

Annual Audit Letter

Wycombe District 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 letter 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 we have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit opinion

- 1 The draft of this letter summarised the position as at 30 November 2009 and the key issues arising that you needed to consider before we issued our opinion, conclusion and certificate.
- 2 I issued my unqualified opinion on the financial statements on 10 December 2009 after the target date, 30 September 2009. We found some material accounting issues in the accounts and brought them to your attention late in the audit process. Most were resolved by the end of September, but we had not reached agreement at that time on the treatment of Higginson Park Trust transactions within the Council's financial statements. As a result of the audit you made material changes to the financial statements. These amendments did not change the reported balances and reserves available to finance future expenditure.

Use of resources

- 3 We assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria set out by the Audit Commission. We use this assessment to reach a conclusion on the adequacy of your arrangements. This is expressed in our value for money conclusion. We also use the assessment to judge how well your arrangements work. This is our use of resources assessment.
- 4 The Audit Commission sent you its proposed use of resources assessment on 16 October 2009. You did not accept its findings and asked for a review of the work undertaken on risk management and internal control because you disagreed with my assessment that arrangements were not adequate.
- 5 The Audit Commission's review did not agree with you and I did not change my assessment. I concluded that you did not have adequate arrangements for risk management and internal control and issued my qualified value for money conclusion on 10 December. The Audit Commission assessed that your overall arrangements to secure economy, efficiency and effectiveness in your use of resources performed adequately (a level 2 assessment).

Audit fees

- 6 In July 2008 we set out our proposed audit fees in our 2008/09 audit plan. We have been unable to complete our work within the planned fee. We have addressed significant issues in the audit of the financial statements which have resulted in material changes to the accounts and had to undertake additional audit work to cover the weaknesses created by the poor implementation of the new housing financial system. We are seeking an additional fee for the additional work we have carried out.
- 7 We cannot say what the position is on the fee for grant claims because the work on the benefits claim is in progress.

Table 1 Audit fees

	July 2008 plan £	Proposed £	Variance £
Financial statements and annual governance statement	90,323	97,433	7,110
Value for money	32,100	32,100	
Total audit fees	122,423	129,533	7,110
Grant claims	25,000		

Actions

- 8 We have included our recommendations within the body of this report. Your response is shown in the appended action plan.

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.

Introduction

- 10 This letter summarises for you the findings from our 2008/09 audit. It includes the key matters that we identified that you had to consider before I issued my opinion on the financial statements, my value for money conclusion and the audit closure certificate including the following.

Matters for the attention of the members of the 8 December 2009 Audit Committee - as those charged with governance	Comment
The form of our audit opinion on the financial statements and of our value for money conclusion including modifications to the standard unqualified opinion or conclusion.	We provided a draft auditor's report which included a standard unqualified opinion on the financial statements and a qualified value for money conclusion.
Errors and misstatements including: <ul style="list-style-type: none"> ● material amendments; ● other amendments; and ● errors that have not been amended. 	The draft annual letter reported on three material amendments and summarised the position on overall errors and misstatements. An annex was provided setting out the details.
Material weaknesses in internal control.	The draft annual letter reported our conclusions on internal control.
Concerns about the quality of accounting practice and financial reporting.	The draft annual letter identified our concerns. An annex was provided with more detail.
The final draft of the letter of representation.	We provided the draft letter of representation with the draft annual letter.
Independence and ethical issues	We reported on these in the draft annual letter.
Other matters eg non compliance with law and regulation, fraud etc.	There were no matters to report.
Any other audit matter of governance interest.	The draft annual letter highlighted for your attention the governance arrangements for the Council's role as sole trustee of the Higginson Park Trust.

- 11 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. There are further challenges for policy priorities where patterns of demand for services are changing.
- 12 These have an impact on the audit and as part of our responsibility, we have reflected on the wider environment, specific issues and risks and the Council's response. This is covered in both our work on the financial statements and use of resources looking at for example the loss in value of fixed assets and Icelandic bank investments and the way the Council has changed the focus of financial planning.

Financial statements and annual governance statement

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

Significant issues arising from the audit

13 As Council members you have final responsibility for the financial statements. It was therefore important that you considered our findings before you adopted the financial statements and the annual governance statement. The following paragraphs summarise for you the significant issues that we brought to your attention and your response to them.

Opinion on the financial statements

14 I issued my unqualified opinion on the financial statements on 10 December 2009 after the target date, 30 September 2009. We found some material accounting issues in the accounts and brought them to your attention late in the audit process. Most were resolved by the end of September, but we had not reached agreement at that time on the treatment of Higginson Park Trust transactions within the Council's financial statements. As a result of the audit you made material changes to the financial statements. These amendments did not change the reported balances and reserves available to finance future expenditure.

Material amendments

Valuation of council dwellings

15 The Council follows the prescribed approach for valuing its council dwellings. This involves putting similar dwellings into groups and selecting a typical property within the group, known as a beacon property, to represent the group. The valuation of the group is based on a full valuation of the beacon property every five years and a desktop valuation in other years. The groups are aggregated to establish the total value of the council dwellings. The last full valuation was completed for 1 April 2006.

16 This is known as the beacon methodology. A beacon property is initially valued as a single owner-occupied dwelling available for sale. This value is reduced, using an adjustment factor, to obtain an 'existing use valuation for social housing'. The social housing valuation reflects a valuation for a property as if it were sold with sitting tenants enjoying rents at less than open market rents and tenants' rights including the right to buy. The adjustment factor measures the difference between market rented and social rented property at a regional level. The government sets the preferred adjustment factors to be applied.

- 17 Valuations of other types of property, such as hostels, bed and breakfast accommodation and specialised sheltered accommodation, where included in the Housing Revenue Account, may require no further adjustment if occupation is not by means of a secure tenancy and the basis of valuation is an existing use valuation.
- 18 Sheltered accommodation, where there is a significant element of care and shared facilities, may be better compared to the residential home market. Regard should be had to the quality of the accommodation and facilities provided, in comparison with similar accommodation in the private sector. In valuing these properties regard should be had to the wider market outside the local authority area as the residential home market is not so site or location specific as the owner occupied market. The basis of valuation for these types of property is their existing use valuation.
- 19 Where, however, the sheltered accommodation is more akin to general purpose housing with some additional support such as warden call systems, shared laundry facilities, common rooms etc, the valuation approach for general council dwellings should be adopted and the values adjusted to reflect these features in as much as the market would do so. The basis of valuation is their sheltered housing valuation arrived at by the beacon approach and applying the adjustment factor.
- 20 About 20 per cent of the Council's dwellings are treated as sheltered. They have been valued on the same basis as other council dwellings, ie at existing use value, but without applying the adjustment factor. It is our understanding that although designated as 'sheltered' dwellings:
 - many are ordinary council dwellings occupied by tenants that have additional needs met by straightforward adaptations or additional services;
 - the occupants have secure tenancies and a right to buy; and
 - when vacated the dwellings may be let to tenants without any special requirements as ordinary council dwellings.
- 21 The current basis of valuation for sheltered accommodation started in about 2001 and it is unclear how it was decided that such properties should be valued in this way.
- 22 Valuing on the same basis as the main council housing stock would decrease the stock value by up to £72 million.
- 23 You could not confirm that:
 - the sheltered properties were specialised, offering a significant element of care and shared facilities;
 - the tenancies were not secure and the tenants were not entitled to a right to buy; and
 - the market value was referenced to the residential home market or an equivalent.
- 24 You concluded that the properties designated as 'sheltered dwellings' have been overvalued by £72 million and amended the financial statements. The amendment does not affect: the resources available to finance housing expenditure; the valuations used for the right to buy sales; or the proposals for the voluntary transfer of council housing.

Spending on council house modernisation

- 25** The Council spent £5 million modernising its council dwellings in 2008/09, for example replacing kitchens and bathrooms. The accounts treated this expenditure as capital expenditure. However your valuer assessed that this modernising work did not increase the value of council dwellings so the capital expenditure was written out, or fully impaired, immediately. For accounting purposes expenditure that maintains the condition of an asset, but does not add any value to the asset, cannot normally be treated as capital expenditure.
- 26** To treat the expenditure as capital, the Council needed to demonstrate that the value of the dwellings had been reduced ahead of the planned modernisation works, for example through normal wear and tear or annual depreciation. Having a modernisation programme indicated that impairment may have occurred and that the value of council dwellings at 1 April 2008 may have been reduced.
- 27** Your valuer and finance staff reconsidered the position on modernisation expenditure. Your valuer concluded that council dwellings at 1 April 2008 had been over-valued by £5 million due to their condition. The original valuation assumptions had included the benefit of the housing improvement programme rolled out during 2008/09 to bring the stock back to fit for purpose condition and this caused the over-valuation. Consequently, the value of council dwellings on 1 April 2008 needed to be impaired by £5 million and the actual expenditure on modernisation could be counted as capital expenditure.
- 28** The modernising programme for 2009/10 indicated that council dwellings covered in the programme had also lost value. These council dwellings were also held in the accounts, at 31 March 2009, at an overstated valuation. A further impairment of £4.9 million has been made to recognise the loss in value, or impairment, of these council dwellings. The additional impairment has been recorded as expenditure in the Housing Revenue Account. The impact on the Housing Revenue Account is mitigated by a further accounting entry through the Statement of Movement on the Housing Revenue Account Balance such that there is no impact on council tax payers or tenants.

Higginson Park Trust

- 29** You are the sole trustees of the Higginson Park Trust. Under the local government reorganisation of 1974 the freehold ownership of the Higginson Park estate together with its management and administration was transferred to Wycombe District Council.
- 30** The current scheme for the regulation of the Higginson Park Trust comprising the Court Garden House and Higginson Park was approved and established in 1982, with Wycombe District Council as the sole trustee. The object of the Trust is the provision and maintenance for the benefit of the inhabitants of the District of Wycombe with particular regard for the inhabitants of the Town of Marlow of a public park, ornamental gardens and recreation ground with such facilities for physical exercise, training, lectures, classes and other forms of recreation or leisure time occupation in the interests of improving the conditions of life for the said inhabitants as the Trustee shall from time to time think fit.

- 31** Although you prepared separate audited Trust accounts for the Charity Commission, the transactions of the Trust were also included, fully, within the Council's financial statements. This practice did not comply with the proper accounting practices applicable to local authority accounts.
- 32** You have amended the financial statements so that the Trust's transactions are no longer embedded in the Council's accounts. Instead, in accordance with proper accounting practice, you have excluded the Trust's assets and liabilities from the Council's balance sheet and the supporting notes and disclosures and you have included the relevant disclosures required as the sole Trustee of a significant Trust.

Trust governance arrangements

- 33** Our work on the accounts of the Higginson Park Trust raised wider questions about the governance arrangements for the Trust. The Council has a distinct and separate responsibility, exercised through the members of the Council, to manage the affairs of the Trust. In cases where a local authority is sole trustee, it should be remembered that it is responsible in the same way as any other charity trustee for carrying out the normal duties and responsibilities of a charity trustee. It is up to the local authority to decide, within the scope of local government law, what structures should be used to reach decisions in its name as trustee. An alternative to requiring all the decisions to be reached by the full body of councillors, for example, is to set up a separate committee to discharge its responsibilities as trustees. Whatever the structure employed, the individuals concerned are not themselves charity trustees. They must, however, act in a responsible way so as to ensure that the local authority acts properly as a charity trustee. If they fail to do this, they may be liable to the council under local government law for any losses it bears as charity trustee.
- 34** As with the Trust's accounts, the activities of the Trust appear to be embedded in the Council's mainstream activities, covered by the Council's governance arrangements. This may not be an appropriate way of discharging the Council's sole trustee responsibilities.

Recommendation

- R1** Review the Council's arrangements for discharging its responsibilities as the sole trustee of the Higginson Park Trust.

Other errors and amendments

- 35** In addition to the three issues and related amendments to the financial statements discussed above, we also identified other errors in the accounts. These, other than the minor ones, were set out in an annex provided with the draft annual letter. You have amended the accounts for most of the errors identified and you have told us why the remaining errors have not been corrected.

Material weaknesses in internal control

- 36 The entries in your financial statements are drawn from the general ledger system and other significant financial systems. The validity and accuracy of the transactions in your financial systems depend on the operation of a range of checks and balances which comprise the system of internal control. Our standard approach to the audit of financial statements focuses on the control environment and where possible, our audit approach seeks to rely on the checks and balances in place.
- 37 The housing financial system was replaced during 2008/09. The transition to the new system did not work very well and some controls for rent collection and repairs management lapsed during the second half of the year. Controls were subsequently restored but we were unable to rely on their operation throughout the year. This increased the amount of testing we carried out on the transactions generated by the housing system.
- 38 The weaknesses in housing internal control arrangements were not reported in your draft annual governance statement. The statement has been amended to include a disclosure about the problem and the steps taken to restore effective controls.
- 39 We did not identify any other material weaknesses in your internal control arrangements.

Investments in Icelandic banks

- 40 Your accounts include £2.5 million for your investment in the failed Icelandic Bank GLITNIR. This represents the assessed value of the amount that you estimate will be recovered on the original investment and unpaid interest. You have reviewed and updated your treasury management arrangements to ensure that they meet your needs in the current financial climate. We have identified no weaknesses in your arrangements.

Accounting practice and financial reporting

- 41 We considered the qualitative aspects of your financial reporting. Amendments to the accounts were recommended to secure better compliance with proper accounting practice, to improve presentation and to correct errors in the accounting notes and disclosures. Most of the recommended amendments have been made in the revised statements. There remained two areas where compliance could be improved: providing an analysis of the tangible fixed asset balance on the balance sheet; and reporting the amounts of the revalued classes of fixed assets in the disclosure notes for fixed asset revaluations.
- 42 You are required to include with your financial statements an Annual Governance Statement which explains how the Council has secured effective financial governance. We review your Annual Governance Statement focusing on its completeness and compliance with recommended proper practices; disclosures that are misleading; and inconsistencies with our knowledge of the Council.

- 43 The process for compiling the Annual Governance Statement required heads of services to identify any areas of weakness raised by Internal Audit or other bodies. Although the problems associated with implementing the new housing IT system were known, the head of service did not identify them as an area of weakness. Our review of use of resources highlighted weaknesses in risk management and internal control. Your Statement was amended to include disclosures for these issues.
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Letter of representation

- 44 Before we issued our opinion, auditing standards required us to obtain appropriate written representations from you and management about your financial statements and governance arrangements.

Value for money and use of resources

We considered how well the Council manages and uses 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 had put in place adequate overall 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

- 45 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.
- 46 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.
- 47 We assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria set out by the Audit Commission. We use the assessment to judge how well your arrangements work. This is our use of resources judgement.
- 48 The use of resources assessment considers how well organisations are managing and using their resources to deliver value for money and better and sustainable outcomes for local people. The assessment comprises three themes. These focus on the importance of sound and strategic financial management, strategic commissioning and good governance, and the effective management of natural resources, assets and people.
- 49 The Audit Commission sent you its proposed use of resources assessment on 16 October 2009. You did not accept its findings and asked for a review of the work undertaken on risk management and internal control because you disagreed with my assessment that arrangements were not adequate.
- 50 The Audit Commission's review did not agree with you. I did not change my assessment. I confirmed that you did not have adequate arrangements for risk management and internal control. The Audit Commission assessed that your overall arrangements to secure economy, efficiency and effectiveness in your use of resources performed adequately.

51 The Council's use of resources theme scores are shown in the table below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in the following paragraphs.

Table 2 Use of resources theme and KLOE scores

The Audit Commission has assessed that the Council performs adequately

Use of resources theme and KLOE	Scored judgement	
	Theme	KLOE
Managing finances	3	
• 1.1 - financial planning		2
• 1.2 - understanding costs and achieving efficiencies		3
• 1.3 - financial reporting		3
Governing the business	2	
• 2.1 - commissioning and procurement		3
• 2.2 - data quality and use of information		3
• 2.3 - good governance		2
• 2.4 - risk management and internal control		1
Managing resources	2	
• 3.3 - workforce planning		2

Managing finance

52 You performed well overall and your arrangements for securing sound and strategic financial management were assessed as level 3.

KLOE 1.1 - Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?

53 This KLOE looks at how well you:

- integrate financial planning with strategic and service planning processes on a medium to long-term basis;
- engage local communities and other stakeholders in the financial planning process;
- manage spending within available resources and whether you are financially sound over the medium-term; and
- recognise individual and collective responsibilities for financial management and value and develop financial skills.

54 We assessed that you have effective arrangements generally but need to demonstrate that these have the desired impact and are performing consistently above minimum acceptable levels and achieve value for money.

Value for money and use of resources

- 55 The economic downturn has affected your finances but you have been quick to react to the many challenges this has created. You tightened up budgetary control in 2008/09 in anticipation of the unplanned recessionary pressures on your finances. You built new factors into financial planning for the medium term to reflect the changing financial environment. There is clear evidence of ownership of the process, with significant member and staff input into the budget processes and medium term planning. A cross-party member working party reviewed your efficiency savings plan. You are well placed to weather the financial storm.
- 56 You recognise that stakeholder engagement is at an early stage, with inconsistent performance. You have had some success in involving stakeholders in financial and service planning and your engagement with the tenants and leaseholders group is an example of the good practice you can achieve across Council services. Otherwise there is no routine process for engaging stakeholders in the financial planning processes. You are not routinely using the results of equality impact assessments to determine whether your plans meet the needs of all sections of the community so you cannot be assured that your policies and strategies are not having a negative impact on some groups across your diverse communities.

Recommendations

- R2** Use existing good practice within the Council to achieve effective engagement on financial planning with local people, customers, suppliers and taxpayers.
- R3** Shape your policies and strategies in response to the results of equality impact assessments.

KLOE 1.2 - Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?

57 This KLOE looks at how well you:

- understand your costs, including whole life, transaction and unit costs, the main factors that influence these and how they link to performance;
- take account of this understanding of your costs and performance in decision making and commissioning; and
- identify the scope for making efficiencies and whether you are on track to achieve planned efficiencies.

- 58 We assessed that you have effective arrangements generally. You have demonstrated that these have the desired impact and are performing consistently above minimum acceptable levels and achieve value for money.
- 59 You recognised that the downturn in the economy would have an impact on the Council's finances and services. You changed your financial plans to reflect the changing situation. This included revising the budget for 2008/09, finding more savings, curtailing the capital programme and revising the medium term plan.

KLOE 1.3 - Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?

60 This KLOE looks at how well you:

- produce relevant, timely and reliable financial monitoring and forecasting information;
- use financial and related performance information to monitor performance during the year;
- produce financial reports that are clear, relevant and concise to support strategic decision making;
- prepare accounts that meet statutory requirements, financial reporting standards and present fairly the financial performance and position; and
- publish reports that provide an objective, balanced and understandable assessment of the Council's performance in the year.

61 We assessed that you have effective arrangements generally. You have demonstrated that these have the desired impact and are performing consistently above minimum acceptable levels and achieve value for money.

62 You have sustained your good track record of providing the information needed to track performance effectively and to shape key decisions. You are focused on providing timely and accurate accounts. As newly appointed auditors we have identified three key areas where your established accounting practices did not follow proper accounting practice. These resulted in material changes to your accounts. We also reported a range of errors in the main statements and in the notes and disclosures supporting the accounts.

Recommendation

R4 Sustain the quality of financial reporting by reviewing the outcome of the 2008/09 audit of your financial statements and building improvements into the arrangements for preparing your accounts and liaising with your auditors.

Governing the business

63 You performed adequately overall and your arrangements for securing effective strategic commissioning and good governance were assessed as level 2.

Value for money and use of resources

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?

64 This KLOE looks at how well you:

- have set a clear vision of intended outcomes for local people which shapes your commissioning and procurement, and is based on an ongoing analysis and understanding of needs;
- involve local people, partners, staff and suppliers in commissioning services;
- seek to improve the customer experience, quality and value for money of services through service redesign, making effective use of IT;
- understand the supply market and seeks to influence and develop that market;
- evaluate different options (internal, external and jointly with partners) for procuring services and supplies; and
- review the competitiveness of services and achieves value for money, while meeting wider social, economic and environmental objectives.

65 We assessed that you have effective arrangements generally. You have demonstrated that these have the desired impact and are performing consistently above minimum acceptable levels and achieve value for money.

66 You recognise how buying the right goods and services in the right way at the right price impacts on the level and quality of services that you provide. You use the various mechanisms effectively, including working with other organisations in partnerships, and involving local people, partners, staff and suppliers. You recognised that delivery from the Customer Service Centre needs to be improved and you have been exploring a number of options for procuring the service you want.

Recommendation

R5 Implement the proposed new arrangements for the Customer Service Centre and monitor the delivery of improved performance.

KLOE 2.2 - Does the organisation produce relevant and reliable data and information to support decision making and manage performance?

67 This KLOE looks at how well you:

- produce relevant and reliable data and work with partners to ensure the quality of partnership data;
- understand the needs of your decision makers and provide them with information that is fit-for-purpose and is used to support decision making;
- ensure data security and compliance with relevant statutory requirements; and
- monitor performance against your priorities and targets, and address underperformance.

68 We assessed that you have effective arrangements generally. You have demonstrated that these have the desired impact and are performing consistently above minimum acceptable levels and achieve value for money.

- 69 You have set up effective arrangements that ensure you have the right information to manage the Council's activities and to see how you are progressing against the priorities you have set. Your arrangements ensure that the information can be relied on and that it is held securely. Your IT systems provide much of the key information you need and you have recovery processes and contingency plans for major failures in these systems. These were tested in 2008/09 but have not been tested routinely.

Recommendation

- R6** Carry out regular testing of IT recovery processes and contingency plans for major system failures.

KLOE 2.3 - Does the organisation promote and demonstrate the principles and values of good governance?

- 70 This KLOE looks at how well you:

- have adopted, promoted and demonstrated, the principles of good governance;
- maintain focus on its purpose and vision;
- demonstrate a strong ethical framework and culture; and
- apply the principles and values of good governance to your partnership working.

- 71 We assessed that you have effective arrangements generally but need to demonstrate that these have the desired impact and are performing consistently above minimum acceptable levels and achieve value for money.

- 72 You have established a sound framework for good governance. This can be seen in the support given to members and the way officers and members work together, particularly when faced with challenging issues like the 2009/10 budget process. You invest in training and need to maintain this investment despite the financial pressures.

- 73 You have the necessary ethical framework in place, including an effective constitution, code of conduct, standards committee, registers of interest plus standing orders and financial regulations. We identified some areas of weakness. The whistleblowing policy does not provide the necessary level of information to be fully effective; and you do not maintain registers of interest consistently.

- 74 You are working hard to establish sound partnership governance arrangements. You are aware that these are not yet applied consistently and you have focused attention on what needs to be done to secure consistency.

Recommendations

- R7** Ask Internal Audit to review your whistleblowing policy and to identify the improvements needed.

- R8** Ask Heads of Service and/or Internal Audit to review registers of interest to ensure the Council's policies and practices are being implemented.

Recommendations

R9 For key partnerships where sound partnership arrangements have not been fully established, develop an action plan to secure consistency.

KLOE 2.4 - Does the organisation manage its risks and maintain a sound system of internal control?

75 This KLOE looks at how well you established:

- effective risk management which covers partnership working;
- a clear strategy and effective arrangements, including allocation of appropriate resources, to manage the risk of fraud and corruption; and
- a sound system of internal control including internal audit.

76 We assessed that your arrangements for managing risks and maintaining a sound system of internal control were not adequate. You have some effective arrangements but need to demonstrate that these have the desired impact and are performing consistently at or above minimum acceptable levels and achieve value for money.

77 You have been updating your approach to risk management and you are building an effective framework to support your risk management policy. Arrangements were not clear across the transition in 2008/09 and we could not see how a view of risks at the operational level had been maintained and fed into the strategic risk register. A new IT system will support the new approach but there were delays in setting up the new system alongside changes in key risk management staff. Internal Audit was unable to formulate an audit plan based on the risk identified at operational level.

78 You have arrangements in place for whistleblowing and for dealing with fraud and you respond well to reported incidents. You have a range of processes for addressing benefit fraud. Outside of this you do not have a programme of counter fraud activity aimed at prevention across the range of Council activity. Internal Audit's work focused on reported incidents rather than on preventative work. You address reported frauds promptly.

79 The Audit Commission operates a National Fraud Initiative (NFI) that relies on matching specific data provided by a range of public sector bodies. The NFI programme is a major national undertaking that depends on timely submission of appropriate data. You missed the initial and revised submission deadlines.

80 Your internal control arrangements are generally adequate, based on the work of Internal Audit and your Annual Governance Statement. You introduced a new housing IT system during 2008/09. The move to the new system did not work well and difficulties were encountered with the operation of the new system. These reduced the effective operation of the system while attention was being focused on solving the problems.

Recommendations	
R10	Carry out a post implementation review of the effectiveness of the revised overall risk management arrangements that involves all representatives across the activities at the strategic and operational levels.
R11	Develop a clearer focus on preventative anti fraud and corruption activity across the range of Council activities.
R12	Raise the profile of the importance of the Audit Commission's National Fraud Initiative and ensure the Council's information from the matching exercises is used as an effective tool.
R13	Carry out a post implementation review of the way the new housing IT system was put in place; identify weaknesses in the process; and develop improvements in change management processes to build on the lessons learnt.
R14	Ask Internal Audit to review and test internal control arrangements for the new housing systems.

Managing resources

- 81** This theme covers the management of natural resources, assets and people. As specified by the Audit Commission, the use of resources assessment for 2008/09 covered only the management of people.
- 82** You performed adequately overall and your arrangements for securing effective people management were assessed as level 2.

KLOE 3.3 - Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?

- 83** This KLOE looks at how well you:

- established a productive and skilled workforce;
- know in the medium to longer term what staff you will need, with what skills, and you have plans to achieve this;
- engage and support staff in organisational change; and
- put in place policies which support diversity and good people management.

- 84** We assessed that you have effective arrangements generally but need to demonstrate that these have the desired impact and are performing consistently above minimum acceptable levels and achieve value for money.
- 85** You are taking action to ensure that you have a productive and skilled work force. The service and financial planning framework you used for 2009/10 encouraged services to identify gaps in skills. This will take time to have an impact but some results were already coming through in 2008/09. For example, the high level of sickness absence had started to fall.
- 86** You had drafted a workforce strategy in 2008/09 which identified: areas of concern; the action already undertaken; and areas for improvement.

Value for money and use of resources

- 87 Staff were well engaged and supported through organisational change and this continues with the Council's involvement in the pathfinder projects with other Buckinghamshire councils, particularly for the shared services project.
- 88 We could not see how you had assessed whether you had adequate policies to support diversity either in your external facing role or within your own workforce. You are not using equality impact assessments consistently to shape your wider impact or your policies and practices. We have seen good practice in housing's approach to diversity, but we cannot see consistent application across the Council's services.
- 89 You are developing a new equality and diversity framework that should be more focused on delivering your priorities for service improvement.

Recommendation
R15 Survey the impact of the new equality and diversity framework to ensure the new approach is reflected in the day to day running of Council business throughout the organisation.
R3 as above Shape your policies and strategies in response to the results of equality impact assessments.

Value for money conclusion

- 90 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 each year, which of the use of resources KLOE are the relevant criteria for the value for money conclusion at each type of audited body. My conclusions on each of the areas are set out in Table 3.

Table 3 Value for money conclusion

The Council has adequate arrangements except for risk management and internal control

Relevant value for money criteria and KLOE	VFM assessment	KLOE level
1.1 financial planning	Adequate	2
1.2 - understanding costs and achieving efficiencies	Adequate	3
1.3 - financial reporting	Adequate	3
2.1 - commissioning and procurement	Adequate	3
2.2 - data quality and use of information	Adequate	3
2.3 - good governance	Adequate	2
2.4 - risk management and internal control	Inadequate	1
3.3 - workforce planning	Adequate	2

- 91 I issued a qualified value for money conclusion stating that you had adequate arrangements to secure economy, efficiency and effectiveness in your use of resources, except that you had inadequate arrangements for risk management and internal control. The main weaknesses are described above in the discussion on KLOE 2.4.

Value for money projects

- 92 As part of our work in Buckinghamshire we have carried out two specific reviews across a range of public sector bodies to support our work on use of resources.

- **Buckinghamshire Pathfinder Project (November 2009)**
The councils in Buckinghamshire are engaged in a major collaboration - the Buckinghamshire Pathfinder. This is looking at how better use can be made of public money to improve the services provided to people in the County through better cooperation, integration and joint commissioning of services. Our review focused on the arrangements for managing the Pathfinder Project.
- **Health Inequalities - Phase 2 (November 2009)**
Buckinghamshire public sector bodies are jointly responsible for improving the health of the local population and for addressing health inequalities. Our review looked at the way the partners were working together.

Buckinghamshire Pathfinder Project

- 93 In July 2007, the Government accepted a 'Pathfinder' bid from the five Buckinghamshire councils to develop more effective public services in the County through cooperation, integration and joint commissioning of services. The councils have identified six work streams as potential areas for partnership, and include a broader set of partners including the Buckinghamshire Fire and Rescue Service and Buckinghamshire Primary Care Trust. These six projects form the first phase of the Pathfinder work. They aim to provide more effective local government by co-operative working and achieving better engagement to produce services that meet the diverse needs of local communities. They intend to build a strong role for councillors in the governance of the Partnership and as local representatives. They plan to make total savings of over £8.5 million per annum by 2013.
- 94 Since then, the Buckinghamshire Enhanced Two Tier Working Pathfinder Partnership ('the Pathfinder' or 'the Partnership') has made reasonable 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 the partners. The Pathfinder has helped partners to drive projects forward more effectively than if they had been developed 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 that the Pathfinder offers.

Value for money and use of resources

- 95 Individual projects have progressed at different rates, but progress has been reasonable overall. The Partnership has passed its first significant test with Partnership 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.
- 96 The Partnership is now starting to identify additional projects for investigation. It is embracing a more flexible approach, exploring the potential for smaller scale joint working between districts as well as opportunities for extending the Partnership across County boundaries. This has helped it to accommodate Chiltern District Council's decision to withdraw from the shared services project. This also demonstrates a deeper and more sophisticated understanding of partnership working.
- 97 Governance arrangements are still cumbersome and the Partnership's ability to deliver individual projects has not been tested yet. However, the early evidence is that governance is developing to meet the emerging needs of the programme.
- 98 Satisfactory performance management arrangements are in place at a project level, but the main indicators of success are financial savings. The full benefits of the Partnership for local people are still unclear. There is also limited performance management to measure the success of 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.
- 99 In summary capacity is stretched within all five councils and the economic recession is placing additional constraints on capacity. The Pathfinder will produce some of the savings required to meet the needs of the partners, but not all. There is a risk that the business transformation agenda across the County will become dominated by partners' internal efficiency programmes and that opportunities will be lost to achieve greater savings and more effective public services through partnership.
- 100 The main challenges for the Pathfinder programme are now to:
- develop councillors' new roles in Pathfinder and their understanding of them. Councillors leading Pathfinder have to develop new skills and ways of working; backbench councillors also need to understand how their roles are changing;
 - 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 the momentum of the Partnership 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 exploring new partnership areas where there may be opportunities 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 that recognises the importance of assessing the Partnership's success in delivering the Pathfinder project as a whole and its impact upon the partners; and
- extend performance management beyond assessment of financial efficiencies to consider the wider customer benefits that are to be delivered within projects.

Health inequalities - Phase 2

101 Improving health and tackling health inequalities in Buckinghamshire is the joint responsibility of the five councils and the Primary Care Trust. Other public sector bodies are key partners. People in Buckinghamshire are generally healthy. Life expectancy is higher than average and early deaths from heart disease, stroke and cancer are lower than average. Buckinghamshire is an affluent County with low deprivation and this has a direct impact. There are significant pockets of deprivation in Buckinghamshire and consequently, wide variations in health outcomes. The public sector partners in Buckinghamshire have recognised the relationship between deprivation and poor health and have drawn up a Healthy Communities Strategy which specifically addresses health inequalities and seeks to reduce the gap between good and poor health outcomes by focusing on four related areas:

- income maximisation – benefit take-up and debt management;
- tackling heart disease, diabetes and stroke in the most 'at risk' groups;
- affordable warmth; and
- systematic adoption of health inequalities impact assessment by the public sector.

102 We found that the following were established:

- strong performance management of the Local Area Agreement (LAA);
- partnerships clearly identified and clear engagement with key partners eg the acute sector;
- actions to address health inequalities implicit in both PCT and council plans;
- a public health steering group headed by a jointly appointed Director of Public Health and lead member; and
- engagement with the agenda by both Council members and PCT non-executive directors.

103 Areas for further development included:

- the need for a clear and robust governance framework;
- clearer and more consistent mechanisms for public and service user involvement;
- wider development of public health information to inform decisions;
- systematic engagement of the workforce;

Value for money and use of resources

- an improved focus on performance management of all actions related to health inequalities; and
- using the wider influence of key organisations to reduce health inequalities through corporate responsibility principles.

104 This is consistent with the level of achievement being reported elsewhere by the Audit Commission itself and other bodies working in this field.

Closing remarks

- 105 I discussed and agreed this letter with the Chief Executive and the Acting Section 151 Officer. A draft of the letter was presented to the 8 December 2009 Audit Committee. Copies will be provided to all members of the Council.
- 106 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.
- 107 You have taken a positive and constructive approach to our audit. I wish to thank you and your staff for your support and co-operation during the audit.

Mick West
District Auditor
December 2009

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendations						
10	R1 Review the Council's arrangements for discharging its responsibilities as the sole trustee of the Higginson Park Trust.	3	S Richardson D Dongray	Agreed	Discussions have taken place between the Head of Legal Services and the Acting Section 151 Officer. Financial reporting arrangements have been fully revised to take account of this issue. Discussions are ongoing in respect of other arrangements for the Trust and these will be finalised by 31 January 2010.	31/1/2010
15	R2 Use existing good practice within the Council to achieve effective engagement on financial planning with local people, customers, suppliers and taxpayers.	3	C Meakings	Agreed	The Council has implemented procedures across all services during 2009/10 based on the Duty to Inform, Consult and Involve. A mapping exercise of each service's engagement activity has been undertaken. A good practice sharing session has been arranged for early 2010.	31/3/2010
15	R3 Shape your policies and strategies in response to the results of equality impact assessments.	3	Elaine Jewell	Agreed	The Corporate Governance Group have developed a template for use with all reports that go to Cabinet with proposed changes, new strategies and policies. This requires EIAs to be undertaken where necessary to assess the impact of changes on the equality strands set out in the Equality and Diversity Framework.	1/1/2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
16	R4 Sustain the quality of financial reporting by reviewing the outcome of the 2008/09 audit of your financial statements and building improvements into the arrangements for preparing your accounts and liaising with your auditors.	2	S Richardson	Agreed	Discussions have already taken place with the District Auditor to ensure that future reporting and audit arrangements are robust and timely.	28/2/2010
17	R5 Implement the proposed new arrangements for the Customer Service Centre and monitor the delivery of improved performance.	3	J McMillan	Agreed	Northgate took over the management and operation of the CSC on 3 July 2009. A comprehensive structure of governance has been put in place which includes a Steering Board with Cabinet Member participation. This reviews performance against a series of stepped improvement targets. To date Northgate has met all current targets and, on some, is ahead of schedule.	Ongoing
18	R6 Carry out regular testing of IT recovery processes and contingency plans for major system failures.	2	J McMillan	Agreed	The ICT managed services contract provides an annual disaster recovery test. The first test identified a number of issues and resulted in an upgrade of back-up software. A second is scheduled for January 2010. Work is advanced on virtualising and migrating servers to Northgate's Basildon contact centre and plans are being considered to spread telephony over the two sites to provide a more resilient arrangement.	31/1/2010

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
18	R7 Ask Internal Audit to review your whistleblowing policy and to identify the improvements needed.	2	Val Hinkins	Agreed	A review of the Council's whistleblowing policy will be included in the Audit Plan for 2010/11. If time and resources allow, this will be brought forward into the current financial year.	30/9/2010
18	R8 Ask Heads of Service and/or Internal Audit to review registers of interest to ensure the Council's policies and practices are being implemented.	2	C Meakings	Agreed	This is not considered a major issue. However, it is always helpful to remind Heads of Service and Service Managers of the Council's policy and this will be done through regular meetings before 31 March 2010	31/3/2010
19	R9 For key partnerships where sound partnership arrangements have not been fully established, develop an action plan to secure consistency.	2	C Meakings	Agreed	The Council's approach to reviewing its significant partnerships was reviewed by Internal Audit (March 2009) and 7 recommendations made (none of these were fundamental to Priority 1 recommendations). These have been actioned as part of the six monthly review process, which includes reporting to the Cabinet Member for Pathfinder and Partnerships.	30/6/2010
20	R10 Carry out a post implementation review of the effectiveness of the revised overall risk management arrangements that involves all representatives across the activities at the strategic and operational levels.	3	Lynne Smith Steve Middleton	Agreed	Preliminary report on approach to be brought back to SMB in mid December and discussions ongoing with neighbouring Council to bring in specialist advice.	28/2/2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
20	R11 Develop a clearer focus on preventative anti fraud and corruption activity across the range of Council activities.	3	Val Hinkins	Agreed	The Visiting and Investigations Team Leader already arranges training of certain sections of the Council eg staff in Benefits. The question of anti-fraud training will be raised with managers during the preparation of the Internal Audit Plan for 2010/11.	31/12/2010
20	R12 Raise the profile of the importance of the Audit Commission's National Fraud Initiative and ensure the Council's information from the matching exercises is used as an effective tool.	2	Val Hinkins	Agreed	An Action Plan was agreed with the Audit Commission and this initiative has now been raised with senior management. The majority of the output from the National Fraud Initiative has been examined and appropriate action taken to ensure that the Council's records are correct and up to date. Remaining items will be addressed by mid January 2010. The Council will ensure future initiatives are given a higher priority.	31/1/2010
20	R13 Carry out a post implementation review of the way the new housing IT system was put in place; identify weaknesses in the process; and develop improvements in change management processes to build on the lessons learnt.	2	Martyn Hale	Agreed	An implementation review has been completed and was issued in draft to the Project Group on 24 November 2009 in preparation for discussions at the next meeting. The report will then be issued on 14 December 2009.	14/12/2009
20	R14 Ask Internal Audit to review and test internal control arrangements for the new housing systems.	2	Val Hinkins	Agreed	Audit work is currently in progress in the Housing Department. A full review of the internal controls in the new housing system will be considered for inclusion in the Audit Plan for 2010/11.	30/9/2010

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
21	R15 Survey the impact of the new equality and diversity framework to ensure the new approach is reflected in the day to day running of Council business throughout the organisation.	2	Elaine Jewell	Agreed	This year's strategic recommendations arising from the programmed EIAs have been drawn together into a Corporate Equalities Plan for 2010/11, which goes to Cabinet in December 2009.	14/12/2009

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