

Annual Audit Letter

Oxford City Council

Audit 2009/10

DRAFT

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

Key messages	2
Audit opinion and financial statements	2
Value for money.....	3
Current and future challenges	3
Housing Benefit inspection	3
Financial statements and annual governance statement	4
Overall conclusion from the audit	4
Significant weaknesses in internal control.....	6
Local electors questions and objectors.....	6
Value for money	7
2009/10 use of resources assessments	7
Value for money (VFM) conclusion.....	7
Risk-based performance reviews	8
Approach to local value for money work from 2010/11.....	9
Current and future challenges	10
Economic climate and pressure on the public sector	10
Financial Reporting Standards	10
Closing remarks	11
Appendix 1 – Audit fees	12
Appendix 2 – Glossary	13
Annual governance statement	13
Audit opinion.....	13
Financial statements.....	13
Qualified.....	13
Unqualified.....	13
Value for money conclusion.....	13
Appendix 3 Action Plan	14

Key messages

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

- **the audit of your financial statements (pages 4 to 6); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 7 to 9).**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Audit opinion and financial statements

- 1** I issued an audit report including an unqualified audit opinion on the financial statements on 30 September 2010.
- 2** I found errors in the financial statements produced for audit and these have been corrected. I also found errors on accounting for fixed assets. I brought a number of issues to your attention in the Annual Governance Report. The process for producing the accounts has improved on previous years and I found fewer errors this year.
- 3** The Council had a qualified opinion on the accounts in the previous two years. I set out what the Council needed to do in my previous reports to improve and the Council and has worked hard during 2009/10 to do so. These improvements have resulted in an unqualified opinion. The Council recognises there is still more to do and is working on further improvements to processes and procedures for financial reporting.
- 4** There were other issues identified with the systems and processes supporting the financial statements, none of these impacts on my opinion however they do require action by the Council to improve the mechanisms currently in place.
- 5** The introduction of International Financial Reporting Standards (IFRS) for local government accounts in 2010/11 will make the accounts preparation process more complex. The Council needs to be able to improve procedures as well as meet these new requirements.

Value for money

6 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have completed this work and there are no areas where the Council is performing below minimum standards to bring to Members' attention. I issued an unqualified conclusion stating the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

Current and future challenges

7 The Council faces some major challenges. These include responding to the government's Comprehensive Spending Review (CSR). On 20 October 2010 the Government announced significant cuts in support for local authorities from government grants. The Council are considering the implications of this cut in income on their financial position and service provision.

8 The Council advises us that they are well advanced in developing their medium term financial strategy to manage the implications of the CSR. We will review progress as part of our work in 2010/11 to inform our value for money conclusion.

9 Like other local government authorities, the Council must prepare financial statements for 2010/11 based on International Financial Reporting Standards (IFRS). It has a project plan for putting IFRS in place and is working hard to meet the plan.

Housing Benefit inspection

10 As part of the Audit Commission's wider role there is a Housing Benefit inspection underway at the Council and this will be reported separately.

Financial statements and annual governance statement

The Council's 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

- 11** I issued an audit report including an unqualified audit opinion on the financial statements on 30 September 2010, by the statutory deadline target date.
- 12** I found errors in the financial statements produced for audit and these have been corrected. I also found errors on accounting for fixed assets. I brought a number of issues to your attention in the Annual Governance Report. The process for producing the accounts has improved on previous years and I found fewer errors this year.
- 13** The Council had a qualified opinion on the accounts in the previous two years. I set out what the Council needed to do in my previous reports to improve and the Council and has worked hard during 2009/10 to do so. These improvements have resulted in an unqualified opinion. The Council recognises there is still more to do and is working on further improvements to processes and procedures for financial reporting.
- 14** There were other issues identified with the systems and processes supporting the financial statements, none of these impacts on our opinion however they do require action by the Council to improve the mechanisms currently in place.
- 15** I found a material error in the depreciation charged because of wrong useful economic lives being used. The impact of this was identified and corrected before the opinion was issued.
- 16** There is still work to do to improve fixed asset accounting and management. For example we found:
- the movement in fixed asset note was wrong because of some movements in fixed assets accounted for as disposals rather than transfers (value £5.5m);
 - the prior year balance sheet was understated because a property in Charles Street was included as an addition in 2009/10 but had been owned by the Council since 1985 (value £170,000);

- a piece of housing revenue account land was not revalued after the garages on it were demolished. It was held at nil value and all the proceeds from the sale of the land were shown as a gain on disposal (value £480,000). An independent valuation would have identified the potential value of this land.

17 The Council needs to ensure that all departments continue to work together to deliver improved accounting and operational information on the assets held.

Recommendation

R1 Continue the work to improve fixed asset accounting and management with finance and estates working together.

18 Timely bank reconciliations are an important financial control to provide assurance that cash and bank balances within the Council are being effectively controlled. I found:

- a bank account containing £12,000 was not included in the accounts.
- the lay out of the bank reconciliation required improvement.
- the completion and review of the reconciliation was not being done regularly and evidenced.
- cash receipts were not allocated to accounts within financial statements.
- long-standing items need to be cleared more quickly.

19 My testing of cash transactions did not identify any cash losses.

Recommendation

R2 Improve bank reconciliation procedures to address the issues we have reported.

20 Internal Audit identified control weaknesses over awarding single person discounts and I undertook substantive testing and found in 2 out of 18 cases this was accepted based on a telephone call. Council procedures state this should be followed up with a check of the electoral roll but this wasn't evidenced in these cases.

Recommendation

R3 Retain evidence to support the awarding of single persons discounts

21 The Council were not able to confirm the location of laptops bought as part of the IT contract with Oxfordshire County Council.

Recommendation

R4 The Council obtain a record of laptop allocations and confirm their location. This information should be available to evidence the management of assets.

22 I also audited the Council's whole of government accounting submission. My first view was that I would have to issue a qualified opinion on them due to inconsistencies between them and the financial statements. However work by my team and the Council's finance team enabled me to suggest amendments to the whole of government accounts submission. Once these had been made I was able to issue an unqualified opinion. My team will work with the finance team to improve the compilation of this return next year.

Recommendation

R5 Reconcile the whole of governments account with the financial statements as soon as practicable to ensure that any variances can be readily identified.

Significant weaknesses in internal control

23 I did not identify any significant weaknesses in your internal control arrangements. I did however identify control failures in some of your financial systems. I also found that in some areas the operation of controls was not being evidenced. I was therefore unable to rely on them.

24 Control account reconciliations did not follow a similar format and were difficult to follow. There was little evidence of review.

Recommendation

R6 Evidence the operation of internal control and in particular ensure that reconciliations are signed off as evidence of the review.

Local electors questions and objectors

A number of local electors have exercised their rights to ask the Council to provide them with information relating to the accounts and subsequently ask me questions. One elector has made objections against expenditure in the Council's accounts. I am currently reviewing this objection. I have not issued my certificate pending the conclusion of my work on the objection. There will be an extra charge to the Council for this work. The cost to the end of October 2010 is around £9,000 and the work is ongoing.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

25 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

26 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 the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

27 I report the significant findings from the work I have carried out to support the vfm conclusion.

Value for money (VFM) conclusion

28 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each audited body.

29 This is a summary of my findings.

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

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

31 The Council continues to deliver an effective and strategic approach to the procurement and commissioning of services and has a good track record of delivering improvements and financial savings. Major contract savings have been made through the competitive process for leisure services, annual savings of £670,000 and enabled a £2.5 million investment programme. Major savings are also expected to be delivered with the new waste services contract.

32 Improvements have been made in governance during the year, including training and development – compulsory training has been introduced and undertaken by all members for the Code of Conduct, planning and licensing. Various training initiatives have taken place for officers for example, Freedom of Information Act requests.

33 The Council has played a key role in improving partnership governance, for example an overarching data sharing protocol has been agreed on a county wide basis.

Risk-based performance reviews

34 To support my value for money conclusion I undertook follow up reviews of:

- Asset management;
- Equality and diversity; and
- Income, fees and charges

35 Asset management - I found that overall the Council is making good progress to adopt a more strategic approach to managing its assets over

the long term. The Council's asset management plan makes a clear statement of intent and it is strengthening its capacity and skills to deliver it. It is challenging the justification for holding on to assets, reviewing property performance and testing the contribution the assets make to corporate and community priorities. I have reported my detailed findings to the Council in a separate report.

36 Equality and diversity and Income, fees and charges - The action plans included in these reports did not contain any issues that impacted on my value for money conclusion this year. However in reviewing these I have found that the Council did not have these in their action tracker. All outstanding actions should be included in the audit recommendation tracker to ensure that the Council monitors their response to audit recommendations.

Recommendation

R7 Include all actions in the Council's audit recommendation tracker to ensure the Council monitors responses and achieves the improvements identified.

Approach to local value for money work from 2010/11

37 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 of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

38 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

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

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

Current and future challenges

Economic climate and pressure on the public sector

40 The economic climate and pressure on the public finances is having a significant impact on public services and the bodies that manage them. Immediate impact in some areas is leading to wider and longer term implications on the ability of public bodies to fund service delivery and capital programmes.

41 I reviewed financial planning at the beginning of the year and found that the Council was managing spending within available resources and was financially sound over the medium term. The comprehensive spending review this month will provide further challenge in this area. Continued sound control of the Councils expenditure will ensure it is well placed to meet the financial challenges ahead.

42 It will be important in this time of major change for the Council to consider and respond to the following issues:

- the resilience of medium term financial strategies and the capacity to deliver significant efficiency savings;
- the need to keep enough management capacity to influence and respond to changes in patterns of demand for services; and
- the need to preserve proper standards of governance through changes in the way services are provided.

Financial Reporting Standards

43 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.

44 The Council has recognised the challenges posed by IFRS. They have a project plan in place and are planning to restate their 2009/10 accounts before 31 December 2010. The Audit and Governance Committee are kept updated on progress.

Recommendation

R8 Continue to monitor implementation of IFRS

Closing remarks

45 I have discussed and agreed this letter with the Corporate Director Finance and Efficiency. I will present this letter at the Audit and Governance Committee on 22 November 2010 and will provide copies to all board members.

46 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
Asset management - follow up progress review	April 2010
Interim Memo	September 2010
Audit Opinion Memorandum	October 2010
Annual Governance report	September 2010
Audit Opinion	September 2010
Annual Audit Letter	November 2010

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

Maria Grindley
District Auditor
November 2010

Appendix 1 – Audit fees

	Actual	Proposed	Variance
Audit opinion and value for money conclusion	155,500	153,000	Note 2 2,500
Value for money	60,000	60,000	0
Total audit fees	215,500	213,000	2,500
Non-audit work	-	-	-
Questions and objections	Note 1	-	-
Total	215,500	213,000	2,500

Note 1. Questions and objections from local electors - There will be an additional charge for the time I spend doing this. The cost to the end of October 2010 is around £9,000 and the work is ongoing.

Note 2. I need to charge extra fee for work on the Whole of Government Accounts return of £2,500. The Council's return required additional work before we were able to issue our opinion.

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, including how it has monitored the effectiveness of its governance arrangements in the year, and on 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;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

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

Continue the work to improve fixed asset accounting and management with finance and estates working together.

Responsibility Financial Accountant and Head of Corporate Assets

Priority Medium

Date September 2010

Comments Asset valuations disclosed on the balance sheet were correct. There was not an error of £4.6m; this was just a mis treatment on disclosure note 6.12. A 100% review of asset lives has been undertaken and, where necessary, corrected. Reconciliations between asset systems are being carried out on a quarterly basis. In the past year new procedures have been instigated to improve fixed asset management, including closer liaison with other teams within the Council (eg Community Housing), improving property records (eg the change note procedures), and the continuing Voluntary Registration Process which involves checking existing OCC property records against the new titles that are being created. These checks are ongoing.

Recommendation 2

Improve bank reconciliation procedures to address the issues we have reported.

Responsibility Financial Accounting Manager

Priority High

Date November 2010

Comments The bank reconciliation is up to date. The format of the bank has been amended during the review of the process carried out to complete the bank reconciliation. Cash receipts are allocated on a timely basis and all outstanding items are investigated and reconciled.

Recommendation 3

Retain evidence to support the awarding of single persons discounts

Responsibility	Head of Service - Customer Services
Priority	Medium
Date	October 2010
Comments	This is now in place and checks are made with the following systems: Express Electors HB Academy ESP Bus Pass I-world

Recommendation 4

The Council obtain a record of laptop allocations and confirm their location. This information should be available to evidence the management of assets.

Responsibility	ICT Manager
Priority	Medium
Date	January 2011
Comments	All PC and Laptop Assets recorded with user and location details All infrastructure Assets to be documented (with photographic evidence where possible) with location details

Recommendation 5

Reconcile the whole of governments account with the financial statements as soon as practicable to ensure that any variances can be readily identified.

Responsibility	Financial Accounting Manager
Priority	Medium
Date	June 2011
Comments	Agreed

Recommendation 6

Evidence the operation of internal control and in particular ensure that reconciliations are signed off as evidence of the review.

Responsibility	Financial Accounting Manager
Priority	High
Date	Complete
Comments	Evidence of review is a key recommendation from both Audit Commission and Internal Audit. All procedure notes have been amended to include the necessity for this.

Recommendation 7

Include all actions in the Council's audit recommendation tracker to ensure the Council monitors responses and achieves the improvements identified.

Responsibility	Corporate Director Finance and Efficiency
-----------------------	---

Priority	Medium
Date	December 2010
Comments	Agreed

Recommendation 8

Continue to monitor implementation of IFRS

Responsibility	Interim
Priority	High
Date	November 2010 to June 2011
Comments	Agreed

DRAFT