedures for capital schemes have been identified by the Authority as an area of weakness, therefore we will pay special attention to the mechanism for prioritising capital expenditure.
Medium	Accounts and Audit Regulations 2003: accounts timetable	The arrangements for the production and audit of accounts in local government is governed by Accounts and Audit Regulations. These regulations were updated in 2003. The largest change is the phased acceleration of the accounts timetable – for 2004/5, accounts must be approved by July and audited by October 2005. This will present a significant challenge to the Authority in refining its closedown process whilst maintaining quality.	Audit of Accounts January – July 2005	We will hold early discussions with the Authority on how it plans to change its processes and monitor the delivery of these plans in the period leading up to our accounts audit visit.
Medium	Financial management support for schools	The Authority has raised concerns that schools are not adequately supported in managing their finances. This task is made more challenging because the SAP system was not rolled out to schools because of the difficulties experienced in its use in other parts of the council.	Financial Aspects of Corporate Governance (April – October 2005)	We will assess the existing arrangements, and, if plans to introduce a new financial system into schools are pursued, will use our Information Risk Management staff to monitor the arrangements for its implementation.

Risk level	Risk title	Risk description	Relevant code objectives and indicative timing of work	Our work
Medium	Performance Assessment Framework: systems review	The Audit Commission require us to perform detailed testing on the Social Services indicators which make up the Performance Assessment Framework (PAF) to confirm the validity of the information produced. This is matched by a risk determined within the Authority that performance information systems within the Social and Health Care directorate are weak.	Financial Aspects of Corporate Governance (April – October 2005)	The scope of our work has been specified by the Audit Commission. We have completed this work on site in which we considered the systems in place and undertook sample testing of data. We are in the process of finalising a draft report on this area shortly to the Authority.
Medium	Procurement of services	OCC has outsourced services in the past, with mixed results – some externalised services were subsequently brought back in house. It is important for the Authority to demonstrate that it has obtained the best value for money from its services and has considered all options, so it requires robust processes for determining when outsourcing is appropriate and for negotiating with potential private sector partners.	Performance Management (April – October 2005)	We will consider the Authority's current approach to determining how to provide services – in-house, outsourced, or through a consortium or partnership – and, where there are relevant examples of non-in-house provision, we will assess the robustness of contracting and monitoring procedures.
Medium	Delivery of Local Public Service Agreement targets	The Authority has agreed 12 key improvement targets with central government as part of its Local Public Service Agreement (LPSA). A significant amount of funding is contingent upon delivering these stretching targets.	Performance Management (April – October 2005)	We will examine how the Authority plans and monitors these targets to ensure an adequate focus by management and members, and will maintain a watching brief over the achievement of the targets.

Risk level	Risk title	Risk description	Relevant code objectives and indicative timing of work	Our work
Low	Workforce matters	The Authority has made significant changes to its workforce arrangements, including the recent implementation of Single Status reforms to pay and conditions. It has, however, acknowledged that workforce issues, such as recruitment and retention, remain an issue.	Performance Management (April – October 2005)	We will maintain a watching brief on this area in 2004/5 whilst the Authority's existing measures, such as Single Status and the recruitment of a new Head of HR, bed in. Subject to a fresh risk assessment process, we will then revisit this area in 2005/6.
Low	Statement of Recommended Practice: changes	The production of local authorities' accounts are governed by the requirements of the <i>Code of Practice on Local Authority Accounting: A Statement of Recommended Practice</i> ("the SORP"), updated annually by CIPFA. The main change in the 2004 SORP, which will apply to 2004/5 accounts, expands the requirements for group accounting for authorities with interests in other entities.	Audit of Accounts (February – August 2005)	We will review the Authority's arrangements for identifying any group relationships and for completing any necessary consolidation or other adjustments in its accounts.
Low	Money Laundering	Money laundering is an increasing risk in local government at a time when authorities increasingly work with partner organisations from the private and voluntary sectors, and perhaps enter into contracts with unfamiliar suppliers of goods and services. Moreover, the UK Money Laundering Regulations 2003 place an obligation on authorities to have suitable arrangements in place to prevent and detect money laundering in transactions in which the Authority is involved.	Financial Aspects of Corporate Governance (April – October 2005)	We will discuss with appropriate Authority staff what measures have been put in place and report as appropriate.

Risk level	Risk title	Risk description	Relevant code objectives and indicative timing of work	Our work
Low	Freedom of Information Act	The Freedom of Information Act comes into force from 1 April 2004. It offers electors new rights to non-confidential information and places an obligation on authorities to respond to formal requests within a specified time. OCC needs to ensure it has appropriate arrangements in place to deal with requests received across any part of the authority.	Financial Aspects of Corporate Governance (April – October 2005)	We will discuss with appropriate Authority staff what measures have been put in place to ensure that any legitimate requests for information can be met in accordance with the legislation.

Appendix B

Helping us to meet your expectations

We have summarised below the standard that we will work to when performing your audit, along side the key input required from the Council to ensure that we are able to meet this standard. **This expectation of your support represents the assumption on which our audit fee has been based.** If these assumptions are inaccurate then additional work may be required to complete the audit, this work will be charged to the Council in line within the Audit Commission's grade related fee structure.

How we will conduct ourselves		Our expectation of your support	
Listening to your concerns	<input checked="" type="checkbox"/> We will be proactive in developing relationships with staff through the Council where our audit work requires their input. <input checked="" type="checkbox"/> We will ensure that all recommendations, and in particular those relating to our performance management work, are included within our Annual Audit Letter having been agreed with the relevant officers	Audit Plan	<input checked="" type="checkbox"/> Brief our staff on key issues affecting the Council. <input checked="" type="checkbox"/> Review and agree the draft plan.
Working together	<input checked="" type="checkbox"/> We will ensure that the Section 151 Officer and other key members of staff are kept informed of the progress of our audit work throughout the year. <input checked="" type="checkbox"/> We will liaise with staff at all levels of the Council to ensure that our work is appropriately planned and completed and where recommendations are made these are agreed with the likely responsible officer. <input checked="" type="checkbox"/> We will continue to co-ordinate our work with that of internal audit and ensure that we provide appropriate proactive commentary to the finance function on issues that affect the Council's accounts. <input checked="" type="checkbox"/> We will always respond promptly to requests for comment on aspects of the Council's operations, where appropriate.	Interim Audit & Accounts Audit	<input checked="" type="checkbox"/> Facilitate the completion of internal audits work (particularly on the core financial systems) in good time for our visits. <input checked="" type="checkbox"/> Ensure that key officers are available for the duration of our audit. <input checked="" type="checkbox"/> Respond to and agree interim reports in good time. <input checked="" type="checkbox"/> Ensure that a full draft of the accounts are available at least a week prior to the agreed start date of our audit, and that only agreed adjustments are put into the accounts following receipt of this draft.
		Annual Audit Letter	<input checked="" type="checkbox"/> Produce the documents listed within our prepared by client request by the agreed start date of our audit. <input checked="" type="checkbox"/> Discuss and agree our draft Annual Audit Letter in good time for the final to be presented to Members. <input checked="" type="checkbox"/> Ensure that all action plans are agreed and followed up in due course.
		Other work	<input checked="" type="checkbox"/> Agree a key Council contact as a focal point for the study or work. <input checked="" type="checkbox"/> Discuss and review our findings so that action plans can be fully completed and implemented. <input checked="" type="checkbox"/> Respond promptly to requests for documents to assist us with our work.