

**AUDIT COMMISSION ANNUAL AUDIT AND
INSPECTION LETTER FOR 2008-09 - FINAL
REPORT**

1 Purpose

- 1.1 The Council's external auditors have issued their Annual Audit and Inspection Letter which provides an overall summary of the Audit Commission's assessment of the Council. The report draws on audit and inspection work carried out during the financial year 2009/10 on the Council's records relating to 2008/9.

2 Recommendations/for decision

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| 2.1 The Committee is asked to note the contents of the external auditors' Annual Audit and Inspection Letter. |
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3 Supporting information

- 3.1 The external auditors' Annual Audit and Inspection Letter for 2008/09 is attached at Appendix A.
- 3.2 The Audit Committee's Terms of Reference include dealing with external and internal audit issues. This report allows formal recognition of our external auditors report by a Committee of the council.
- 3.3 The External Auditors' Annual Audit and Inspection Letter will be made available to the public on the Council's web site after it has been discussed at this meeting.

4 Reasons for Recommendation

- 4.1 The Annual Audit and Inspection Letter is an essential element of the independent external audit process. This report has to be presented to a Committee of the Council for their consideration.

5 Resource implications

- 5.1 None

6 Response to Key Aims and Objectives

- 6.1 The external audit review process underpins the Council's own performance management framework which is designed to ensure optimum delivery of the key aims and objectives.

Contact Officer

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Background Documents

External Audit Progress reports to the Audit Committee, November 2009

Annual Audit Letter

Aylesbury Vale District Council

Audit 2008/09

November 2009

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Status of our reports

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

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

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

Audit opinion and financial statements

- 1 I gave an unqualified opinion on your 2008/09 financial statements on 30 September 2009.
- 2 The arrangements for the management and monitoring of the opinion audit this year were much improved and this enabled much better control over the process.

Use of resources

- 3 I issued an unqualified conclusion on 30 September 2009 stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

Audit fees

- 4 We have been able to complete the audit for the fee agreed in our audit plan for 2008/09.

Table 1 Audit fees

Unlike the 2007/08 audit, we did not need to charge an additional audit fee this year

	Planned and actual fee (£)
Financial statements and annual governance statement	83,974
Value for money	26,392
Inspection (net)	6,569
Total audit fees	116,935

Actions

- 5 Recommendations agreed with you are shown within the body of this report.

Independence

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

Recommendation

- R1** Ensure the improved arrangements for producing the financial statements and supporting the opinion audit process are maintained into future years and support the implementation of International Financial Reporting Standards.

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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.

Significant issues arising from the audit

- 7** The arrangements for working together on the management and monitoring of the opinion audit this year have been much improved and this has enabled much better control over the process.
 - 8** I gave an unqualified opinion on the financial statements on 30 September 2009.
 - 9** For a small number of fixed assets two valuations were carried out during 2008/09; a desktop impairment review in March 2009 and a physical inspection by the Valuation Office in February 2009. There were material variations between these valuations. We obtained suitable explanation from the valuer that carried out the March 2009 exercise that these variations were as to be expected between professional valuations.
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Errors in the financial statements

- 10** We identified the following errors in your financial statements:
 - £3.6m of capital financing transactions associated with the Walton Street car park were not included in the financial statements. The financial statements were amended to include these transactions;
 - a debtor and creditor of £129,000 for the same benefit subsidy claim should have been netted off against each other. Both debtors and creditors were therefore overstated;
 - the fixed assets figures in the notes to the accounts could not be agreed to the fixed assets register. Specifically, there was a difference of £985,000 between Revaluation (Land & Buildings) with the asset register showing £12,777,000 and the accounts £11,792,000, and depreciation charge for 2008/09 in the asset register of £2,176,000 against £2,249,000 in the accounts.
 - 11** These errors did not impact on the Council's income and expenditure for the year.
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Material weaknesses in internal control

- 12** We did not identify any significant weaknesses in your internal control arrangements.
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Accounting practice and financial reporting

13 We considered the qualitative aspects of your financial reporting. There were a number of minor presentational improvements and changes made to your financial statements during the course of the audit.

Preparation for the implementation of International Financial Reporting Standards (IFRS)

14 Councils will be required to implement the full requirements of IFRS from 2010/11. As part of this process, authorities will need to restate their 2009/10 comparative figures in the financial statements and therefore need to have drawn up plans to ensure these additional requirements are met.

15 We have assessed you as 'red' or at risk against these requirements. Although you have identified the main additional requirements of IFRS, processes to address these are still at an early stage. The main issues for you are:

- availability of the necessary information for property, plant and equipment (it is acknowledged you have recently purchased a software package to provide this);
- correct identification and classification of leases under the wider definition of leases and associated arrangements under IFRS;
- requirement to disclose group accounts in accordance with IFRS;
- correct disclosure of staff benefits (accrued leave).

16 We will work with you to support the successful transition to full reporting under IFRS.

Recommendation

R2 Ensure there are processes for the successful implementation of International Financial Reporting Standards.

Economic downturn and pressure on the public sector

17 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.

18 This impacts 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.

Investments in Icelandic banks

19 Your accounts include £3million invested in the failed Icelandic banks Heritable (£1million) and Landsbanki (£2million). The assessed value of the amount the Council estimates it will recover on the original investment is £2.37million. You have reviewed and updated your treasury management arrangements to ensure that they meet your needs in the current financial climate. We identified no weaknesses in your arrangements.

Members' expenses

20 As part of the Audit Commission's response to the wider national concerns over MPs' expenses, we reviewed the arrangements for the payment of expenses to members. Our work did not identify any issues.

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Value for money and use of resources

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

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

Use of resources judgements

In forming our scored use of resources judgements, we have used the methodology set out in the Audit Commission's [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.

- 21** 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.
- 22** Your use of resources theme scores are shown in Table 2 below. These assessments have been subject to the Commission's formal process of review at the request of the Council. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1.

Table 2 Use of resources theme scores

The Authority is assessed at level 2 overall [SUBJECT TO REVIEW]

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	2
Managing resources	2

Source: Audit Commission

- 23** There were no areas where you did not meet the basic requirements for each key line of enquiry.
- 24** You responded well to the new methodology for the use of resources assessment. Your self-assessment document and accompanying case studies were shared widely as an example of good practice. Our overall assessment showed that you have made good progress in all of the areas reviewed.

Value for money and use of resources

- 25** The main shift in our approach for 2008/09 is the increased focus of the assessment on outcomes. Your major initiatives will see delivery of outcomes in 2009/10 or beyond, and the assessments for 2008/09 reflect the timing of this work. You should be well-placed to show further improvement and delivery of outcomes in the 2009/10 assessments.
- 26** The Audit Commission has shared the criteria for expectations of performance at levels 2 and 3 as part of this year's methodology. This provides a framework for moving to a level 3 assessment.

Recommendation

- R3** Review the KLOE assessed at level 2 and use the KLOE guidance as a 'route map' for moving to a level 3 assessment.

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Value for money conclusion

- 27** 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.
- 28** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Table 3 Assessment against each of the relevant criteria

We have assessed each of the relevant criteria as 'met'

KLOE	Met
Managing Finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	N/A
Strategic asset management	N/A
Workforce	Yes

Source: Audit Commission

- 29** As part of my risk-based planning, I identified the following risks associated with the value for money conclusion:
- the Council needs to bring its spending into line as planned and ensure expenditure is matched to the changing income streams, which we addressed by reviewing progress in achieving financial plans and in longer-term financial planning. Our review of these areas identified no issues.

Value for money and use of resources

- the significant town centre redevelopment and theatre development - projects that need to be managed carefully to bring them in on time and to budget, which we addressed by reviewing your project management arrangements. Our review of the arrangements around the theatre development and overall capital programme management identified that these are sound and the overall project management arrangements are robust.

Other work in Buckinghamshire

Health inequalities work in Buckinghamshire

30 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. However, 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.

31 Our review concluded that Buckinghamshire’s public sector partner organisations have made a strong and direct strategic commitment to reducing health inequalities. Although it is too early to assess the impact of this renewed commitment in terms of overall outcomes, real progress is being made.

32 To make the most of this renewed commitment, the partners could usefully capitalise on the current momentum by:

- Specifying longer-term outcomes for all parts of the healthy communities strategy and report progress against these targets directly to the Bucks Strategic Partnership on a regular basis;
- Developing a methodology for assessing the impact of actions being taken to reduce health inequalities so that resources can be targeted effectively towards agreed priorities and underperformance against anticipated outcomes can be addressed;
- Building awareness of the role that all services can play in reducing health inequalities;

- Completing the implementation of the Healthy Communities Partnership performance management system by ensuring that it reaches the existing performance management standards currently in place at the County Council;
- Continue to develop collaborative approaches and ensure that resources are aligned to support this and, where collaboration is insufficient, identify opportunities for further integration of services.

Buckinghamshire Pathfinder

- 33** 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.
- 34** 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.
- 35** 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.
- 36** 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.
- 37** 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.
- 38** 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

Value for money and use of resources

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.

- 39** 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.
- 40** 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.

Closing remarks

- 41** I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 7 December 2009 and will provide copies to all committee members.
- 42** 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 4 Reports issued to the Council

The following reports have been issued to the Council as part of the 2008/09 audit

Report	Date issued
Audit plan	May 2008
Capital programme and project management	July 2009
Annual governance report	September 2009
Interim and final accounts memorandum	October 2009
Use of resources report	October 2009

Source: Audit Commission

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

Mick West
District Auditor
November 2009

Appendix 1 – Use of resources key findings and conclusions [SUBJECT TO REVIEW]

Managing finances

Theme score	2
KLOE 1.1 (financial planning)	
Score	2
VFM criterion met	Yes
<p>Key findings and conclusions</p> <p>The Council manages its finances effectively to deliver value for money. It has an effective planning process that supports strategic objectives and priorities while ensuring the Council maintains a balanced budget and healthy underlying reserves. These have been reviewed in the light of the wider economic downturn. These processes have also been built into the medium- and longer-term financial planning of the Council.</p>	
KLOE 1.2 (understanding costs and achieving efficiencies)	
Score	2
VFM criterion met	Yes
<p>Key findings and conclusions</p> <p>The Council has a sound understanding of its costs and performance and the factors influencing these. Cost and performance information is used in financial and service planning to make policy and service provision decisions and to identify efficiency savings. The Council regularly reviews costs to assess whether they are commensurate with the range, level and quality of services provided. It actively seeks and evaluates new ways of delivering services to achieve efficiencies and works with partners and other service providers to compare and evaluate processes, costs and outcomes.</p> <p>The Council provides timely and reliable financial monitoring and forecasting information to support effective financial management and decision-making during the year. It has taken action to manage potential overspends during the year and responded positively to financial pressures from the wider economic downturn.</p>	
KLOE 1.3 (financial reporting)	

Appendix 1 – Use of resources key findings and conclusions [SUBJECT TO REVIEW]

Score	2
VFM criterion met	Yes
<p>Key findings and conclusions</p> <p>The opinion audit in 2007/08 was problematic. However, the Council has invested considerable effort in improving processes and is working closely with the external auditors to ensure all processes are 'fit for purpose'. While there are still concerns over the adequacy of resources; these are acknowledged by senior management and the staffing complement has been increased to meet these requirements.</p> <p>The Council publishes an Annual Performance Report that is user-friendly, showing strategic objectives with measurable targets, financial and non financial performance with benchmarks. The publishing of external financial reporting needs to be more timely.</p>	

Governing the business

Theme score	2
KLOE 2.1 (commissioning and procurement)	
Score	2
VFM criterion met	Yes
<p>Key findings and conclusions</p> <p>The Council governs itself effectively. There is evidence of innovative ways of commissioning services to provide value for money and deliver sustainable and better value for money for the local population. The Council has involved and engaged with a wide variety of users and stakeholders when commissioning services and is using service redesign to help improve services. Involvement in the Buckinghamshire Pathfinder underpins the Council's work to influence and develop the supply market for many services, evaluate different options for procurement and review of services for competitiveness and value for money.</p>	
KLOE 2.2 (data quality and use of information)	
Score	2
VFM criterion met	Yes
<p>Key findings and conclusions</p> <p>The Council has a good track record of producing and using accurate, relevant and reliable data, including partnership data. Members and officers receive 'fit for purpose' corporate reports to support their decision making that is of sufficient quality for the decision required and presented in a way decision makers understand. The Council ensures data security and compliance with relevant statutory requirements, uses information to keep areas of underperformance under review and can demonstrate it is taking appropriate action to achieve improvements.</p>	

Appendix 1 – Use of resources key findings and conclusions [SUBJECT TO REVIEW]

KLOE 2.3 (good governance) Score VFM criterion met	2 Yes
<p>Key findings and conclusions</p> <p>The Council's governance arrangements demonstrate and promote the principles of good governance. Governance arrangements support the Corporate Plan and delivery of its main aims. There is evidence of a strong ethical framework and culture that extends into partnership working.</p>	
KLOE 2.4 (risk management and internal control) Score VFM criterion met	2 Yes
<p>Key findings and conclusions</p> <p>The Council has developed effective risk management processes with clear evidence these cover partnership working. Risk management arrangements are being continuously improved and refined to support the Council's internal and external initiatives. The Council has a clear strategy and effective arrangements to manage the risk of fraud and corruption with evidence to demonstrate these resources are adequate and effectively deployed. The Council has a sound system of internal control and an internal audit function that underpins this.</p>	

Managing resources

Theme score	2
KLOE 3.1 (use of natural resources)	N/A
<p>Key findings and conclusions</p> <p>This KLOE was not applicable to District Councils in 2008/09.</p>	
KLOE 3.2 (strategic asset management)	N/A
<p>Key findings and conclusions</p> <p>This KLOE was not applicable to District Councils in 2008/09.</p>	
KLOE 3.3 (workforce planning) Score VFM criterion met	2 Yes

Appendix 1 – Use of resources key findings and conclusions [SUBJECT TO REVIEW]

Key findings and conclusions

The Council has planned, organised and developing its workforce to support the achievement of its strategic priorities. The Council has a productive and skilled workforce and has presented itself as a good employer in the market place, exploiting a range of recruitment channels. There are effective performance management arrangements, linked to Council priorities. While the Council knows in the medium to longer term what staff it will need, workforce planning is in the early stages of integration with service planning, showing how the council will deliver its strategic objectives. The Service Transformation Programme is the vehicle for underpinning how the Council engages and supports staff in organisational change. The Council has established and maintained policies and practices, including diversity practices to support good people management, to ensure compliance with equalities legislation and duties.

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Appendix 2 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
2008/09 Annual Audit Letter recommendations						
4	R1 Ensure the improved arrangements for producing the financial statements and supporting the opinion audit process are maintained into future years and support the implementation of International Financial Reporting Standards.	3				
6	R2 Ensure there are processes for the successful implementation of International Financial Reporting Standards.	3				
8	R3 Review the KLOE assessed at level 2 and use the KLOE guidance as a 'route map' for moving to a level 3 assessment.	3				