Annual Audit and Inspection Letter

Oxfordshire County Council

Audit 2004-2005

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Key messages

1 This Annual Audit and Inspection Letter (AA&IL) for members, incorporates the Annual Audit Letter, and is presented by the Authority's Relationship Manager, Andy Burns of the Audit Commission, and the Appointed Auditor, KPMG LLP (Will Carr, the Engagement Partner). The letter summarises the conclusions and significant issues arising from the Audit Commission's and KPMG LLP's 2004/05 audit and inspection programme.

2 Auditor's responsibilities are summarised in the Audit Commission's statement of key responsibilities of auditors. The responsibilities of Audit Commission inspectors are detailed in section 10 of the Local Government Act 1999. The contents of this letter should be viewed in the context of that formal background.

3 The Audit Commission and KPMG LLP ('KPMG') have issued separate reports during the year having completed specific aspects of the audit and inspection programme. These reports are listed at Appendix 2 for information.

- Appendix 1 sets out the scope of audit and inspection.
- Appendix 2 lists reports issued during the year.
- Appendix 3 provides information about the fees charged.

Council performance

4 The Council was rated as a three-star authority at the end of 2004, which is a strong validation of its overall improvement since 2002, when it was rated as two-star.

5 The Council's fire service was assessed 'Good' in a separate assessment reported in July 2005, which compared the performance of all brigades in England. Social Services also improved their overall assessment and re-secured a two-star assessment.

6 The Council has been assessed as progressing adequately during 2005, following on from its improvement in star rating last year. Improvement has been marked in some areas, and the Council is investing with partners in projects, for example the Castle Project, which are about to see significant improvements to the community. Performance improvement is not consistent across all services, and system and processes to achieve greater value for money are being given a greater focus. The Council has an improvement programme in place and has a range of improvement plans for service areas, but these plans do not consistently include success measures to enable the Council to evidence service improvement to its residents.

Cornmarket reconstruction scheme

7 The independent scrutiny review has identified all of the issues which needed to be brought to the attention of the public, and an appropriate commitment has been made by each council to address the weaknesses identified. No evidence has been identified to indicate that weaknesses in Council processes led to an unlawful decision, or that a loss has been incurred as a result of the wilful misconduct of any individual or group of individuals. The completion of the 2003/04 audit was certified on 15 December 2005.

The accounts

8 KPMG issued an unqualified opinion on the accounts in October 2005. They noted that progress has been made in some areas – for example, in reviewing debtors for contributions to social services clients' care.

9 However, significant opportunities for improvement were also identified. These are summarised below and also detailed in KPMG's *Systems and Accounts Report*.

Financial position

10 The Authority has continued to strengthen its financial position. In previous years, it had identified the need to increase the level of its reserves and set a target level of reserves at 2 per cent of its net expenditure. This level has now been achieved.

11 The triennial revaluation of the pension fund was completed and reported in November 2004. This reported a significantly lower level of funding compared to the previous valuation, though the Authority has arrangements in place to manage this, including a 25-year recovery plan and improved investment management arrangements.

Other accounts and governance issues

12 In this report, KPMG also summarise their work in relation to the role of the Monitoring Officer and the Authority's fraud and corruption arrangements. The overall conclusion of their work was that strong arrangements are in place in these areas.

Action needed by the Authority

13 Recommendations have been raised as part of individual audit and inspection reviews; the number of recommendations on each report has been summarised in Appendix 2.

14 In this report we have made four further recommendations, which are, in summary:

- develop effective measures of success for Council strategies and plans, that are understood by stakeholders;
- the Authority should continue to ensure that the monitoring mechanism of its key outcomes, priorities and targets facilitates the timely development and implementation, as and if necessary, of appropriate action plans to ensure they are all on track and subsequently achieved;
- the Authority needs to embed the new balanced scorecard methodology to ensure effective performance management; and
- instances of fraud and corruption, or nil returns as appropriate, should be reported to members on a quarterly basis.

Performance

CPA scorecard

15 The CPA annual review judgements this year have been made using the revised methodology: CPA - the harder test. As the title implies CPA is now a more stringent test with more emphasis on outcomes for local people and value for money. We have also added a new dimension, a Direction of Travel judgement that measures how well the Authority is improving. Under the new framework the Council is progressing adequately and its overall CPA category is three-star.

16 The annual assessment was published on 15 December 2005 and is summarised below.

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving adequately
Overall	Three-star
Current performance Children and young people Social care (adults) Use of resources Environment Culture	Out of 4 3 3 2 2 4
Corporate assessment/ capacity to improve	3 out of 4

(Note: 1=lowest, 4=highest)

17 The most recent corporate assessment was reported in April 2005, based on work carried out in October 2004. A summary of the review findings is set out on page 12.

18 An assessment of the Council's progress since the corporate assessment is carried out annually and this is set out in the Direction of Travel report overleaf.

19 As a separate exercise all fire authorities have been subject to a separate assessment, which has considered all county brigades alongside fire authorities. The assessment was reported in July 2005. A summary of the review findings is set out on page 17.

Direction of Travel report

20 Overall the Council has seen continued service improvements over the last year, following on from its increase in overall rating to three stars. Its social services rating has increased from one to two stars, and 56 per cent of indicators evidence improvement since 2002/03. At the time of our review the Council was on track to meet 53 per cent of its 2005/06 targets and expected to receive reward grant for progress made in 8 out of 12 of its PSA areas. These improvements have resulted in services in most council priority areas that generally compare favourably with other councils. In 2004/05, 66 per cent of BVPIs were in the best two quartiles, with education and waste services particularly demonstrating clear improvement and strong comparative performance. All external inspections or assessments of the Council's key service areas during the year, such as fire, young people and adult social care services have also positively validated quality and improvement.

21 Improvement has not been consistent across all Council and community priority areas. There are important priority areas where improvement has either been mixed or there is uncertainty if improvement will be delivered. In September, the Council was only clearly on track to deliver 4 out of 12 of its stretching PSA targets. It is unsure if it will meet its educational attainment target and will not deliver its public transport target. Best value performance indicators (BVPIs) for environment services show mixed comparative performance.

22 The Council continues to focus on wider community outcomes and is involved in a number of projects that will deliver significant outcomes in time. The Council has made a positive contribution to waste management and community safety where there is generally good comparative performance and resident perceptions. There have been absolute improvements in transport such as a reduction of road casualties but overall in the area of transport related services comparative performance is mixed with negative satisfaction levels in key areas. The Council has also worked in partnership to deliver initiatives in relation to affordable housing, health and economic development but the impact of these initiatives has yet to be fully realised.

23 There is good evidence of investment in economic development through the Castle development in Oxford. This public/private partnership project to secure the redevelopment of the heritage castle/prison site is almost completed. This development will provide a major contribution to the Council's wider partnership project to secure the regeneration of the West End of the city.

24 Access to services has improved in some specific areas. The Council has a track record of improving services for socially excluded and minority groups. External inspection and assessment has positively highlighted the work that the Council has done to support vulnerable and ethnic minority groups including children. The Council has also improved the level of information it provides to residents resulting in an increase in satisfaction levels with this area. However, performance compares poorly on BVPIs that relate to access to services, overall customer satisfaction and complaints handling. Surveys and assessments have shown a demand for better access to services, and understanding of the needs of customers including hard-to-reach groups.

25 The Council demonstrates that it is achieving value for money to its residents in some of its key service areas, and is working to improve this position further. Costs compare favourably with other councils. Best value reviews are effectively being used to improve quality and efficiency of services. There are many examples of the Council working in partnership to secure better value for money, however, the Council has not yet fully utilised the potential of partnership working to maximise quality and reduce costs. At a strategic level processes to maximise value for money are not consistent or fully developed, these include benchmarking and links between cost and performance.

26 The Council's improvement plans are focused on building capacity. The Council is self-aware and appropriate plans are in place or are being developed to deliver improvement in key areas including, the new administration's priorities, community priorities and corporate capacity. Plans are informed by sound review and consultation processes and longer-term issues are being actively addressed. As in the case of the understanding Oxfordshire consultation exercise which has been used to shape a draft long-term vision for the Oxfordshire Community Partnership (OCP). These plans will shape the Council's revised medium-term corporate plan next year.

27 The Council has put in place a medium-term financial strategy which is linked to its priorities and its approach to integrating service and financial planning is being developed further. Although the Council has targeted resources at priority areas, it has not been explicit about what are not its priorities. The Council has not clearly articulated what success will look like and there are few outcome measures to assess impact of the Council's plans.

28 There has been a sustained focus and increased momentum in improvement planning. The Council has not got distracted, it has implemented a majority of the actions in its corporate improvement plan (Raising our Performance 2) such as adoption of corporate customer service standards. The Oxfordshire Waste Partnership has increased momentum in the last year with work being undertaken to develop a long-term strategy. The new cabinet has made a number of key decisions in a relatively short period in support of improvement planning and is already beginning to deliver on some of its targets. Some key improvement plans such as the development of a balanced score card are at the early stages of implementation or are still to be adopted.

29 Structures to deliver change and improvement have been enhanced. A change management board consisting of the corporate management team and cabinet has been established to oversee the delivery of the Council's change programme. Structural changes are being undertaken in some areas such as children's services and highways to provide a more joined up service to users. The Council has filled key management posts and there are cabinet portfolio holders accountable for broad areas of improvement such as change management.

30 Value for money now has a central focus in all aspects of the Council's management. Value for money is considered in budget setting. It is a key political priority for the new administration which has provided a stronger sense of purpose. The Council's change programme particularly business process reengineering and organisational development projects have been designed to achieve this. Building blocks for better partnership working are being put in place through development of the local area agreement with the OCP, a partnership board has been set up and priorities for investment have been agreed.

31 To build on the progress made to date some of the key issues that will need to be addressed over the next year are:

- ensuring that the change management programme optimises capacity benefits through effective prioritisation and co-ordination of projects;
- clearly articulating what are not the Council's priority areas for improvement; and
- effectively using partnership working to demonstrably improve quality and reduce costs.

32 Many of these flow from initiatives already in hand with the Council. One further recommendation is set out below.

Recommendation: Success measures
R1 Develop effective measures of success for Council strategies and plans that are understood by stakeholders.

Corporate assessment

33 The Council was assessed as 'Good' in its latest corporate assessment, which was reported in April 2005. The review scored key themes on a 1 to 4 basis, with 1 being the lowest and 4 the highest. The scores are summarised in the table overleaf.

Table 2

Key question	Theme	2004 Score
What is the Council trying to achieve?	Ambition Prioritisation Focus	3 3 3
How has the Council set about delivering its priorities?	Capacity Performance management	3 2
What has the Council achieved to date?	Achievement Investment	3 3
In light of what has been learnt, what does the Council plan to do next?	Learning Future Plans	4 3
Overall score		**Good**

34 Key strengths identified by the assessment for the period since 2002 include:

- the Council is clearer about what it wants to achieve in the short to medium-term and is strengthening its leadership of the community, including its work on equalities and diversity;
- the Council has strengthened its capacity over the past two years to allow it to do what it wants to do and there are now more strengths than weaknesses;
- the development of important partnerships is producing better value for money and the Council wants to do more in this area such as in procurement; and
- since its last assessment in 2002, the Council has generally maintained the standard of its services; the county's services have delivered improvements in outcomes for local people and good progress has been made in some cross cutting areas in line with strategic objectives, such as community safety.

35 Areas for further development included:

- the Council has yet to express clearly its long-term ambitions, which limits agreement on how it will work with partners; This limits longer-term planning and means it is unclear how work with partners will develop in the absence of shared long-term goals for the county; and
- the trend of improvement in the Council as measured by key performance indicators was positive overall. Whilst the majority of indicators are in the top and second quartiles the rate of improvement has not been significant and comparative performance has some weaknesses.

36 The Council has responded positively to the assessment and further progress has been assessed through our annual Direction of Travel assessment.

Performance management and progress on the CPA improvement plan

37 The Comprehensive Performance Assessment (CPA) improvement plan developed in 2002 following Oxfordshire's first CPA, helped shape the Council's objectives, priorities and targets. The CPA Improvement Plan was incorporated within the development and implementation of the action plan 'Raising Our Performance', which was subsequently revised and updated into 'Raising Our Performance 2' (RoP2). RoP2 is the Authority's Organisational Improvement Plan for 2003 to 2005 and contains 14 key outcomes, including:

- Becoming an outstanding authority;
- Effective working through partnerships;
- An effective Scrutiny function;
- Effective performance management; and
- Improved Financial management.

38 During 2005, the Authority continued to focus on its 13 priorities (known as '10+3') set out in the Oxfordshire Plan (2005/06), the 12 stretching targets of the Public Service Agreement (PSA) and the 115 best value performance indicators (BVPIs) as contained in the 2005/06 BVPP. The Authority's outcomes, priorities and targets are so designed to balance national and local priorities and take into account where the Authority and its services are doing well and where they need to improve.

39 Oxfordshire and the Government identified the 12 stretching targets as part of the PSA for achievement by March 2006. If all the targets are achieved this would result in the Authority receiving a Performance Reward Grant of nearly £13 million, with more than £1 million of Pump Priming Grant funding. Targets were chosen in areas where concerns about performance had been identified and hence targets are particularly challenging. The Authority is currently reporting that it is on target to achieve the full or partial reward grant for 8 out of 12 the PSA targets.

40 The Authority's four key documents (ie the RoP2, Oxfordshire Plan, PSA and the BVPP) have been the framework in which the Authority has used to progress its performance since its first CPA in 2002, when it was rated a 'fair' authority, moving up to a 'good' rating at the end of 2004.

41 Progress made against each of the key outcomes, priorities and targets, as set out in the four documents, is reported to Cabinet each quarter. The reports enable the Authority to identify where any deterioration or potential non-achievement of any of its key outcomes, priorities or targets is likely to occur.

42 While these reports have commentaries detailing the reasons for any slippage, the Authority recognises that it needs to be more explicit about the reasons why this has occurred and that in such cases appropriate action plans are developed and implemented. This will help to ensure that any such variance is duly addressed in a timely manner, and that such cases are brought back on track to be achieved. Thus ensuring that the County's desired outcomes and objectives, as set out in the Oxfordshire Plan, are achieved and delivered.

43 The result of this will be the demonstrable delivery of issues identified as requiring improvement within the County's CPA Improvement Plan.

44 As a result of the above KPMG recommends that the Authority should take action as follows.

Recommendation: Key outcomes, priorities and targets
R2 The Authority should continue to ensure that the monitoring mechanism of its key outcomes, priorities and targets facilitates the timely development and implementation, as and if necessary, of appropriate action plans to ensure they are all on track and subsequently achieved.

45 Effective performance management requires a clearly defined direction for the Authority, based on information about local needs, translated into plans at a corporate, service and individual level; which contain clear targets that are linked to resources. These plans and targets then provide a framework for monitoring and evaluating performance and ensuring service improvements are delivered. To achieve this in a coherent and logical manner, the current frameworks are being improved by the Authority. In July 2005, Oxfordshire's new Cabinet endorsed the remodelling of the Authority's vision, strategic aims and values and proposed how these could be embedded into its service planning framework. The Authority recognises that if it is to implement the required changes successfully, it will need to focus on customer service and culture change, and introduce new performance management methodologies in the four key areas of customers, people, finance and process. In addition, a new approach to the Authority's planning framework is also required with a corporate plan and an Annual Report, which will be supported by plans and strategies, including service plans.

46 The Government expect local area agreements (LAA) to provide the framework for community strategies. In September 2005, the Authority's Cabinet agreed the outline for the LAA and that it will form the basis of any new Oxfordshire community strategy. This decision also enables the Authority to use the document entitled *Oxfordshire 20:20* to set out its new vision: 'We want Oxfordshire to be a thriving County which adapts to a changing world but remains a special place to work, live and visit'. This document would also form the 'golden thread' between the Authority's joint aspirations with its local partners and its objectives, plans and strategies (down to individual targets).

47 As stated above, the Authority recognises that it has to change the manner in which it currently monitors and manages its performance.

48 The need for change has also been driven by the existence of a wide range of targets, numerous indicators and a variety of performance management processes which are currently in operation within the Authority. The Authority has consequently decided to use the balanced scorecard methodology as its overarching performance framework. This methodology will be used by the Authority to monitor progress against its key targets in the four areas of: customers; people (ie staff); finance and process. The development of a corporate scorecard will also need to be developed with the methodology cascaded down throughout the organisation to ensure alignment at all levels occurs with the Authority's top level priorities.

49 The Authority has also decided to divide the Oxfordshire plan into two parts. The first part will form a medium-term corporate plan 2006 to 2010 (which will outline the Authority's priorities. In the future, it is intended to make this a fully integrated service and financial plan incorporating the budget). The second part will form an Annual Report (which will set out the Authority's achievements over the preceding year and incorporate a summary set of its financial statement of accounts).

50 All of this is intended to enable the Authority to more readily and comprehensively focus on its ambitions, activities, performance against priorities and targets; and as a result allow for better informed and timely management action to be taken.

51 Members would, via the balanced scorecard methodology, receive relevant and focused information and associated commentaries on performance, enabling then to better monitor and challenge performance and initiate corrective action as required. Work will be required to embed this new better performance culture within the Authority via training, communication and improved scrutiny.

52 The Authority needs to ensure that as part of all these changes that the CPA improvement plan (incorporated within RoP2) is updated and reviewed on a monthly basis and merged into its new balanced scorecard framework.

53 As a result of the above, KPMG recommends that the Authority should take action as follows.

Recommendation: Performance management arrangements
R3 The Authority needs to embed the new balanced scorecard methodology and the culture of performance management and continue to carry out regular and robust monitoring of its performance against its key priorities, targets and performance indicators. In addition, the Authority should ensure that it continues to develop outcome measures for all its priorities to ensure real identifiable improvements and desired outcomes are delivered.

54 Consideration should also be given to whether the proposed changes could, in the future, be used to align the Authority's performance management systems with that of its partners, especially with the Oxfordshire Community Partnership.

Performance information

55 The 2005 best value performance plan (BVPP) was the second to be audited by KPMG. In last year's Annual Audit and Inspection Letter, it was reported that the BVPP had been qualified because of significant errors in the published value of a number of best value performance indicators (BVPIs).

56 Improvement opportunities for the Authority's systems for producing performance information were also reported. KPMG noted that there was scope for directorates to take greater responsibility for all their PIs, including BVPIs, by completing quality checks before submitting indicators to the central team. Moreover, there was scope for greater formalisation of the system for submitting performance information to improve the quality of the information published in the BVPP.

57 The Authority has made significant progress in the subsequent year implementing the majority of KPMG's recommendations. Significantly fewer indicators were amended or reserved than in previous years.

Table 3 Accuracy of best value performance indicators

	BVPI year		
	2004/05	**2003/04**	**2002/03**
Reservations	2	6	12
Amendments	19	37	34

58 There were two library indicators upon which reservations were placed in 2004/05, these were:

- PLS9 - number of books and other items added through purchase per 1,000 population; and
- PLS10 - time to replenish the lending stock of books and other items on open access or available on loan.

59 Both of these indicators were dependent upon the same system for their calculation. KPMG's review of this system indicated it was not reliable, and therefore placed a reservation on the two indicators.

60 KPMG have issued a report *Findings of the Audit of the Best Value Performance Plan and Performance Indicators 2005/06*, making recommendations on how the Authority can improve its arrangements further.

61 Recommendations included:

- enhancing the system for recording additions to library stock, to address the reservations placed on two indicators for 2004/05;
- including targets for all relevant indicators in the BVPP; and
- reminding directorates of the importance of recording the date of receipt of all invoices accurately on SAP, to help improve the accuracy of the indicator BVPI8 - percentage of invoices paid within 30 days.

62 The Authority should apply the recommendations in the detailed report to all performance information, not just the statutory BVPIs, in order to improve the quality of information used for decision-making, so increasing the effectiveness of the Authority's performance management arrangements.

Other Audit Commission inspections

Fire corporate assessment

63 The Comprehensive Performance Assessment for fire services was developed by the Audit Commission, in partnership with the fire service, Her Majesty's Fire Service Inspectorate, and the Government. It is an assessment, at the corporate level, of how well a fire authority is being run. It does not give an opinion on how well the fire service responds to emergency incidents. Authorities receive an overall score by being placed in one of five categories (excellent, good, fair, weak and poor).

64 The report was issued in July 2005, and the results are detailed below. Scores are on a 1 to 4 basis, with 1 being the lowest and 4 the highest.

Table 4 Summary of assessment scores

	Score
A – What is the Authority trying to achieve?	
Leadership and priorities	3
A balanced strategy	3

	Score
B - How has the Authority set about delivering its priorities?	
Capacity - governance and management	3
Capacity - resources and value for money	2
Capacity - people	3
C - What has the Authority achieved and, in the light of that, what does it plan to do next?	
Achievement of objectives	4
Achievement of improvement	3
Future plans	3
Overall score	**Good**

65 Overall, our review found that Oxfordshire Fire Authority (the Fire Authority) is a high performing, well-managed organisation with few significant weaknesses. Strong and conspicuous officer leadership coupled with a modern, professional management style has engendered an open and progressive culture. Staff at all levels are clear about the direction of travel and are empowered to contribute to the priorities of the Authority.

66 The Fire Authority has achieved some strong and improving performance in all the key priority areas related to its vision. Performance in relation to reducing fire deaths, injuries, unwanted calls, and arson is equal to the best nationally. Satisfaction levels are consistently high and costs low. On this basis, the Fire Authority clearly delivers excellent value for money to the communities it serves. There is also steady progress on the implementation of the modernisation agenda – integrated personnel development system (IPDS) is being rolled out to plan and the Authority's approach is cited as best practice by the ODPM.

67 The main barrier to the achievement of the Authority's ambitious programme of modernisation and improvement is limited capacity and the availability of adequate funding in the climate of financial constraint and competing demands for resources currently extant in the Council.

Working with other inspectorates and regulators

68 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Authority's performance. These include:

- Ofsted;
- Commission for Social Care Inspection (CSCI);
- DfES; and
- Local Government Office contact.

69 We share information and seek to provide 'joined up' regulation to the Authority, and the CPA scores in Table 1 (page 8) reflect the assessments of other regulators.

70 The Council successfully re-secured its two-star rating on its social services in the county, and has also received a Children's Services inspection during the year.

71 The inspection, which reviewed the Councils progress in July 2005, found that the Council was providing services well to some children and their carers in its area, with promising capacity for further improvement. Findings included:

- evidence from a number of sources of some commendable social work practice undertaken by skilled, committed, staff, including positive feedback from service users;
- innovative and imaginative development of services for children;
- excellent tripartite working between the social and health care directorate, the learning and culture directorate and Oxford City PCT (lead commissioner for children's health services for Oxfordshire);
- good progress on the change for children agenda; and
- improved budget management.

72 The inspection also found some improvement areas which limited the overall assessment to a 'some' rather than 'most' children judgement. These were practice in duty and assessment teams, particularly in Oxford city, the capacity of the fostering service, and some parental concern around services for disabled children.

73 However, the inspectors concluded that the Council had a competent management team, which was working with a purpose to improve services and a strong commitment from councillors and partner agencies, resulting in a promising assessment for future improvement.

Accounts and governance

Cornmarket Street reconstruction

74 The background, conduct and outcome of the Cornmarket Street reconstruction scheme is well known both to members and to the electorate. This was a capital scheme that went badly wrong, resulting in a substantial overspend.

75 Both the county and city councils took the decision to investigate their management of this contract through a public and independently chaired scrutiny process which published its findings in February 2005.

76 The scrutiny report was well-written and argued, was rightly critical of the processes of both councils, and has highlighted significant failings. Both councils have recognised these failings and have made a commitment to learn the lessons from these mistakes when managing similar contracts.

77 These deficiencies, and the Council's commitments to improve are now firmly in the public arena.

78 This issue was considered by the Council’s outgoing auditor, who was appointed auditor to both councils for the years in question. The auditor was kept informed of progress with the independent review, and has since reviewed its findings, based on the supporting evidence available.

79 His objective in so doing was to discharge his statutory duties, which in this case specifically include whether:

- there are any matters which are sufficiently important to draw to the attention of the public as a matter of public interest, ie whether there are any potential gaps in coverage of the review which it is in the public interest to explore further;
- the decision-making process was sufficiently robust and, as a result, whether the decisions taken were reasonable; and
- a loss has been incurred as a result of wilful misconduct on the part of individuals involved in planning, approving and managing this capital scheme.

80 The scrutiny report has helped considerably in reaching a conclusion on each of these areas. The outgoing auditor is satisfied that the scrutiny process has been robust and that it has identified and reported on the majority of issues which need to be brought to the attention of the public.

81 The final cost of the scheme reported to Cabinet was £4.50 million, which was very close to the 'best outcome' identified in the Scrutiny report of £4.44 million. This does not include any income gained through the mediation process which has not been publicly reported due to a confidentiality clause.

82 There are, however, two areas which the review was not in a position to effectively address, which have been considered by the outgoing auditor. This is not in any way a criticism of the review, but simply that the panel was not able to consider these areas:

- the process around mediation with affected parties, which the scrutiny panel was prevented from reviewing as a result of a confidentiality clause. This agreement has been reviewed, to consider whether a reasonable outcome was secured for the public in light of the evidence presented; and
- the role of members in terms of the original motivation for the scheme, and whether members were presented with all the information they required to enable them to make a lawful decision to proceed.

Mediation agreement

83 The County Council took a prudent approach to deciding on contract resolution options, and in conducting the subsequent mediation process. Key factors taken into account in reaching this conclusion are that:

- independent legal advice was sought at the outset regarding the decision to go to mediation, and the Council acted on that advice;
- the Council used an independent mediator;
- a record had been kept of the abortive costs incurred, and this was used to estimate a minimum negotiating position, before going into the formal mediation process;
- a settlement was secured which compared favourably with the expectation of consulting engineers employed to advise the Council; and
- both the members portfolio holder and the Director were kept informed of the progress and proposals for settlement.

Governance and members role

84 It is clearly important to frame expectations of members in the context of what was, initially, a relatively small scheme for the county.

85 Consideration has been given to the evidence that members should have been aware of the likely complexities of the scheme at the time they considered and passed the initial project appraisal, and if it would be reasonable to expect them to act other than they did.

86 This second issue is difficult to answer with certainty given the timespan since the original decision, but the joint scrutiny review of Cornmarket criticised initial risk management for the project and highlights that 'the City Council's design aspirations were not costed at the outset or the engineering practicalities at agreement'. It also suggests that the likely complexities of working on Cornmarket were already recognised at the inception of the scheme.

87 Decisions during this period do not record members raising concerns over the lack of detail in the project specification or the potential for things to go wrong. Officers did highlight to members that insufficient time had been allowed to properly work through all the design implications of the scheme before the funding was approved but minutes do not record any discussion over this point.

88 In conclusion:

- the project appraisal was very brief, although given the overall size of the scheme within the County's capital programme, this is not unexpected;
- it did not highlight to members the risks associated with the funding agreement, as they were not known at the approval stage. These were made known to leading members when they emerged in the course of negotiations;
- there is some evidence that some of the potential risks of a Cornmarket scheme were known at the time of the decision, and some risk assessment work had been completed by officers;
- members do not appear to have considered the issue of risk transfer for the scheme before they approved funding; and
- members may have accepted a level of risk with the scheme costings to meet a delivery timetable.

89 These issues will not come as a surprise to members as the issue of risk assessment and risk transfer was thoroughly explored by the scrutiny review. The lessons have been learned from this process through the full and public consideration of the scrutiny review.

90 Whilst this did result in weaknesses in the original member approval process, subsequent action by members at each stage of the process was considered to be appropriate and commensurate to the size of this scheme as cost concerns emerged.

91 In conclusion, the independent scrutiny review has identified all of the issues which needed to be brought to the attention of the public, and an appropriate commitment has been made by each council to address the weaknesses identified. It is not therefore necessary to consider the need to issue a public interest report. No evidence has been identified to indicate that weaknesses in Council processes led to an unlawful decision, or that a loss has been incurred as a result of the wilful misconduct of any individual or group of individuals. The completion of the 2003/04 audit was certified on 15 December 2005.

Audit of 2004/05 accounts

92 KPMG issued an unqualified opinion on the Authority's financial statement of accounts on 20 October 2005. KPMG's Systems and Accounts Report comments in detail on their findings and discharges the requirement under auditing standards (SAS 610) for them to report certain information to members, supplementing KPMG's verbal report given at the October 2005 meeting of the Authority's Audit Committee.

Matters arising from the final accounts audit

93 In response to the Robson Rhodes review of financial management in 2004, the Authority recognised the need to improve its financial reporting processes. Measures taken included creating the new post of the Assistant Head of Finance (Financial Accounting), supplementing the role of Chief Accountant which had already been established. The new post was filled from October 2005.

94 In the audit year 2004/05, the production of the Authority's accounts was coordinated by the Acting Chief Accountant (ACA). The ACA's role included:

- compiling the statement of accounts, including identifying accounting issues for discussion with auditors and the Head of Finance and Procurement;
- coordinating information needed from directorates for the statement of accounts;
- coordinating audit work and queries; and
- agreeing and making any changes required to the accounts as a result of the audit.

95 By having this central co-ordinating role, the Authority was able to provide KPMG with most of the documentation required in advance of the audit date and have one officer who was the key point of contact for our queries.

96 KPMG also noted that where they required further information or explanations to support account balances the Authority was able to provide this within the timescales given. KPMG also acknowledge that the Authority ensured that appropriate, knowledgeable and skilled staff were available to deal with their queries.

Key issues and recommendations

97 During KPMG's final accounts work, they identified a number of issues. These included control weaknesses in the Authority's financial systems, material adjustments required to the accounts and the potential to further develop the quality of the working papers prepared by the Authority in advance of the audit. These issues can be addressed through improving processes and considering certain accounting issues in advance of the preparation of next year's accounts.

98 Opportunities for improving control include the following.

- The Authority should implement a systematic, independent review of journals entered on SAP.
- The Authority should explore the practicality of including all capital expenditure in the asset register.
- There should be formal, documented reconciliations between the asset register and the general ledger and between the asset register and the valuer's report.
- Procedures should be established to enable central Financial Services staff to review directorates' accounting treatment of capital expenditure.

99 There were a small number of material audit adjustments of a technical accounting nature, which did not impact on the Authority's Consolidated Revenue Account or the organisations reported financial position for 2004/05. These are as follows.

- The Authority's draft accounts did not disclose assets under construction. The restatement increased the fixed asset balance by **£76 million**.
- The cash figure in the Authority's balance sheet needed to be adjusted for **£1.3 million**.
- A holding account used for the payment of pensions had not been accounted for correctly. The adjustment reduced the cash balance by **£2.7 million**.
- The Authority's provision, established to meet internally insured risks, did not fully comply with the SORP. It was reduced by **£3.8 million** and an insurance reserve established to enable the Authority to maintain funds to meet anticipated claims whilst still complying with accounting standards.

100 Opportunities for improving the financial reporting process include the following.

- The Authority should ensure, through independent review that all working papers are of an appropriate standard, are clearly referenced and easy to follow.
- The Authority should ensure that its closedown timetable is further developed and includes the whole process of producing and publishing the accounts, including defined quality checks at each stage.
- The Authority should identify all unapplied capital grants held to ensure that they can be accounted for correctly in 2005/06.

101 KPMG have included these and other performance improvement observations in their 2004/05 Systems and Accounts Report. KPMG discussed their findings with the Authority in January 2006.

Financial standing

102 The Authority's financial position remains sound and consistent with its medium-term financial strategy.

103 Budget underspends are managed through a system of carry forwards. Where directorates underspend, they may apply to carry the amounts into the next financial year. This is managed through a carry forward reserve.

104 The Cabinet has reviewed carry forward proposals from 2004/05 into 2005/06 in more detail than in prior years. The objective of this is to ensure that underspent resources are allocated where they are most needed and for funds not to be automatically rolled forward where there is a history of underspending. The carry forward reserve as at 31 March 2005 stood at £3 million, compared to £2.6 million at the start of the year.

105 School balances have increased significantly during the financial year, from £10.2 million in March 2004 to £16.1 million in March 2005. An element of this is the final settlement of deposits arising from the city schools reorganisation amounting to £1.7 million.

106 The other element of the balance relates to the underspend on devolved formula capital (DFC). This is funding for capital projects administered directly by schools to address the priorities in their asset management plans. Expenditure on these projects depends on when each school schedules the work and also on whether it can progress in accordance with these timescales.

107 The latest 2005/06 forecasts indicate further underspends on DFC. Whilst these may reduce in future years as projects progress, the Authority may wish to consider how it can ensure that schools are adequately supported in terms of project management expertise to ensure that projects and outcomes can be delivered within the intended timescales.

108 The Authority has continued to strengthen its financial position during 2004/05 through increasing the level of its reserves. The Authority has adopted a policy of increasing reserves to 2 per cent of its expenditure. KPMG understands that this has been achieved, ahead of schedule, during the first half of 2005/06. However, the Authority will need to continue to monitor its target reserve levels to ensure that the 2 per cent target remains appropriate as the risks to which the organisation is exposed evolve. It should also continue to monitor the level of reserves to ensure that they remain at an appropriate level – not significantly exceeding the level the Authority deems appropriate whilst also sufficient to meet its needs.

109 The Authority reports revenue and capital expenditure to members. During KPMG's work on the use of resources assessment, it was noted that income collection and arrears are not included as part of this monitoring process. Supplementing the monitoring reports with this information would provide the Authority with greater assurance over the effectiveness of its income collection process.

110 The Oxfordshire Pension Fund underwent an actuarial valuation during the year. This triennial valuation provided information on how the fund's assets compared with its liabilities at 31 March 2004. This showed that assets were 65 per cent of the liabilities estimated by the actuary and that the fund's assets had fallen in value compared to previous years.

111 An important contributory factor was the falling value of shares between 2001 and 2003; other local authority pension funds have been similarly affected. The Oxfordshire Pension Fund's performance was below the average of its local authority peer group during 2001/02 and 2002/03. However, the Authority responded positively to the challenge of improving investment management and, in July 2003, moved to using a larger number of investment managers with changes to both strategic and tactical asset allocations to improve flexibility and maximise returns. In 2004/05, independent benchmarking reports show that the Oxfordshire Pension Fund was the top-performing county council pension fund.

112 The Authority is required to publish a funding strategy statement to set out how it will ensure that the pension fund remains sustainable and adequately funded. Taking account of amendment's to pension regulations, noted in last year's Annual Audit and Inspection Letter, the Authority has set a period of 25 years to address the deficit. This allows for more smoothing of the required increase in pension contributions. Accordingly, the average contribution rates of the admitted bodies of the fund have increased from 14.9 per cent to 17.7 per cent so that the funding gap is recovered over the planned timescale.

Systems of internal financial control

113 KPMG has not identified any fundamental weaknesses in the overall financial control framework of the Authority. Where appropriate, recommendations have been made on the Authority's systems of internal financial control as part of KPMG's Systems and Accounts Report.

114 The following sections summarise the key control issues arising from KPMG's work. These are in relation to the review of Internal Audit and issues with the Abacus computer system.

The Abacus system

115 In the 2003/04 Annual Audit and Inspection Letter, the Audit Commission reported on issues relating to the Authority's income from charges for residential and domiciliary care. These are managed through the Abacus computer system.

116 The Abacus system is designed as a tool for undertaking financial assessments of clients. The Authority also uses it to maintain records of amounts owed by each client.

117 As part of the 2004/05 accounts audit work, KPMG have taken account of these issues and noted, in its Systems and Accounts Report, that the Abacus system still requires development in that it does not facilitate the production of effective management information, making adequate controls, such as arrears monitoring, difficult to achieve. This factor, combined with the lack of compensating controls, creates the potential for significant under and over charging of clients to occur, as reported in last year's Annual Audit and Inspection Letter.

118 The Authority has invested significant time and resources to resolve these issues, carrying out a restitution project in which a large sample of clients was reviewed to ensure that its charges were correct. Where errors were identified, records have been updated and the charge to the client amended accordingly.

119 There have also been enhancements to the financial control procedures around Abacus, including reviewing and documenting the process around posting information between Abacus and SAP. This has helped the Authority to demonstrate that the transactions have been correctly accounted for in SAP.

120 Other improvements are still in progress, for example, KPMG observed that credit control staff have now been employed to address the credit control issues.

121 Over the coming months, their work in reviewing outstanding debts should further improve the accuracy of the Authority's data and help to recover outstanding amounts due.

122 KPMG noted that the Authority has made a decision that Abacus should be replaced as part of Project LINK. The aim of this change will be to transfer the functions currently performed by Abacus to SAP and to the Swift Care management system which is already in place. If successfully implemented, the project should improve both financial control and make the overall care management process more efficient.

Internal Audit

123 KPMG reported the findings of its review of Internal Audit services in its Interim Report. A number of opportunities for the Authority's Internal Audit to develop further were noted, including:

- by the end of the 2004/05 financial year, only 25 per cent of the Audit Plan for that year had been completed and reported on;
- the service had identified that it did not fully comply with the CIPFA Code of Practice for Internal Audit in Local Government, and had not reported to members on intended corrective action;
- there was not a clear link between audit risk assessment and the corporate approach to risk management;
- there was a need to reassess the nature and level of work performed on schools and IT risks, as well as the overall level of Internal Audit resource; and
- the service did not use performance indicators to measure and report its performance to members.

124 Action has now been taken to address these issues and implement KPMG's recommendations. For example:

- actions have been taken to reduce the time taken to complete fieldwork and finalise reports. Internal Audit services anticipates completing the majority of 2005/06 audits by March 2006 and will set a target for 100 per cent completion of the 2006/07 Audit Plan by March 2007;
- Internal Audit services has reported on ongoing areas of non-compliance with the CIPFA Code and has an action plan in place to ensure compliance in future;
- the approach to audit risk assessment is being revised as the Authority's risk management arrangements develop;

- there has been a reassessment of the approach to IT and schools audit to help ensure that risks are adequately addressed; and
- a suite of performance indicators has been identified for presentation to members.

125 Internal Audit services is making good progress towards improving its performance. Members should continue to monitor its progress.

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

126 The primary responsibility for the prevention and detection of fraud and corruption rests with both those charged with governance and management. KPMG's work in this area is designed to assess the controls established by management rather than undertaking testing to identify instances of fraud and corruption. KPMG undertook this by reviewing the Authority's policies and procedures to prevent fraud and corruption and through discussions with members and senior officers to gain an understanding of how their role impacts on this activity.

127 KPMG noted that the Authority has a number of policies in this area:

- an anti-fraud and corruption strategy;
- a protocol for the investigation of financial irregularities; and
- a whistleblowing policy.

128 These policies are regularly updated, held on the Authority's intranet and comply with good practice requirements.

129 KPMG also held discussions with key members and senior officers of the Authority. These included:

- the Leader of the Council;
- the Chief Executive;
- the Chair of the Audit Working Group (AWG);
- the Director for Resources;
- the Head of Legal Services (the Authority's Monitoring Officer);
- the Head of Finance and Procurement (the Authority's Section 151 Officer); and
- the Chief Internal Auditor.

130 The objective of these discussions was to document members' and officers' understanding of their role in the Authority's overall process for the prevention and detection of fraud and corruption. Additionally, these discussions focused on the responsibilities of those charged with governance under the auditing standard ISA 240 (revised).

131 The ISA states that:

> *'Those charged with governance of the organisation are responsible to ensure, through oversight of management, that the organisation establishes and maintains internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations'.*

132 KPMGs discussions indicated that both officers and members had a good understanding of their role in the prevention and detection of fraud and corruption. Whilst they acknowledged that internal control processes could be improved, 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 and corruption which have occurred within the organisation in 2004/05.

133 In discussions, members informed KPMG that, while they acknowledged that instances of fraud and corruption are rare, they are not routinely informed of when an instance of fraud and corruption occurs.

Recommendation: Fraud and corruption reporting
R4 The Authority should report to members (either through the AWG or the Audit Committee) instances of fraud or corruption (together with other details, for example values, if police have been involved, etc) or a 'nil' return, confirming that the Authority is not aware of any instances where fraud and corruption has occurred. This should occur on a quarterly basis or in line with the meetings of the AWG or the Audit Committee.

Legality of transactions

134 KPMG has not identified any significant weaknesses in the Authority's arrangements for ensuring the legality of its significant financial transactions.

135 KPMG's main review in this area was of the role and effectiveness of the Authority's Monitoring Officer. A summary of the scope and findings of this review is given below.

The role of the monitoring officer

136 Section 5 of the Local Government and Housing Act 1989 places responsibility on the monitoring officer for overseeing vires issues, in particular, reporting to the Authority any proposal, decision or omission that would give rise to unlawfulness or if any decision has given rise to maladministration. The monitoring officer therefore performs a key function in ensuring legality and fairness in the operation of the Authority's decision-making process, including investigation and reporting on issues that embrace all aspects of the Authority's functions.

137 KPMG undertook a review of the role of the Authority's Monitoring Officer in 2005. This review examined the wider implications of the role in the context of the current legal framework and assessed how the responsibilities associated with the monitoring officer function are currently being applied at the Authority and how they may be further developed.

Overall summary

138 The Monitoring Officer has not had to exercise his powers to issue a formal report to the Authority under section 5 of the Local Government and Housing Act 1989. KPMG's review has indicated that the Monitoring Officer has adequately discharged his formal responsibilities as set out in the Authority's constitution and also it is consistent with recognised good practice within the public sector.

139 The Monitoring Officer has a robust process in place to identify and monitor the legal basis for the Authority's decision-making procedures. The views from members were overwhelmingly positive regarding the role the Monitoring Officer has performed.

140 The Authority proposed to expand the role of the Monitoring Officer in 2005 so that there would be greater liaison with senior officers and members. At that time, the Authority needed to ensure that this new approach was carefully considered so that it would be effective, given the impending retirement of the then postholder.

141 KPMG recommended that the Authority at this time also considered more formally the nature of the role, how it should be carried out and what resources were needed to deliver it.

142 KPMG's recommendations also included:

- communicating the role to the Authority in a formal report that includes a working protocol with members and officers;
- considering the position that the Monitoring Officer holds within the management structure;
- ensuring the independence of the post and providing safeguards for potential conflicts of interest;
- defining the responsibilities when carrying out other Authority tasks;
- appointing and defining the responsibilities of a new deputy monitoring officer; and
- reviewing the resource requirements that the Monitoring Officer will need in the future for professional and administrative support.

143 The Authority agreed to the recommendations. KPMG were informed by the Authority that all but one of the recommendations has now been implemented. KPMG understands that the Authority is still in the process of reviewing the resources the Monitoring Officer will need to provide him with future professional and administrative support.

Use of resources judgements

144 The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the Authority. It looks at how the financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. For single tier and county councils, the use of resources assessment forms part of the CPA framework.

145 For the purposes of the CPA, KPMG has assessed the Authority's arrangements for use of resources in five areas.

Table 5

Element	Assessment
Financial reporting	1 out of 4
Financial management	2 out of 4
Financial standing	2 out of 4
Internal control	2 out of 4
Value for money	2 out of 4
Overall	**2 out of 4**

(Note: 1=lowest, 4=highest)

146 In reaching these judgements, KPMG has drawn on the above work and supplemented this with a review against specified key line of enquiry. KPMG have detailed below instances of good achievement and areas where further development is required.

Financial reporting

147 KPMG observed good practice in the following areas.

- The Authority ensured that appropriate, knowledgeable and skilled staff were available to deal with external auditors' queries, to substantiate assertions, and to explain items of account.
- The Authority publishes the Annual Audit and Inspection Letter in accordance with the requirements of the Accounts and Audit Regulations 2003.

- The Authority has made its accounts and minutes available on its website and has complied with the statutory requirements to publicise the accounts within the inspection period.
- The agenda, reports and minutes for meetings of full council, committees and scrutiny panels are made available to the public through its website on a timely basis.

148 However KPMG observed the following areas where the Authority could further develop its processes:

- ensure that the accounts submitted for audit are subject to a thorough review by a senior officer to ensure that they do not contain errors, omissions and material misstatements;
- ensure that fully comprehensive working papers are provided to KPMG at the commencement of the audit; and
- establish a clear process of consultation with a range of stakeholders to establish their requirements in respect of the publication of summary accounts or an annual report. Once this process is complete the Authority should publish a summary set of accounts and/or annual report which is separate to its detailed financial statements.

Financial management

149 KPMG observed good practice in the following areas.

- The Authority has put in place a medium-term financial strategy which is linked to its key strategic objectives, and takes account of local improvement and national priorities.
- A comprehensive and balanced revenue budget has been set, based on realistic projections about pay, inflation, and known service and capital development plans.
- The appropriate member committee receives budget monitoring information that is accurate, relevant, understandable and consistent with underlying records, and data is as up-to-date as possible when reported.
- The Authority produces accurate profiled financial monitoring reports for all budget holders within ten working days of the month-end.
- The Authority has an up-to-date corporate capital strategy linked to its corporate objectives and medium-term financial strategy.

150 However KPMG observed the following areas where the Authority could further develop its processes.

- Ensure that its business and financial processes are systematically linked.
- It should ensure that its medium-term financial plan is actively communicated to all its stakeholders.

Financial standing

151 KPMG observed good practice in the following areas.

- The Authority sets a balanced budget that takes account of cost pressures and the impact on council tax.
- The Authority maintains its overall spending within budget.
- The Authority has a policy on the level and nature of reserves and balances it needs that has been approved by members and reflected in the budget and medium-term financial strategy.
- The Authority monitors the budget and underlying assumptions throughout the year and takes appropriate action to deal with any deterioration in the financial position.
- The Council has a treasury management strategy that reflects the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services.
- The Authority monitors and maintains its levels of reserves and balances in accordance with its agreed policy.

152 However KPMG observed the following areas where the Authority could further develop its processes.

- Ensure that the Cabinet receives fully accrued financial monitoring reports including appropriate revenue account and balance sheet items. The Authority should introduce a 'traffic light' system (or similar) to focus the Cabinet on key variances.
- The Authority should ensure that it makes investment and disposal decisions based on thorough option appraisal and whole life costing on all of its projects. KPMG understands that there has been a recent decision by the Capital Steering Group that investment decisions should be based on whole life appraisals, however, this decision was made following the use of resources work and has as yet not been agreed by the Cabinet.
- Monitoring information should be available that jointly evaluates the effectiveness of recovery actions, associated costs, and the cost of not recovering debt promptly. The output from this process should be reported to Members.

Internal control

153 KPMG observed good practice in the following areas.

- The organisation has adopted a risk management strategy/policy that has been approved by members.
- The Audit Working Group has risk management as a standing item on its agenda. It receives reports regularly and takes action to ensure that corporate business risks are being actively managed, including reporting to full council at least annually.

- The Audit Working Group and Audit Committee have been established as member groups with responsibility for review and approval of the SIC separately from the approval of the accounts.
- The Authority has formally adopted a code of conduct for members that includes the mandatory provisions of the statutory model Code of Conduct.
- There is a counter fraud and corruption policy applying to all aspects of the Authority's business which has been communicated throughout the Council.

154 However KPMG observed the following areas where the Authority could further develop its processes.

- Embed risk management in its corporate processes, for example in strategic and financial planning and performance management.
- The need to consider positive risks (opportunities) as well as negative risks (threats) as part of its risk management framework.
- Ensuring that Internal Audit fully complies with the CIPFA Code of Practice for Internal Audit in Local Government.

Value for money

155 KPMG observed good practice in the following areas.

- The Council has value for money (VFM) as a central focus in its policies, both at a strategic and operational management level. The controlling group's manifesto states 'low taxes, real choice and VFM'. Spending and budget monitoring is reported and challenged by cabinet, CCMT and directorate management teams on a monthly basis.
- Performance outputs and outcomes are examined through quarterly reporting arrangements that combine a range of performance indicators and assessment criteria and risks affecting the cost effectiveness or performance of service priorities and projects are monitored at service and corporate-level through its risk registers.
- VFM is considered in the Council's annual budget setting round, with a focus on reducing budgets whilst maintaining and improving service delivery.
- Oxfordshire's costs compare well with other local authorities and its spending per head, total expenditure and spend per head budget requirement, is below average compared to other county councils.
- Oxfordshire is rated as 'good' under the CPA, with particular examples of good service being delivered by waste recycling, the youth service, and youth offending teams, bus patronage, SEN and Fire and Rescue, thereby demonstrating good VFM in the delivery of its services. Oxfordshire's CPA report recognised the Council's 'best value review process routinely involves external challenge and produces clear improvement plans that have delivered service improvements.'

156 However, KPMG observed the following areas where the Authority could further develop its processes.

- Routinely benchmark all its services, both in cost and performance terms in a consistent and robust manner. The output from such a benchmarking process should be reported to members on a regular basis.
- Formally review how external costs, for example, transport costs; staff costs; and housing costs have an impact on its service costs. The Authority could then use the output of this review better to understand and compare its costs, enabling a more meaningful comparison of its performance with other authorities.
- Ensure that information on costs and the quality of its services is collected and regularly reported to members.
- The impact on users needs to be assessed and then tracked to ensure that costs and savings are taken into account with expected outcomes.
- Clearly demonstrating that it works with and has fully explored options for joint procurement with appropriate partners (such as those within the Oxfordshire Community Partnership) to improve VFM across the Authority.
- To continue the evolving use of partnerships to reduce its costs and improve the quality of its services. Whilst it was noted that Initiatives are developing (such as with the local District Councils and the NHS) it is too early at this stage to clearly identify the impact of these.

157 These findings and areas where the Authority needs to develop further were discussed with the Authority during September and October 2005. The Authority should ensure that these areas are fully addressed in order to improve the performance of the Authority in those areas detailed above.

Other work

Grant claims

158 KPMG's work on the Authority's grant claims and returns, based on a risk assessment, whereby the size and complexity of each grant scheme and the quality of the controls in place over its management determines the level of work performed.

159 This has enabled KPMG to reduce the amount of work undertaken in certifying the Authority's claims and returns. However, any further reduction in the level of testing depends upon the adequacy of the controls the Authority puts in place over its grant schemes.

160 The Authority's arrangements for managing and quality assuring grant claims have been improving in recent years. The table below illustrates the reducing number of issues observed through auditor certification.

Table 6 Management of grant claims

Year	2000/01	2001/02	2002/03	2003/04
Submitted after due date	38%	33%	34%	26%
Claim/return qualified or amended	51%	33%	34%	23%
Working papers initially inadequate	62%	80%	41%	47%

161 Work on the 2004/5 claims and returns is still in progress. KPMG's work to date suggests that performance against these criteria is broadly in line with 2003/04.

162 Areas where further improvement could be made include:

- considering terms and conditions of each grant scheme when planning expenditure against the scheme, to ensure that only expenditure which is permissible under the scheme is claimed when the claim form is completed at the end of the financial year;
- ensuring that claims are reviewed and signed by an officer who is empowered to do so under the Authority's scheme of delegation; and
- establishing a detailed review process for the compilation of the claim and working papers to prevent or detect errors in the claim before they are passed to auditors.

163 The Authority, through the Audit Committee and Audit Working Group, should ensure that these issues are addressed in time for the certification of 2005/06 grant claims and returns.

National Fraud Initiative

164 In 2004/05, the Authority took part in the Audit Commission's National Fraud Initiative (NFI). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector.

Additional voluntary work

165 Section 35 of the Audit Commission Act 1998 provides for additional work on improvement areas, outside the main audit, to be performed. KPMG has not performed any additional voluntary work under section 35 during the 2004/05 audit cycle.

Looking forwards

Future audit and inspection work

166 KPMG have an agreed plan for 2005/06 and have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including KPMG's audit of the 2005/06 accounts, will be reported in next year's Annual Letter. KPMG planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.

167 KPMG have sought to ensure, wherever possible, that its work relates to the main financial risks facing the Authority. KPMG will continue with this approach when planning its programme of work for 2006/07.

Revision to the Code of Audit Practice

168 The statutory requirements governing KPMG's audit work, are contained in:

- the Audit Commission Act 1998; and
- the Code of Audit Practice (the Code).

169 The Code has been revised with effect from 1 April 2005. Further details are included in KPMG's Audit Plan which has been agreed with the Audit Committee in May 2005 as part of the overall Audit and Inspection Plan for 2005/06. The key changes include:

- the requirement to draw a positive conclusion regarding the Authority's arrangements for ensuring value for money in its use of resources; and
- a clearer focus on overall financial and performance management arrangements.

Closing remarks

170 This letter has been discussed and agreed with officers and leading members. A copy of the letter will be presented at the Audit Committee on 8 March 2006.

171 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the council's assistance and co-operation.

Availability of this letter

172 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

KPMG LLP
Appointed Auditor

Andy Burns
Relationship Manager

27 January 2006

Appendix 1 – Background to this letter

The purpose of this letter

1 This is the Audit Commission's and KPMG's Annual Audit and Inspection Letter for members which, incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and Appointed Auditor, KPMG (through the Engagement Partner, Will Carr). The letter summarises the conclusions and significant issues arising from both organisations' recent audit and inspections of the Council.

2 The Audit Commission and KPMG have issued separate reports during the year setting out the findings and conclusions from the specific elements of their work programmes. These reports are listed at Appendix 2 for information.

3 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. KPMG's audit has been conducted in accordance with the principles set out in that statement. What KPMG say about the results of its audit should be viewed in the context of that more formal background.

4 Appendix 3 provides information about the fee charged for KPMG's audit and the Audit Commission's inspections.

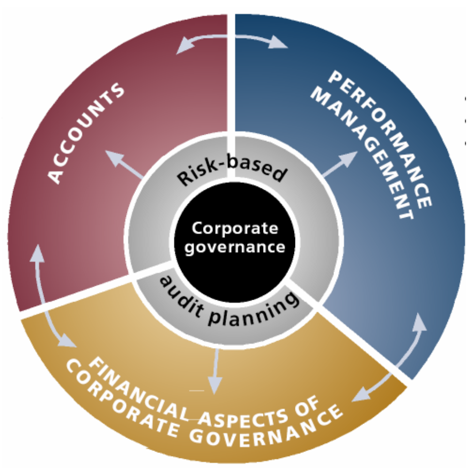
Audit objectives

5 KPMG's main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. KPMG adopted a risk-based approach to planning its audit, and its audit work has focused on your significant financial and operational risks that are relevant to its audit responsibilities.

6 Central to KPMG's audit are your corporate governance arrangements. KPMG's audit is then structured around the three elements of its responsibilities as set out in the Code and shown in Figure 1.

Figure 1 Code of Audit Practice

Code of practice responsibilities



7 KPMG's audit responsibilities with regards to the above three elements is shown below.

Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best value performance plan.

Appendix 2 – Audit reports issued

Table 7

Report title	Date issued	Number of recommendations
Audit Plan - 2004/05	May 2004	-
Audit Plan - 2004/05 - refreshed	February 2005	-
Social Services PAF Data Quality Audit	March 2005	11
Findings of the Audit of the Best Value Performance Plan and Best Value Performance Indicators - 2004/05	March 2005	5
Corporate Assessment	April 2005	-
Audit Plan - 2005/06	May 2005	-
Interim Report - 2004/05	October 2005	21
Role of the Monitoring Officer	June 2005	7
Fire Corporate Assessment	July 2005	-
Findings of the Audit of the Best Value Performance Plan and Performance Indicators - 2005/06	November 2005	6
Systems and Accounts Report – 2004/05 (draft)	December 2005	25
Annual Audit and Inspection Letter – 2004/05 (draft)	December 2005	4

Appendix 3 – Audit fee

Table 8 Audit fee update

Audit area	Revised Plan 2004/05	Actual 2004/05
Accounts	£105,000	£105,000
Financial aspects of corporate governance	£95,000	£95,000
Performance	£85,000	£85,000
Total Code of Audit Practice fee	**£285,000**	**£285,000**
Additional voluntary work (under section 35)	-	-
Total	**£285,000**	**£285,000**

Inspection fee update

1 The full year inspection fee is £52,000. The work reported in this Audit and Inspection Letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years the actual fee will be in line with that planned.