

# Annual Audit Letter

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Slough Borough 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 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 and Financial Statements

- 1 I gave an unqualified opinion on the Council's accounts on 28 September 2009.
  - 2 External financial reporting processes are developing and the Council's accounts met statutory requirements, financial reporting standards and presented fairly its financial performance and position.
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## Value for Money and Use of Resources

- 3 I issued an unqualified value for money conclusion stating that in all significant respects, Slough Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.
- 4 This is the second successive year we have been able to issue an unqualified conclusion.
- 5 I have assessed the Council's arrangements using the new use of resources framework which is more demanding than in previous years. Measured against this harder test I have concluded that the Council scored 2 out of a maximum of 4. This means that I have no significant concerns over the arrangements put in place by the Council and that those arrangements meet established professional practice and guidance and are operating effectively.
- 6 I have highlighted strengths in the Council's asset management arrangements and I have acknowledged that the Council is in a good position to benefit from recent improvements in terms of:
  - governing services delivered jointly with other organisations;
  - managing risks that might affect how services to the public are delivered;
  - getting better, more reliable information to help make decisions; and
  - planning how services will be delivered and can be afforded, both now and in the future.
- 7 Securing improvements from its investment in the above areas and using them to deliver outcomes for local residents and businesses is a key challenge for the Council in 2010.

- 8** I have also identified areas that I believe have scope for further improvement in managing your use of resources. These include:
- taking a longer term view of financial planning and demonstrating how corporate priorities are affordable;
  - ensure savings plans and targets are robust and deliverable;
  - being clearer about the role of the Committees in promoting and monitoring compliance with the Council's policy and procedure framework;
  - ensuring risk management meets corporate needs and is part of the routine 'day job' in departments; and
  - developing a full corporate disaster recovery plan.
- 9** I have recommended that the Council look at the potential areas for improvement that I have identified, and develop an action plan that takes these forward linked to its key priorities.

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### Other Audit Matters

- 10** 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 in the public sector has been immediate.
- 11** The Council has reviewed its Treasury Management arrangements in response to the wider economic climate and in my view appropriately strengthened these during the year.

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### Audit Fee

- 12** In our original audit plan, the estimated fee for the 2008/09 audit was £334,530. This excludes the CAA inspection fee and charges for certifying grants claims. This fee remains appropriate and I have not required a supplementary fee to complete the audit work.

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### Actions

- 13** I would highlight the following two areas from my audit where the Council needs to take action. These are to:
- Your strategic objectives need to be supported by financial plans that extend over the same period. Extending your financial plans will help the Council demonstrate that what you seek to achieve is affordable and that short term decisions are consistent with long term sustainability.
  - Work with your partners to ensure action is taken to address recommendations from my reviews of Health Inequalities and Managing Social Care in partnership across East Berkshire.

## Key messages

- 14** For these key areas I have raised either recommendations, or identified them as areas for improvement, during the course of my audit.

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## Independence

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

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# 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

- 16** The most significant issue from the audit is that I was able to give an unqualified opinion, a 'clean' opinion, on the Council's financial statements on 28 September 2009.
- 17** During my planning process I raised a number of risks that I would need to review during my audit, including how you accounted for investments in Icelandic banks, changes to the 2008/09 SoRP, and accounting for leases. I was pleased to find that the Council had correctly accounted for all these risk areas, although I have recommended to officers that how you recorded journal amendments to your financial information can be improved.
- 18** The key issues raised for the Council's attention, and which were subsequently amended in your accounts were:
- £44m of assets relating to voluntary schools were removed from your Balance Sheet to recognise that the Governing bodies for these schools exercise control over these assets;
  - asset values of £2.5m relating to an expired lease for Wellington House were removed from your balance sheet, reflecting the fact that you no longer have a continuing benefit from this expenditure;
  - a net cash position was separated in your accounts to correctly show £8.4m cash in hand against an overdraft of £6.2m; and,
  - an accounting entry showing a loss on disposal of a school of £1m was corrected to disclose it appropriately.
- 19** Given the significance of these adjustments, you re-approved your financial statements on 24 September 2009.

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## Material weaknesses in internal control

- 20** I identified weaknesses in the design or operation of an internal control that might result in a material error in your financial statements. These related to your ability to be confident that:
- all income recorded in your accounts is actually due to the Council; and
  - information in your general ledger is complete on a month by month basis.

## Financial statements and annual governance statement

- 21** I reported these to you in my Annual Governance report. As I have previously commented, these weaknesses may also be symptomatic of broader weaknesses in your control environment.

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## Accounting Practice and financial reporting

- 22** I considered the qualitative aspects of your financial reporting, and have no specific issues to raise that would merit inclusion in this letter. The finance team are well aware of reporting requirements and are planning for future developments including readiness for the implementation of International Financial Reporting Standards (IFRS).

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# Value for money and use of resources

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 and was reported as unqualified.

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. My conclusion is that the Council's arrangements to govern its business and manage its finances and resources are consistent with established professional practice and guidance, meet statutory requirements and operate efficiently.

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## VFM Conclusion

- 23** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. For 2008/09 the Audit Commission specified the use of resources KLOE for the Council as set out in Appendix 1 as the relevant criteria for the VFM conclusion at the Council.
- 24** I issued an unqualified conclusion setting that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

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## Use of resources judgements

- 25** The new Use of Resources assessment framework is more demanding than the previous assessment. It is broader in scope and embraces wider resource issues such as the use of natural resources. It also places more emphasis on considering outcomes for local people. It is particularly important to recognise that the KLOE are more strategic and focus much more explicitly than previously on value for money achievements than on processes.
- 26** 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.
- 27** 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.
- 28** The use of resources scores for the Council are shown in Table 1 below.

**Table 1 Use of resources scores**

| Use of resources theme | Scored judgement |
|------------------------|------------------|
| Managing Finances      | 2                |
| Governing the Business | 2                |
| Managing Resources     | 2                |

### Overall assessment

- 29** The Council's arrangements to manage its finances and govern its business are consistent with established professional practice and guidance, meet statutory requirements and operate effectively. Whilst progress needs to continue, overall, the Council is strengthening the way it plans and manages its operations, including:
- governing services delivered jointly with other organisations;
  - managing risks that might affect how services to the public are delivered;
  - getting better, more reliable information to help make decisions; and
  - planning how services will be delivered and can be afforded, both now and in the future.
- 30** To improve its scores further the Council now needs to demonstrate improving outcomes for local people in its key priority areas. In my view it is making good progress in establishing solid arrangements and processes to achieve this.
- 31** In the sections below I have outlined my findings in each of the three themes. The more detailed findings are reported separately in my Use of Resources report.

### Recommendation

- R1** The Council should look at the potential areas for improvement in managing use of resources and develop an action plan that takes these forward linked to its key priorities. The recommended areas of focus are as follows:
- taking a longer term view of financial planning and demonstrating how corporate priorities are affordable;
  - ensure savings plans and targets are robust and deliverable;
  - being clearer about the role of the Committees in promoting and monitoring compliance with the Council's policy and procedure framework;
  - ensuring risk management arrangements meet corporate needs and is part of the routine 'day job' in departments;
  - developing a full corporate disaster recovery plan.

### Managing finances

- 32** Slough Borough Council's arrangements to manage its finances are consistent with established professional practice and guidance, meet statutory requirements and operate effectively.
- 33** The Council plans how services can be delivered and afforded over 3-year rolling period. This time-span matches the period over which the Government's publishes funding agreements for local councils. Taking a longer term view, perhaps over a 10 year period, will help the Council demonstrate better where it is, where it wants to go, and how it plans to get there. I have therefore asked the Council to consider and apply the principles set out in the Audit Commission's paper 'World Class Financial Management' in developing its own financial planning framework.
- 34** Such a longer term view is very important at present given the economic downturn and banking crisis. This is having a very significant impact on public finances and the bodies that manage them and I have reflected on this wider environment, specific issues and risks, and the Council's response as part of my audit.
- 35** At the time of the Icelandic Banks collapse the Council had £2.5m invested in Heritable Bank, equivalent to 2 per cent of total deposits. The Council properly provided for an impairment of 20 per cent in the 2008/09 accounts and expects to recover 70-80 per cent of the investment through the Administrator.
- 36** The impact on treasury management strategies in the public sector has been immediate. The Council has reviewed its treasury management arrangements in response to the wider economic climate and in my view appropriately strengthened these during the year.
- 37** 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. These have already been experienced by the Council in 2008/09, but it has managed its net expenditure funded by council tax to meet its original budget. There are likely to be further challenges for policy priorities where patterns of demand for services are changing.
- 38** Given this, I reported to officers during the year about my emerging concerns that agreed savings are not deliverable. Stronger, more detailed savings plans, moving away from an annual target are needed to bridge an estimated budget gap of £22m over the next three years.

### Governing the business

- 39** Slough Borough Council's arrangements for governing the business are consistent with established professional practice and guidance, meet statutory requirements and operate effectively.
- 40** Roles and responsibilities within the Council are clear and there are productive working relationships between Members and officers although Members need to take more advantage of the development training offered by the Council.

## Value for money and use of resources

- 41 Partnerships are seen as central to the delivery of the Council's services. The Council now has a clear view as to which partnerships it is involved in, and most importantly, why. It is working with each to set out governance and performance standards, helping ensure outcomes are delivered for residents. These arrangements are not fully in place yet, but I expect them all to be in place by the end of this financial year.
- 42 A data quality strategy and protocol were agreed in March 2009, too recently to assess any impact. Nevertheless our findings from spot checks of selected performance indicators show that the numbers appear to be fairly stated in accordance with definitions. It is also clear that information is used by the Council to review underperformance and take action and services have improved as a result.
- 43 The Council has a sound system of internal control including an Audit Committee with an independent chair and a Standards Committee. More needs to be done by these two Committees to promote and monitor compliance with your policy, guidance and standards framework and I have asked the Council to improve arrangements in this respect.
- 44 Part of this system of Internal Control is a process to identify risks to the delivery of Council services, corporate objectives, or public assets. The Council is committed to developing such a risk management framework and has made significant progress. I have asked the Council to focus now on ensuring these arrangements take account of corporate as well as service risks and to find ways to make the process 'part of the day job', rather than being seen as an annual exercise.
- 45 Following my comments last year, the Council has taken action to put arrangements in place to ensure that 'life and limb' services can continue if there is widespread disruption to Council operations. In my view, this is a positive step to help safeguard the residents of Slough. These plans now need to be expanded into a full disaster recovery plan to ensure that the impact on all Council services of a significant event is minimised.

## Managing Resources

- 46 Slough Borough Council's arrangements for managing its resources are consistent with established professional practice and guidance, meet statutory requirements and operate effectively.
- 47 The Council's arrangements for asset management go beyond this baseline. The Council's approach is forward looking, proactive and identifies and develops opportunities for improvement. Assets are managed with a clear view to corporate priorities, now and in the future.
- 48 The Council has award winning accommodation strategy and is co-ordinating the redevelopment of the centre of Slough. This aims to deliver an improved town centre for residents and £400m of capital investment has been secured to deliver this. Alongside this, 8 schools in the Borough have been rebuilt or replaced since 2005.

**49** The Council's arrangements to make effective use of natural resources are developing but are still at an early stage overall. The Council understands the main influences behind its use of natural resources and is committed to reducing its impact on the environment. Progress prior to 2008/09 was slow but has accelerated over the last 12 months. A carbon management board has been established to ensure that carbon reduction targets are met and a climate change strategy is being developed.

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### Health inequalities

**50** Local government bodies are required to work together with health bodies for the benefit of tax payers and patients. By working in partnership it is expected that public bodies will be better able to develop integrated services and improve the health and well being of local people.

**51** To support my use of resources assessment I undertook a review of how effectively partners in East Berkshire are working together to address issues of health inequalities. This review was a joint project across the following organisations:

- Slough Borough Council;
- Bracknell Forest Borough Council;
- Royal Borough of Windsor and Maidenhead Council; and
- Berkshire East Primary Care Trust.

**52** My review found collaboration where health inequalities priorities are shared, such as the healthy hearts initiative and smoking cessation programmes. However, there is significant scope for improving the delivery of outcomes by:

- clearly identifying how each partner will contribute to process outcomes;
- ensuring performance management information to monitor agreed service delivery is routinely shared;
- evaluating the costs and benefits of closer working, such as the identification of a specific public health group to lead on common objectives across East Berkshire;
- clarifying the governance and accountability structures for the roles of partners; and
- using partnership working to identify innovative ways to support increased public health capacity.

**53** The Council should work with the Primary Care Trust through the forum of the Joint Strategic Commissioning Board to address those matters raised in the report to help reduce health inequalities in the Borough.

### Recommendation

**R2** Work with partners to ensure action is taken to address the recommendations outlined in the health inequalities review.

### Managing health and social care in partnership

- 54** With changing demographics, and in particular the growing number of older people living longer, there is a greater demand for support and care. This demand is increasing the pressure on the health and social care budgets of Local Government and NHS bodies.
- 55** To support my use of resources assessment I undertook a review of how effectively partners in East Berkshire are working together to manage adult social care and continuing healthcare costs.
- 56** This review was a joint project across the following organisations:
- Slough Borough Council;
  - Bracknell Forest Borough Council;
  - Royal Borough of Windsor and Maidenhead Council; and
  - Berkshire East Primary Care Trust.
- 57** This review found that:
- existing frameworks are effective at monitoring expenditure;
  - continuing care criteria are effective in managing expenditure; and
  - each organisation has invested time and resources in developing services which are equitable and meet the needs of their local communities.
- 58** To further improve outcomes partner organisations need to take action to:
- ensure that health and social care partnerships have agreed objectives, clear outcome targets and robust performance management arrangements;
  - review the effectiveness of the management of delayed transfers of care and implement an action plan to address the issues identified; and
  - assess the potential benefits of closer working, such as further integration to manage intermediate care teams, establishing a joint framework for sharing good practice, or the joint training of care staff.
- 59** The Council should work with the Primary Care Trust through the forum of the Joint Strategic Commissioning Board to address those matters raised in the report to better manage health and social care in partnership.

#### Recommendation

- R3** Work with partners to ensure action is taken to address the recommendations made in the health and social care partnership review.
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# Closing remarks

- 60** I have discussed and agreed this letter with the Chief Executive and Strategic Directors. I will present this letter at the meeting of the Borough Council in January 2010 and will provide copies to all members.
- 61** 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.

**Table 2     Audit reports issued**

| <b>Report</b>                                  | <b>Date issued</b> |
|--|--------------------|
| Audit and Inspection Plan                      | July 2008          |
| Audit Plan Refresh                             | April 2009         |
| Managing Health Inequalities                   | June 2009          |
| Managing Health and Social Care in partnership | August 2009        |
| Annual Governance Report                       | September 2009     |
| Use of Resources                               | November 2009      |
| Data Quality                                   | December 2009      |
| Annual Audit Letter                            | December 2009      |

## **Recommendation**

- R4** The Authority should ensure through its follow-up procedures that recommendations made in audit reports issued through the year have been implemented in accordance with agreed timetable.

- 62** The Council has taken a positive and constructive approach to our audit. I wish to thank your officers for their continued support and co-operation.

Phil Sharman  
District Auditor  
December 2009

# Appendix 1 – Use of resources criteria and scores

| Use of resources theme   | VFM criterion met?     | UoR score          |
|--|------------------------|--------------------|
| <b>Managing Finances</b>   |                        | <b>2</b>           |
| KLOE 1.1 - Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?                                | Yes                    | 2                  |
| KLOE 1.2 - Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?                                 | Yes                    | 2                  |
| KLOE 1.3 - Is the organisations financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?                    | Yes                    | 2                  |
| <b>Governing the Business</b>  |                        | <b>2</b>           |
| KLOE 2.1 - Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money? | Yes                    | 2                  |
| KLOE 2.2 - Does the organisation produce relevant and reliable data and information to support decision making and manage performance?                               | Yes                    | 2                  |
| KLOE 2.3 - Does the organisation promote and demonstrate the principles and values of good governance?   | Yes                    | 2                  |
| KLOE 2.4 - Does the organisation manage its risks and maintain a sound system of internal control?   | Yes                    | 2                  |
| <b>Managing Resources</b>  |                        | <b>2</b>           |
| KLOE 3.1 - Is the organisation making effective use of natural resources?  | Yes                    | 2                  |
| KLOE 3.2 - Does the organisation manage assets effectively to help deliver its strategic priorities and service needs?   | Yes                    | 3                  |
| KLOE 3.3 - Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?                        | Not applicable in year | Not scored in year |

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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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