

Annual Audit Letter

South Oxfordshire District Council

Audit 2009/10

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.....	2
Current and future challenges	2
Financial statements and annual governance statement	3
Overall conclusion from the audit	3
Significant weaknesses in internal control	3
Icelandic investments	3
Value for money	4
2009/10 use of resources assessments	4
VFM conclusion	4
Approach to local value for money work from 2010/11.....	5
Current and future challenges	7
Spending review	7
International Financial Reporting Standards.....	7
Closing remarks	8
Appendix 1 Audit fees	9
Appendix 2 Glossary	10

Key messages

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

- **the audit of your financial statements (page 3); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 4 to 6).**

Audit opinion and financial statements

1 I issued an audit report including an unqualified opinion on the financial statements on 28 September 2010. I found only minor errors in the financial statements. The Council corrected these errors before I gave my opinion.

2 I reported to those charged with governance (in this case, the Audit and Corporate Governance Committee) on the issues arising from the 2009/10 audit.

Value for money

3 I gave an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources when I gave my opinion on the financial statements.

Current and future challenges

4 The Council faces some major challenges. These include responding to the government's Spending Review. This was announced on 20 October 2010 and will require every council across the country to make large financial savings. The Council has been anticipating this. It has made plans to make savings through both identification of service reduction options and its 'Fit for the Future' programme'; one of the key themes of which is working in partnership with other local public bodies, and especially with Vale of White Horse District Council.

5 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. This is on track and is scheduled to meet all the statutory deadlines for financial reporting in 2010/11.

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

6 I gave an unqualified opinion on the Council's 2009/10 financial statements on 28 September 2010.

7 I identified only minor or presentational errors in the financial statements adopted by the Audit and Governance Committee on 29 June 2010. The Council corrected these errors before I gave my opinion.

8 There were minor differences between the council tax system and the main ledger amounting to £116,000. The Council has agreed to review these and clear the differences appropriately.

Significant weaknesses in internal control

9 I did not identify any significant weaknesses in your internal control arrangements.

Icelandic investments

10 The Council has £2.5 million (with interest £2.6 million) invested with an Icelandic Bank (Kaupthing Singer & Friedlander Ltd). It invested the money in 2007 in line with its treasury management policy and before any warnings were made about Icelandic banks.

11 Whilst at the end of 2008/09 the Council thought only 50 per cent of the outstanding money would be recovered, the latest estimates are that between 65p and 78p in the pound will be paid. The Council has so far been paid back £921,000, and thinks that a further £857,000 will be recovered. This gives a potential loss of £882,000 which is reflected in the financial statements.

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

12 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.

13 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.

14 I report the significant findings from the work I have carried out to support the VFM conclusion.

VFM conclusion

15 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 type of audited body.

16 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
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes
Workforce	Yes

17 I issued an unqualified conclusion stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources at the same time as the opinion on the financial statements (28 September 2010).

Approach to local value for money work from 2010/11

18 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.

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

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

20 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

Spending review

21 The Council faces some major challenges. The new coalition government announced details of its spending plans for the next few years on 20 October 2010. As a result, every council across the country will be required to make big financial savings.

22 The Council has been anticipating this for some time. As well as identifying a range of service reduction options, it has developed a change programme 'Fit for the Future' which aims to achieve the required service and efficiency savings over the next three to five years through the delivery of a range of projects. One of the key themes of the programme is working in partnership with other local public bodies. The Council has forged strong links with Vale of White Horse District Council, including a shared management structure, joint finance and waste contracts.

23 Whilst the Council is into the third year of these arrangements, it will continue to be important for the Council to consider and respond to the following issues as it realigns working practice across both councils:

- 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.

International Financial Reporting Standards

24 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.

25 The Council has recognised the challenges posed by IFRS. The Council has a project plan for putting IFRS in place. This is on track to meet the deadlines for financial reporting in 2010/11. In addition the Audit and Corporate Governance Committee has been kept informed of the impact of changes on the financial statements and how these are being addressed.

Closing remarks

26 I have discussed and agreed this letter with the Chief Executive and the Strategic Director - Finance. Copies of the letter will be provided to all Members before the end of November. As agreed with the Council, I will present this letter at the Audit and Corporate Governance Committee on 14 December 2010 to enable consideration of the issues within this letter.

27 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	March 2010
Annual governance report	September 2010
Opinion	September 2010
Value for money conclusion	September 2010
Annual Audit Letter	November 2010

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

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

Maria Grindley
District Auditor
November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Managing and reporting the audit	£19,000	£19,000	--
Financial statements and annual governance statement	£59,360	£59,360	--
Value for money	£26,546	£26,546	--
Total audit fees	£104,906	£104,906	--
Non-audit work			
Total	£104,906	£104,906	

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

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.

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