

# Annual Audit Letter

South Oxfordshire District Council

Audit 2008-2009

November 2009



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Key messages

**This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

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## Audit Opinion

- 1 My work on your financial statements is complete, and I gave an unqualified opinion on 29 September 2009.

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## Financial Statements

- 2 The accounts adopted by the Audit and Corporate Governance Committee on 29 June 2009 were made available for audit and they were supported by detailed working papers. The finance department processes were much improved and supported the audit process more effectively.
- 3 Whilst there have been a number of adjustments to the accounts, these are mainly for presentational issues. There were two errors identified during the audit, one by the finance department as part of quality review processes and the other by the audit process. Both of these have been adjusted.
- 4 Following on from a late opinion in 2007/08, there are still small issues to be resolved around the bank reconciliation and clearance of suspense accounts. Solutions have been identified to clear these but this could not be done within the accounts timetable. The amounts involved are not material.

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## Value for money

- 5 My work on your scored use of resources is complete, and I am pleased to confirm that there are no areas where you do not meet expected standards and some where you are performing well. I therefore gave an unqualified value for money conclusion on 29 September 2009.

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## Audit Fees

- 6 Following on from problems with the financial statements in 2006/07 and 2007/08, we agreed an additional audit fee of £19,943 in March 2009. We did not find it necessary to issue any further additional fee.

**Table 1      Audit fees**

	Planned	Actual	Variance
Financial statements and annual governance statement (inc WGA)	£57,375	£77,318	+£19,943
Value for money	£33,845	£33,845	
<b>Total audit fees</b>	£91,220	£111,163	+£19,943

### Economic downturn

- 7** The economic downturn and banking crisis has had a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies was immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are changing.
- 8** This impacts on the audit and as part of my responsibility, I have reflected on the wider environment, specific issues and risks and the Council's response.

### Independence

- 9** I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

# 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.**

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## Significant issues arising from the audit

- 10** There were a number of adjustments to the financial statements adopted by the Audit and Corporate Governance Committee. These fall into two categories – presentational and accounting errors. All of these were corrected before I gave my opinion.

### Presentational errors

- 11** Where a different approach had been taken to presenting figures in 2008/09, some 2007/08 figures had also been changed to allow better comparison with 2008/09. However, the rules around changing previously audited figures do not allow for this to be done. As a result a number of changes were made to the statements before the opinion was given. These were fully disclosed and discussed with Members before the revised accounts were approved.

### Accounting errors

- 12** Two material errors were identified in the accounts presented for audit. There was also one additional payment which needed to be included within the accounts as it related to a settlement for a claim before 31st March 2009. All of these adjustments were fully disclosed and discussed with Members before the revised accounts were approved.

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## Material weaknesses in internal control

- 13** I did not identify any significant weaknesses in your internal control arrangements.

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## Accounting Practice and financial reporting

- 14** I considered the qualitative aspects of your financial reporting.
- 15** Considerable improvements had been made to your arrangements for completing your accounts, and both the accounts and working papers were ready by the due date of 30 June 2009. Whilst there are still further improvements to be made, the improvements meant that I was able to give my opinion just before the due date of 30 September 2009.

### Economic downturn

- 16** The economic downturn and banking crisis has had a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies was immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are changing.
- 17** This impacts on the audit and as part of my responsibility, I have reflected on the wider environment, specific issues and risks and the Council's response.
- 18** The Council reviewed its policies on investment in the light of the failures in Icelandic banks, in which it had £2.5m invested. In line with the latest guidance the Council has shown that only between 60 - 75 per cent of this investment is likely to be recoverable.
- 19** The other major impact on the Council is around the value of its properties (particularly where these are held for investment), where the economic downturn has led to a reduction in the value of assets by £11.8m.

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# Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

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## Use of resources judgements

- 20** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 21** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 22** The Council's confirmed use of resources theme scores are shown in Table 2 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1.

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**Table 2      Use of resources theme scores**

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	3
Managing resources	3

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- 23** There are strong linkages between financial planning, strategic priorities, costs and performance which support financial health with clear outcomes for local people. Consultation is used to shape priorities and finance follows priorities. Processes in place are delivering real efficiencies and better ways of working. Good quality services are being provided for a low council tax and there is high user satisfaction with services provided. Financial reporting internally and externally is sound, and used to drive learning and further improvements. Arrangements for production of the accounts were much improved, and the accounts were produced on time supported by detailed working papers.
- 24** The Council has a clear vision of the services required to meet local needs in a sustainable way based on understanding of the needs of the local population and the procurement options available. Strong use is made of partnership working and outsourcing to deliver services and improve capacity. The Council is producing good quality data to support decision making and manage performance, with real outcomes from this to improve services. Data security meets expected standards, and complies with legal requirements. Data produced supports sound monitoring of priorities and enables early action to be taken if improvements are needed.
- 25** There is a strong ethical drive within the Council supported by good relationships between officers and members. Risk management arrangements have matured during the year and are now embedded and there is a clear trail of risks moving in and out as they are managed and addressed. The internal control environment is strong with internal audit (IA) being respected and valued. Members and officers take their findings seriously and clear improvements are being delivered to the control environment as a result.
- 26** The Council demonstrates an empowering culture that works to develop its own workforce. It has done this by developing clear links between corporate priorities, service plans and appraisals and considering its needs now and in the future. Workforce planning has considered and addressed the challenges of delivering services at district level with limited resources, and has moved innovatively to both outsource work, form joint teams across two councils, and deliver a shared management team with Vale of White Horse which is seen as good practice.
- 27** The Council values diversity and offers a variety of options for its staff tailored to individuals rather than blanket policies. It is highly rated by the staff who work there, who recognise the importance of a mixed and diverse workforce. It was voted one of the top 20 organisations to work for in the Times survey.

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### VFM Conclusion

- 28** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 1.
- 29** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.



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# Closing remarks

- 30** I have discussed and agreed this letter with the Chief Executive and the Strategic Director, Finance. I will present this letter at the Audit and Corporate Governance Committee in December 2009 and will provide copies to all Members.
- 31** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

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**Table 3**

Report	Date issued
Audit plan	March 2008
Opinion plan	March 2009
Annual Governance Report	September 2009
Annual Audit Letter	November 2009

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- 32** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council's staff for their support and co-operation during the audit.

Maria Grindley  
District Auditor  
November 2009

# Appendix 1 – Use of resources key findings and conclusions

The following tables summarise the key findings and conclusions for each of the three use of resources themes.

## Managing finances

<b>Theme score</b>	<b>3</b>
Key findings and conclusions	
The Council has sound arrangements across most aspects of managing finances, and these arrangements are delivering real outcomes for local people. Considerable improvements have been made to the processes for producing the financial statements but these cannot yet be considered embedded.	
<b>KLOE 1.1 (financial planning)</b>	
<b>Score</b>	<b>3</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
<p>The Council has good processes which link objectives, financial resources, the medium term financial strategy (MTFS) and objectives in both the short and long term. Service plans also link into the MTFS and savings targets. The MTFS is based on consultation with partners, stakeholders and the public. This makes use of extensive consultation using different methods and times and includes contacts with hard to reach and minority groups.</p> <p>Innovative ways of working are considered and implemented and these are supported by financial planning which is flexible and reactive. An action plan for achievement of corporate priorities is monitored proactively. Whole life costing and consideration of alternative scenarios is used as part of the decision making process.</p> <p>There is good understanding of the links between policy, service and costs throughout council. Budget monitoring is strong, and challenging targets are set for continuous improvement.</p>	

## Appendix 1 – Use of resources key findings and conclusions

<b>KLOE 1.2 (understanding costs and achieving efficiencies)</b> <b>Score</b> <b>VFM criterion met</b>	<b>3</b> <b>Yes</b>
<b>Key findings and conclusions</b> <p>The Council has good historical arrangements to link cost and performance, with high spend linked to high priority areas. Stretch targets are set for these priority areas and benchmarking used to assess performance. Detailed knowledge of costs supports decision making, with consistent use of benchmarking to identify where and how the council is out of line and also why. In fit for the future, the Council has built up considerable information around cost drivers and performance. Where appropriate, alternative methods of costing together with detailed cost analysis is used to take decisions. Whole life costing is used routinely. Awareness of performance on key priorities is highlighted by service monitoring and used to feed procurement decisions. Quarterly performance plans show how performance is moving over time against partnership and key objectives, together with why, in format that allows members to take decisions. Consideration of value for money in the provision of services has been good over a number of years and is considered to be embedded. Strong arrangements for identifying and delivering efficiencies support this. The Council is delivering high satisfaction services with a low council tax base.</p>	
<b>KLOE 1.3 (financial reporting)</b> <b>Score</b> <b>VFM criterion met</b>	<b>2</b> <b>Yes</b>
<b>Key findings and conclusions</b> <p>Financial monitoring has been strengthened and the member role is now evidenced. Quarterly reports go to cabinet, with year end projections and recommendations for any remedial action required. The Council is using fit for purpose financial reports to monitor performance and support strategic decision making.</p> <p>The Council has undertaken work to identify the needs of its local population in accessing the website. Alternative methods offered include different size fonts and contrasts, a section for those hard of hearing, outlook available in Braille and on cassette. All agendas, minutes, etc are put on the Council's on web site promptly, and available in the various formats. Many meetings are on 'web cam' to encourage local residents to get involved.</p> <p>On the Council web site, an overview of the issues within the AAL accompanied the report itself which made it more accessible.</p> <p>The council has responded positively to the failings around production of financial accounts in the past two years, and has improved processes to ensure better production for 2008/09. The accounts were produced on time and the quality of the working papers was much improved from prior years. The Council's quality processes identified two changes within the financial statements after adoption by the ACG Committee. Whilst these improvements are considerable, they cannot yet be considered embedded, and there are further improvements that can be made to working papers for the coming year.</p>	

## Governing the business

<b>Theme score</b>	<b>3</b>
Key findings and conclusions	
The Council has sound arrangements across all aspects of governing the business, which is delivering some good outcomes for local people. However, in some areas it was harder to see that outcomes had resulted from these arrangements in the year of assessment, although they stand the Council in good stead for the future.	
<b>KLOE 2.1 (commissioning and procurement)</b>	
<b>Score</b>	<b>3</b>
<b>VFM criterion met</b>	<b>Yes</b>
Key findings and conclusions	
<p>The Council has a very clear vision for local services informed by extensive consultation with local people. It demonstrates a mature approach to commissioning services. The Council has a clear and accessible explanation of its commissioning and procurement strategy on its website. This is supported by effective and user friendly guidance for service users, the wider community and potential suppliers.</p> <p>Consultation is used to commission, redesign and deliver services which meet equalities and diversity objectives, but are also sustainable. This is used to drive Council engagement in researching and influencing the design of services. Satisfaction with outcomes is important to the Council and is assessed by feed back from e.g. the CAB, registered social landlords and by direct consultation with the citizens panel.</p> <p>Sound processes support consideration of how things are done and to make sure the Council delivers the right service to users. Good consideration of alternative methods of delivering service are considered including partnership working.</p> <p>Standardisation of good practice in making procurement decisions has led to sound arrangements. Workforce issues feed into considerations as do environmental concerns, and costs are based on whole life calculations. The Council demonstrates a 'right first time' procurement culture. The Procurement function is integrated with corporate planning, the MTFS, the capital strategy and arrangements for implementing e-government.</p>	

## Appendix 1 – Use of resources key findings and conclusions

<b>KLOE 2.2 (data quality and use of information)</b> <b>Score</b> <b>VFM criterion met</b>	<b>3</b> <b>Yes</b>
<p>Key findings and conclusions</p> <p>The Council has good arrangements for the production and use of reliable data to support decision making. PIs are monitored using a traffic light system and action taken as appropriate. A comprehensive suite of management information is provided for the management team and for scrutiny performance reports. These include Nis, (inc LAA targets) and Local Performance Targets quarterly and at the year end to support the decision making process. The Council's strategic management reports are clear and well structured, and enable analysis and interrogation of the information by managers and councillors. This is used routinely to support the decision making process.</p> <p>The Council has procedures in place to ensure data security and compliance with statutory requirements. Data security is robust and the security policy is up to date. Policies have been set and publicised for internet usage and data and document retention. Procedures for monitoring compliance with all the policies are in place and action taken to address any breaches. The Council operates a programme of educating staff and users with the focus is on handling and access to restricted data. Governance, accountability and leadership arrangements are well embedded and data management arrangements are integrated into service and financial planning processes.</p>	
<b>KLOE 2.3 (good governance)</b> <b>Score</b> <b>VFM criterion met</b>	<b>2</b> <b>Yes</b>
<p>Key findings and conclusions</p> <p>The Council has adopted all required codes of practice and is routinely monitoring adherence to them. The Council constitution sets out principles to be followed clearly and allocates roles to individual officers and Members. The policy to prosecute any benefit fraud and publicise the outcome supports good governance both in principle and practice. In recognition of the importance of a clear vision for ethical governance, a skills assessment has been completed by Members and a targeted training programme to support them in their governance roles has been developed. The Council seeks to improve its openness to members of the public. Constructive working relationships have been fostered between Members and officers, which support a strong internal control environment. An ethical approach is demonstrated by the high profile for internal audit and the strong challenge from Members to officers over any high priority recommendations they make. Formal governance arrangements are in place for all significant partnerships and are monitored for compliance. This clear understanding of partnership responsibilities supports the achievement of objectives and minimises disputes. These all demonstrate sound arrangements, but it was difficult to demonstrate the outcomes flowing from these arrangements in the year of assessment</p>	

<b>KLOE 2.4 (risk management and internal control)</b> <b>Score</b> <b>VFM criterion met</b>	<b>2</b> <b>Yes</b>
<p><b>Key findings and conclusions</b></p> <p>Considerable improvements have been made to the arrangements for risk management, which have already begun to deliver outcomes and should continue to do so in 2009/10. This includes harmonisation of processes with Vale of White Horse DC and approval of a joint strategy. The risk register is linked into strategic objectives and risk levels are considered alongside an ongoing review of objectives by SMT. The strategic risk register is considered by Members of the ACG committee. This committee was given training in risk management during the year, and risk is also included in induction processes for new staff. Designated risk champions and the corporate risk officer support the process to embed risk management throughout the Council. Partnership working is recognised as a strategic risk and the Council is looking at how to manage and respond to partnership risks, and how to mainstream this process in the coming year.</p> <p>The counter fraud and corruption strategy is available to all staff and supported by the anti fraud and corruption response plan. Internal Audit reviews service's anti-fraud and corruption awareness and arrangements as part of their plan of work. As part of raising the profile of anti fraud and corruption issues, training has been reviewed for all new staff.</p> <p>Internal Audit is well respected within the Council. They have carried out an assessment of themselves against CIPFA standards (reviewed by S151 officer) and comply with 94% of recognised standards. No significant areas were not addressed.</p> <p>The ACG Committee has responded well to training around their role in considering IA findings, and is now asking officers to respond to negative findings, and also monitoring achievement. The sources of assurance to support the annual governance statement are clear and reported regularly to the audit committee. The statement itself is an honest assessment, and sets out clearly actions to be taken to deliver any improvements.</p>	

## Appendix 1 – Use of resources key findings and conclusions

### Managing resources

<b>Theme score - only 3.3 relevant for 2008/09</b>	<b>3</b>
Key findings and conclusions	
The Council's arrangements to develop and support a skilled workforce both now and in the future are sound, and delivering real outcomes. The shared management structure with Vale of White Horse District Council is an example of good practice	
<b>KLOE 3.3 (workforce planning)</b> <b>Score</b> <b>VFM criterion met</b>	<b>3</b> <b>Yes</b>
Key findings and conclusions	
<p>Council demonstrates an empowering culture with numerous examples of developing its people for promotion. It demonstrates ambition to learn, improve and develop its organisational agility. There are clear links between corporate priorities, service plans and appraisals underpinned by comprehensive requirements for competencies and behaviours. VFM and continuous improvement are important organisational values and the 'fit for the future' programme has supported this, developing greater organisational change and strengthening management capacity.</p> <p>The HR strategy clearly outlines actions to support the delivery of organisational priorities together with the improvement and change agenda. The HR strategy and the HR, IT and customer service improvement plans demonstrate how, when and by whom priorities will be delivered. The strategic integration of corporate, service, financial and HR workforce planning is considered to be embedded and the change process, including historical and current outsourcing, has been strategically managed.</p> <p>The Council's comprehensive equality policy is a formal expression of its commitment to government equality standards. This brings together previous schemes for race, disability and gender equality into one document. The corporate framework reflects a commitment to managing its people to meet current and future needs and to develop its workforce to meet its needs.</p>	

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# The Audit Commission

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.

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