

Annual Audit Letter

Oxfordshire County Council

Audit 2009/10

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The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Contents

Summary	2
Audit opinion and financial statements	2
Value for money.....	2
Current and future challenges	2
Financial statements and annual governance statement	4
Overall conclusion from the audit	4
Significant weaknesses in internal control.....	4
Value for money	5
2009/10 use of resources assessments.....	5
Value for money conclusion.....	5
Approach to local value for money work from 2010/11.....	6
Current and future challenges	8
Financial Standing	8
International Financial Reporting Standards.....	9
Closing remarks	10
Appendix 1 Audit fees	11
Appendix 2 Glossary	12
Appendix 3 Action plan	13

Summary

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of the Council's financial statements (page 4); and**
- **my assessment of the arrangements to achieve value for money in its use of resources (pages 5 to 7).**

Audit opinion and financial statements

1 I issued an unqualified opinion on the financial statements on 28 September 2010. My unqualified opinion included the audit of the Pension Fund the Council administers.

2 I found some errors within the accounts including one material error. These errors had no effect on the Council's financial position or the money available for Council's services. The Council responded positively to both the audit and my findings and corrected the errors before I gave my opinion.

Value for money

3 I also issued an unqualified value for money conclusion on 28 September 2010 indicating that the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources are adequate.

Current and future challenges

Financial standing

4 The government's Spending Review and the economic downturn provide a major challenge to the Council. Central government funding will reduce by around 28% across 4 years and the Council has identified extra pressures on services and finances because of the recession. The Council has been proactive and carried out scenario planning as well as identified around £100 million detailed savings so far. The impact of all the pressures is around £155 million for the Council. At this level, service cuts are unavoidable as well as identifying other efficiencies. The Council has consulted with stakeholders to inform their understanding of the value of services. The Council must keep a strong corporate overview of the savings plans to ensure that they maintain value for money across the new balance of services and that savings are identified and achievable.

Maintaining internal control

5 The Council has recognised the importance of maintaining internal control at a time of change, staff loss and financial pressure. The Audit Committee has committed to maintaining internal control and the Internal Audit Service is re focusing its annual plans to recognise the new environment. During the audit we noted a few controls that were in place but not being properly evidenced. The new environment gives the Council the opportunity to challenge the controls in place, ensure that they are all essential and sufficient in the new environment and then make sure those that are in place are fully evidenced.

International Financial Reporting Standards (IFRS)

6 Like other local government authorities, the Council must prepare financial statements for 2010/11 based on International Financial Reporting Standards (IFRS). The Council has been proactive and detailed in planning for and implementing requirements. Progress has generally been on track and the Council is well placed to meet all the statutory deadlines for financial reporting in 2010/11.

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Financial statements and annual governance statement

The financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

7 I issued an audit report including an unqualified opinion on the financial statements on 28 September 2010. My unqualified opinion included the audit of the Pension Fund which the County administers.

8 I identified some errors within the statements including one material error of £34m where pension fund owned cash had been included within the financial statements as both an asset and a liability. The Council corrected the errors before I gave my opinion. In addition the accounts production team provided good working papers and worked positively with the audit team to deliver the opinion.

Significant weaknesses in internal control

9 Overall the control environment was found to be adequate with some effective controls in place. However, we did identify a number of areas where controls need to be strengthened. This includes implementing controls to provide the Council with assurance that its IT equipment is still in existence within departments and improving the evidencing of some controls more generally.

10 Before giving my opinion I reported to the Audit Committee on the internal control issues arising from the 2009/10 audit and included recommendations to improve in my annual governance report.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed its performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money conclusion.

2009/10 use of resources assessments

11 At the end of May 2010, the Audit Commission wrote to all chief executives to inform them that following the government's announcement, work on Comprehensive Area Assessment (CAA) would end immediately. The Audit Commission would no longer issue scores for its use of resources assessments.

12 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of my work on the use of resources assessments for both the County Council and the integrated fire service to inform my 2009/10 conclusion.

13 I report the significant findings from the work I have carried out to support the value for money conclusion.

Value for money conclusion

14 I assessed the Council's arrangements to achieve economy, efficiency and effectiveness in its use of money, time and people against criteria specified by the Audit Commission.

15 This is a summary of my findings and represents the outcomes from the two assessments, one of the County Council and one of the integrated fire service:

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes
Strategic Asset Management	Yes
Workforce	Yes

16 I issued an unqualified conclusion stating the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

Planning for financial health

17 As part of my work I kept a watching brief of the Council's plans for addressing the financial pressures for the next few years. I have set out my findings from this review from paragraph 22.

IT security

18 I completed a survey of staff to assess their understanding and behaviours around IT security. Over 1000 staff responded. The findings were generally positive with 67 per cent rating arrangements 'good' or 'very good'. Staff recognise that they have a role to play in ensuring security and it is not simply the responsibility of designated teams or individuals. We identified a few areas where awareness and behaviours could be improved. Officers were positive about the areas for improvement and in one case had already included the issue within their own plans.

Approach to local value for money work from 2010/11

19 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders about possible new approaches to local value for money audit work. The Commission aims to introduce a new, more targeted and better value approach to our local value for money audit work.

20 I will base my work on fewer reporting criteria, specified by the Audit Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

21 I will determine a local programme of value for money audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer provide an annual scored judgement for my local value for money audit work. Instead I will report the results of all this work, and the key messages for the Council, in my annual report to those charged with governance and in my annual audit letter.

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Current and future challenges

Financial Standing

Comprehensive Spending Review and economic downturn

22 The Council faces some major challenges. These include responding to the government's Spending Review that has set out a 28% decline in central government funding of local councils across 4 years. The Council has also identified additional pressures on services and finances because of the recession. The Council has been anticipating these pressures and has combined broad scenario planning with more detailed pursuit of the first £100 million savings required.

23 The impact of the Spending Review is that £155 million of savings will be required over 4 years. This is lower than the prudent estimate of £200 million that the Council had been working to but does require greater up front savings in year 1. The Council are realistic that, at this level of cuts, it is a matter of combining efficiencies with unavoidable service cuts. It plans to challenge all savings identified so far in the light of this new target. It has also taken steps to understand local priorities to inform where these cuts will fall with a series of public meetings as well as on line comments.

24 The Council was clear that responsibility for identifying the £100 million savings so far has lain with the directorates with corporate level challenge then applied. We did note that for a few savings figures this meant we were unable to get enough detail to support the specific target. The Council will need to increase the degree of corporate challenge and driving of the changes to ensure the balance of resources across the whole Council continues to reflect local priorities and value for money.

25 In addition during 2009/10 the Council's net pension liability against fund assets increased by nearly £195 million reducing the Council's net worth by the same amount and increasing the pressure to fund the gap.

26 Our work in the past has recognised some positive actions by the Council to support partnership working. With the current financial environment the strength and commitment of partnerships will provide greater opportunity for value for money across an area than with each organisation working alone. It will however provide additional challenge to ensure the savings plans of all organisations are co-ordinated to ensure that one organisation's cut does not become another organisation's cost pressure.

Maintaining internal control

27 The Council has recognised the importance of maintaining internal control at a time of change, staff loss and financial pressure. The Audit

Committee has committed to maintaining internal control and the Internal Audit Service is re focusing its annual plans to recognise the new environment. During the audit we noted a few controls that were in place but not being properly evidenced. The new environment gives the Council the opportunity to challenge the controls in place, ensure that they are all essential and sufficient in the new environment and then make sure those that are in place are fully evidenced.

Recommendation

R1 At this time of major change, ensure that:

- strong corporate overview of savings plans is taken so money remains with priority services and overall value for money is maintained;
- savings plans are co-ordinated with partners to secure value for money for the area;
- savings identified are detailed and achievable; and
- internal control is challenged to ensure it is appropriate in the new environment and properly evidenced.

International Financial Reporting Standards

28 Like other local authorities, the Council must prepare financial statements based on International Financial Reporting Standards (IFRS) for 2010/11. The transition to IFRS is challenging. The financial impact will vary widely from one body to another but the broader implications are wide-reaching. IFRS is not just a technical accounting issue for the finance team as there are wider process and systems changes to consider across the organisation. Significant preparatory work is essential.

29 The Council has recognised the challenges posed by IFRS and has committed resources to this. It has been proactive and detailed in setting out plans to meet the requirements. Where appropriate the Council has also taken expert advice to inform their actions. It has also taken time to ensure that members of the Audit Committee are aware of the requirements and the Council's progress against them. Work is generally on track and the Council is well placed to meet the requirements.

Closing remarks

30 I have discussed and agreed this letter with the Chief Executive and the Assistant Chief Executive and Chief Finance Officer. I will present this letter at the Audit Committee on 17 November 2010 and will provide copies to all members.

31 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit plan	April 2009
Opinion plan	August 2010
Annual governance report	September 2010
Opinion	September 2010
Value for money conclusion	September 2010
Your Business @ Risk	September 2010
Annual Audit Letter	November 2010

32 I have set out my audit fees for 2009/10 in Appendix 1.

33 The Council has taken a positive and helpful approach to our audit. I wish to thank Oxfordshire County Council staff for their support and cooperation during the audit.

Maria Grindley
District Auditor

November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£145,200	£145,200	--
Value for money	£135,000	£135,000	--
Total audit fees	£280,200	£280,200	--

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Appendix 2 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code. This includes how it has monitored the effectiveness of its governance arrangements in the year and any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

Appendix 3 Action plan

Recommendations

Recommendation 1

At this time of major change, ensure that:

- strong corporate overview of savings plans is taken so money remains with priority services and overall value for money is maintained;
- savings plans are co-ordinated with partners to secure value for money for the area;
- savings identified are detailed and achievable; and
- internal control is challenged to ensure it is appropriate in the new environment and properly evidenced.

Responsibility

Priority

Date

Comments

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