

# Annual Audit Letter

Buckinghamshire County Council

Audit 2008/09

December 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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any 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 undertaken to assess your arrangements to secure value for money in your use of resources.**

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## Audit opinion and financial statements

- 1 I issued an unqualified audit opinion on your financial statements on 28 September 2009.
  - 2 The financial statements presented for audit were on time and complete.
  - 3 This was the first year in which we also reported separately on the audit of the Pension Fund. Previously it was part of the overall report on the Council's accounts. We produced a separate Pension Fund Annual Governance Report. The Regulatory and Audit Committee considered the report and referred the issues raised to the 19 November 2009 Pension Fund Committee.
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## Value for money

- 4 Also on 28 September 2009, I issued an unqualified conclusion on your arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion). Your arrangements were adequate when assessed against the criteria set by the Audit Commission.
  - 5 The conclusion was supported by our work on use of resources, which is summarised in this letter but has been reported separately in detail. The Audit Commission assessed that your overall arrangements to secure economy, efficiency and effectiveness in your use of resources performed well (a level 3 assessment).
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## Audit fees

- 6 For 2008/09, with the agreement of the Regulatory and Audit Committee, we prepared an audit plan that aligned our work on the audit opinion and on use of resources. Previously the use of resources work was covered by the following year's plan and audit fee.
  - 7 To achieve the realignment we set a separate fee of £60,000 for the 2007/08 use of resources work. It transpired that we were able to complete the relevant work within a reduced fee of £30,000. This one-off transitional fee was agreed by the Regulatory and Audit Committee.
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- 8 This was also the first year in which the Pension Fund was audited separately, with full reporting requirements and an increase in the work carried out in order to gain the necessary assurance for our opinion. The fee we originally envisaged has therefore had to be increased, as reported to both the Regulatory & Audit Committee and the Pension Fund Committee. The Audit Commission scale fee for a 'large' fund (ie over £1 billion) is £72,000. This may be varied by up to 30 per cent with the Audit Commission's agreement. We see the audit for 2008/09 as a transitional step to the new Pension Fund audit regime so the fee was agreed at £48,000 ie scale fee less the maximum reduction of 30 per cent.
- 9 We will continue to keep the level of the fee for the audit of the Pension Fund under review as the regime has changed. We note in this context that the Audit Commission has not yet issued its proposed Pension Fund fees for 2010/11, and will not do so until it has considered the impact of the new audit arrangements.

**Table 1**      **Audit fees**

	Actual	Proposed	Variance
Council audit			
Financial statements and annual governance statement	146,000	146,000	0
Value for money	78,000	78,000	0
<b>Total Council audit fees</b>	<b>224,000</b>	<b>224,000</b>	0
Pension fund	48,000	23,000	25,000
<b>Total Pension Fund audit fees</b>	<b>48,000</b>	<b>23,000</b>	<b>25,000</b>
Certification of claims and returns	15,000 est	20,000	(5,000) est
<b>Total fees</b>	<b>287,000</b>	<b>267,000</b>	20,000

Our work on claims and returns is not complete. Note that the table excludes additional fees for the 2007/08 objection.

### Actions

- 10 During the audit we have made recommendations in our Annual Governance Reports and other specific reports issued during the year. These have been agreed and you will monitor their implementation.

### Independence

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

## Key messages

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### Concluding the audit

- 12 We are still considering an objection to your 2007/08 accounts and until this work is completed we cannot conclude the 2007/08 and 2008/09 audits.

# Financial statements and annual governance statement

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

**The Council is also the administering authority for the local government pension scheme in Buckinghamshire, and is responsible for preparing the accounts of the scheme.**

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## The Council's financial statements

- 13 I issued an unqualified audit opinion on your financial statements on 28 September 2009.
  - 14 There were no material amendments to the financial statements, and few other significant amendments. We found that the overall internal control environment was sound. There remained a significant but not material sum from previous years of unmatched debtor and creditor transactions, which you are committed to clearing by December 2009.
  - 15 We found no issues on qualitative aspects of your financial reporting. The standard of working papers provided for audit was very good, and the speed and quality of responses by the finance staff to queries raised by auditors was exemplary.
  - 16 We have reported our detailed findings from the audit separately in the opinion audit memorandum.
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## The Pension Fund accounts

- 17 This was the first year in which we produced a separate Annual Governance Report for the Pension Fund. In previous years this had been part of the overall report on the Council's accounts. Given the relative size of the accounts and the nature of issues arising on the Council's accounts, we had reported on few matters specifically in respect of the Pension Fund accounts.
  - 18 As a result it may appear that there has been a significant increase in the number of issues arising in respect of the Pension Fund accounts. However this is primarily a result of the separate reporting. As in previous years the Pension Fund accounts and working papers have been of good quality and audit queries have been dealt with promptly and appropriately.
  - 19 We found no material errors in the Pension Fund accounts. Pension staff found one significant error, where £2.8 million of both investment sales and purchases were understated. We accepted the representation from you not to change the accounts on the grounds that sums were not material and did not affect reported performance.
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## Financial statements and annual governance statement

- 20 A national issue arose during the audit as to the legality of co-mingling administering authority and pension fund investments. This is the practice where an administering authority pools pension fund surplus cash with its own surplus cash, invests the combined surpluses, and shares the interest income. Questions have been raised where the administering authority awards the pension fund a lower rate of interest and retains a premium rate for the interest on pooled investments.
- 21 You pool funds which happen to be available from your own resources as well as the Pension Fund, Buckinghamshire and Milton Keynes Fire Authority (which is done by specific agreement), and schools balances. You do not 'borrow' from the Pension Fund and you allocate interest earned on a fair basis.
- 22 We highlighted the national issue in our Pension Fund Annual Governance Report. You have responded by setting up a call account solely for the use of Pension Fund cash and you will be establishing a service level agreement to formalise the arrangements for pooled cash.
- 23 Our Report also asked you to seek fuller assurance that you were receiving correct pension contributions from admitted bodies. You are considering how this can be achieved, eg by asking employers to introduce sign-off procedures for the contributions collected.

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## International Financial Reporting Standards

- 24 The basis for preparing your financial statements is changing. New International Financial Reporting Standards (IFRS) will be introduced for local government in the 2010/11 accounts. This will require the comparative figures for 2009/10 to be restated in the new accounting format. This change is significant in a number of respects, particularly in the accounting for fixed assets, leases and holiday pay. A great deal of work will be required in the run up to preparing the 2010/11 accounts in order to establish and collect the information required and to account for it under the new accounting standards.
- 25 You have developed a project plan and have set up a small working group to prepare for the changes. Preparations to date appear to be on track, but there are risks to both the opinion and Use of Resources scores if this cannot be maintained. You will need to keep progress on IFRS implementation under review to ensure successful implementation.

# Value for money and use of resources

We 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.

We 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 conclusion.

## Use of resources judgements

- 26** In forming our scored use of resources judgements, we 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.
- 27** We 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.
- 28** Your use of resources theme scores and key findings were summarised in our Annual Governance Report and have been reported in detail in a separate report. They are again summarised in the table below.

**Table 2 Use of resources theme scores**

The Audit Commission has assessed that the Council performs well overall (a level 3 assessment)

Use of resources theme	Scored judgement	
	Theme	KLOE
<b>Managing finances</b>	<b>3</b>	
<ul style="list-style-type: none"> <li>1.1: planning for financial health</li> </ul>		2
<ul style="list-style-type: none"> <li>1.2: understanding costs and achieving efficiencies</li> </ul>		3
<ul style="list-style-type: none"> <li>1.3: financial reporting</li> </ul>		3
<b>Governing the business</b>	<b>3</b>	
<ul style="list-style-type: none"> <li>2.1: commission and procurement of quality supplies and services</li> </ul>		3
<ul style="list-style-type: none"> <li>2.2: use of information</li> </ul>		3
<ul style="list-style-type: none"> <li>2.3: good governance</li> </ul>		2

## Value for money and use of resources

Use of resources theme	Scored judgement	
<ul style="list-style-type: none"> <li>2.4: risk management and internal control</li> </ul>		2
<b>Managing resources</b>	<b>2</b>	
<ul style="list-style-type: none"> <li>3.1: use of natural resources</li> </ul>		2
<ul style="list-style-type: none"> <li>3.2: strategic asset management</li> </ul>		2

- 29** 2008/09 was a year of considerable change for Buckinghamshire County Council with:
- the development of several new local strategic partnerships;
  - the first year of implementing a new Local Area Agreement and Local Area Grant;
  - the introduction of a transformation programme designed to identify and drive out inefficiencies and ensure that all activities are aligned to key Council and Local Strategic Partnership (LSP) priorities; and
  - agreement of a pathfinder partnership for both back office and some front-line services with local partner organisations.
- 30** These initiatives show your commitment to continuous improvement and have strengthened partnership working across the county, which will bring additional benefits in terms of joint working. You took forward your 'Getting Closer to Communities' initiative by establishing 18 Local Area Forums and further improved working relationships with Buckinghamshire PCT to help tackle health inequalities in the area.
- 31** The new use of resources assessment for 2008/09 requires a tougher programme of assessment than in previous years. The focus is on achievement of outcomes as well as strong performance in the use of resources, and many of the changes that you are implementing will not have a material impact for some years. Nonetheless, as our detailed findings show, good progress has been made and some early outcomes have been achieved.
- 32** You scored well on two of the three use of resources themes for 2008/09 (managing finances and governing the business). You scored 2 for managing resources. This is because although there are effective arrangements, the benefits of a number of initiatives designed to improve performance have not yet been realised.

## Value for money conclusion

- 33** We 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 which use of resources KLOEs are the relevant criteria for the value for money conclusion. We concluded that the requirements had been met in all the relevant areas.

- 34 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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### Specific risk-based work

- 35 We also carried out the following specific pieces of work to provide us with assurance for our use of resources assessment.
- A review of partnership arrangements in Buckinghamshire.
  - A follow up of our 2007/08 health inequalities report and recommendations.

### A review of the Pathfinder project in Buckinghamshire

- 36 In July 2007, the Government accepted a 'Pathfinder' bid from the five councils in Buckinghamshire to develop more effective public services through cooperation, integration and joint commissioning of services. In its first phase, the councils have identified six work streams as potential areas for partnership, and include a broader set of partners including the Buckinghamshire and Milton Keynes Fire and Rescue Service and Buckinghamshire Primary Care Trust. They aim to provide more effective local government by co-operative working and getting better at producing services to meet the diverse needs of local communities. They intend to build a strong role for councillors and make annual savings of over £8.5 million by 2013.
- 37 Since then, the Buckinghamshire Enhanced Two Tier Working Pathfinder Partnership ('the Pathfinder' or 'the Partnership') has made progress to establish new governance arrangements, build up experience of partnership working and develop projects. This has helped build much stronger trust and understanding between partners and enabled them to drive projects forward more effectively than if this had been done in an uncoordinated way. However partners are still finding it difficult to establish an appropriate balance between safeguarding local interests and achieving the benefits of partnership.
- 38 Overall progress has been reasonable, although individual projects have progressed at different rates. The Partnership passed its first significant test with its Board approval of a detailed business case for an innovative shared services project. It is too early to see outcomes for local people, but the efficiency goals of the Partnership still appear realistic.
- 39 The Partnership is now starting to identify more projects for investigation. It is taking up a more flexible approach, and exploring the potential for smaller scale joint working between districts as well as opportunities for extending the Partnership across county boundaries. This also demonstrates a more sophisticated understanding of partnership working.
- 40 Governance arrangements are still cumbersome and the Partnership's ability to deliver individual projects has not yet been tested. However early evidence shows that governance is developing to meet the emerging needs of the programme.

## Value for money and use of resources

- 41 There are satisfactory performance management arrangements at project level, but the main indicators of success are financial savings and the full benefits of the Partnership for local people are still unclear. There is also limited performance management to measure the success of the Pathfinder Project as a whole. Project management arrangements are in place, but there is no overview of these to give assurance that they are effective. The Partnership has assessed risks to progress and reports regularly on these.
- 42 We note that capacity is stretched in all five councils and the economic recession is producing extra constraints. Pathfinder will not produce all of the savings required to meet the needs of the partners, so there is a risk that the business transformation agenda across the county will become dominated by partners' internal efficiency programmes and that wider opportunities will be lost.
- 43 The main challenges for the Pathfinder programme are now to:
- develop councillors' new roles in Pathfinder and their understanding of them;
  - manage potential risks to partnership working and delivery as a result of any changes in political control;
  - ensure that the Pathfinder becomes an integrated part of the partners' response to the current recession;
  - maintain communication with staff to ensure that momentum is maintained without losing the commitment of managers and staff;
  - secure capacity to develop and deliver projects - particularly as a result of an urgent requirement for much larger savings to compensate for falling income and a need to focus on short and medium term savings for individual partners, rather than longer term efficiencies through the Partnership;
  - remain flexible and explore new areas with potential for efficiencies and service enhancements;
  - develop new governance arrangements to move beyond project selection and oversee implementation and delivery of complex new projects;
  - develop an overall performance and project management framework which recognises the importance of assessing the Partnership's success in delivering the Pathfinder project and its impact upon partners; and
  - extend performance management beyond assessment of financial efficiencies to consider the wider customer benefits to be delivered by projects.

## Health inequalities phase 2

- 44 In 2007/08, we reviewed the steps that local public services had taken to reduce health inequalities in Buckinghamshire. We found that they had begun to prepare for joint action by setting targets for reducing health inequalities within the Local Area Agreement (LAA) and building partnership arrangements. We also identified areas for improvement. These included:
- improving Buckinghamshire's strategic approach;
  - engaging partners fully in addressing health inequality issues;
  - getting better information about the extent of health inequalities and progress on reducing them;
  - making sure that all staff understood fully the contribution that they could make to reducing health inequalities;
  - better management of partners' performance in reducing health inequalities; and
  - achieving corporate responsibility for the health and well-being of local people.
- 45 We agreed with CADEX (the Buckinghamshire Chief Executives' group) that in 2008/09 we would build on our phase 1 work by reviewing progress in these areas. We therefore:
- interviewed members of the Healthy Communities Partnership Board;
  - conducted an electronic survey of Healthy Community Partnership Board members and other interviewees to supplement interview findings and gather further intelligence on the governance arrangements covering the partnership;
  - reviewed strategic documents to assess alignment between the wider aims of the Bucks Strategic Partnership (BSP) and strategic thinking across the key organisations; and
  - reviewed the performance management arrangements governing the Healthy Communities Partnership.
- 46 Our key finding was that joint working is happening at all levels within Buckinghamshire and there are numerous collaborative operational activities to demonstrate this. Nonetheless, there are instances where services and agencies focus on their individual spheres of concern rather than on the wider need to address health inequalities across the county. Good attempts are being made to resolve issues collaboratively and to move towards preventative, mainstream activities rather than reactive services, but collective responsibility is less evident when it involves resourcing decisions. Greater transparency over resource allocation means that decisions made will be supported by resources and that accountability is increased. This will help the partners to build on the strong collective energy which the partnership has generated to date.

## Value for money and use of resources

47 High level recommendations were made to all partners to:

- specify longer-term outcomes for all parts of the healthy communities strategy and report progress regularly directly to the Bucks Strategic Partnership;
- develop a methodology for assessing the impact of actions being taken so that resources can be targeted effectively towards agreed priorities and underperformance can be addressed;
- build awareness of the role that all services can play in reducing health inequalities by ensuring that Service Heads:
  - recognise the impact that their service can have on health inequalities, and
  - actively promote the impact that individuals can have in their day-to-day roles;
- complete the implementation of the Healthy Communities Partnership performance management system by ensuring that it reaches the existing performance management standards at the County Council; and
- continue to develop collaborative approaches, ensure that resources are aligned to support this, and identify opportunities for fuller integration of services to:
  - increase collective responsibility for resourcing decisions; and
  - ensure that services are designed to meet the needs of individual users rather than the needs of various contributing organisations.

48 Progress against these recommendations will be monitored by the Strategic Partnership and we will be carrying out a follow-up during 2010.

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# Financial standing

- 49 The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them: the impact on treasury management strategies has been 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. We have reflected on the wider environment, specific issues and risks and your response.
- 50 Although the economic downturn is presenting specific issues and risks to the Council, we are satisfied that it is taking appropriate steps to respond. However this is an area we will continue to consider closely when assessing how well you make use of your resources during the 2009/10 audit.

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## Icelandic banks

- 51 You had £5 million invested in Landsbanki when Icelandic banks collapsed in October 2008 (it was due to be repaid on 7 October). At the time the accounts were drawn up you expected to recover over £4 million of this, based on the information available. The investment represented 2.8 per cent of your investment portfolio.
- 52 As a result of this issue, and the wider economic situation, we looked at your treasury management arrangements to ensure that they were fit for purpose. We did not find any areas of significant concern to us. Key findings were:
- treasury management activity is reported appropriately and actively managed;
  - the Icelandic investment was not in breach of your investment policy; and
  - you have access to an appropriate level of resources and external advice.

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# Closing remarks

- 53 We have discussed and agreed this letter with the Chief Executive, the Head of Finance and Procurement, and the Corporate Manager for Policy, Performance and Communications. We will present this letter at the 14 January 2010 Regulatory and Audit Committee and will provide copies to all committee members.
- 54 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 and inspection plan	June 2008
Supplementary audit plans (Council and Pension Fund)	May 2009
Annual governance reports (Council and Pension Fund)	September 2009
Opinion on financial statements	September 2009
Value for money conclusion	September 2009
Health inequalities Phase 2	October 2009
Review of the Pathfinder project in Buckinghamshire	October 2009
Use of resources report	November 2009
Opinion audit memorandum	December 2009
Annual Audit Letter	December 2009

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- 55 You have taken a positive and constructive approach to our audit, and we would like to thank your staff for their support and co-operation during the audit.

Mick West  
District Auditor  
December 2009

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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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