

Annual Audit Letter

Slough Borough Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Contents

Key messages	2
Audit opinion and financial statements	2
Value for money	2
Current and future challenges	2
Financial statements and annual governance statement	3
Overall conclusion from the audit	3
Matters of internal control	4
The Pension Fund deficit	4
The Council's Icelandic banks investments	5
Adoption of International Financial Reporting Standards	5
Value for money	7
2009/10 use of resources assessments	7
VFM conclusion	7
Assessment of arrangements	8
Opportunities for further improvement	9
Approach to local value for money work from 2010/11	10
Public rights of challenge	11
Current and future challenges	12
The Council's Finances	12
Closing remarks	14
Appendix 1 Audit fees	15
Appendix 2 Glossary	16

Key messages

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

- **the audit of your financial statements (pages 3 to 6); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 7 to 10).**

Audit opinion and financial statements

1 I issued my audit report on the 30 September 2010. The report included an unqualified opinion on the financial statements for the year ending 31 March 2010. The arrangements to produce your financial statements were good and the statements contained no material errors.

Value for money

2 I also issued an unqualified value for money conclusion stating that in all significant respects, Slough Borough Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.

Current and future challenges

3 The economic climate and the public spending pressures are having a significant effect on councils and the services they provide. The Government's spending reviews will have an impact on the Council's financial plans over the medium term.

4 It remains vital to ensure the Council is making best use of its resources, and is working closely with its partners and with other councils to deliver efficient and effective services for local people. The Council has started to develop detailed plans to make more effective use of its resources and to reduce overheads and back office costs. Under the Council's change programme, this will involve redesigning services so that they can deliver the required outcomes with fewer resources - both in staff numbers and from other savings, for example reducing office space.

5 In this respect the Council is taking the necessary steps to meet the challenges to its financial stability over the coming years and to ensure it can continue to deliver key services for its residents. I intend to review the Council's financial resilience within my audit of the 2010/11 accounts.

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.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September, meeting the statutory target date.

Overall conclusion from the audit

6 The arrangements to produce your financial statements remain sound and I did not identify any material misstatements in the Council's accounts this year. I identified several non-material misstatements and officers adjusted most of them in the revised financial statements.

7 Officers decided not to adjust one item, and the Council agreed that officers should account for this issue in 2010/11.

8 During my audit planning process I raised a number of risks that I would need to review during my audit, including:

- whether there was sufficient capacity within the accountancy section to manage the closedown of accounts effectively;
- accounting for PFI assets and liabilities and changes in accounting for business rates and council tax;
- weaknesses in the internal control environment.

The Council has responded to these risks appropriately.

9 The finance function was strengthened during the year and structural improvements introduced. As a consequence the Council achieved a better closedown of year end accounts in 2009/10 and this enabled a smoother year end audit.

10 I identified opportunities to improve accounting practice and financial management and I am pleased to report that officers have acted on my recommendations.

11 You re-approved your financial statements on 30 September 2010 and I then issued my audit report containing an unqualified opinion.

Matters of internal control

12 I identified some weaknesses in the design or operation of an internal control that could 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; information in your general ledger is complete on a month by month basis; and that the rents due for the year recorded on the new rent system and associated rent arrears are correctly stated.

13 Since my work was completed the Council has carried out a review of its financial management arrangements and has introduced improvements that will re-align responsibilities and increase accountability for the operation of system controls.

14 I am assured that the newly acquired rent system is now stabilised and that reconciliations have addressed, and rectified, all inaccuracies in the rent information transferred from the previous rent system.

15 The Council needs to be satisfied that future significant system transfers and upgrades are planned and managed to secure internal control through the implementation lifecycle.

Recommendation

R1 The Council should ensure action is taken in response to the recommendations made in my Annual Governance Report.

The Pension Fund deficit

16 The Statement of Accounts, prepared in accordance with FRS 17 – Retirement Benefits, show a net pension liability of £165 million. This has significantly increased from the 2008/09 liability of £84 million due to the significant reductions in bond yields which have increased the liabilities of the fund, offset by smaller increases in market values of assets.

17 The 2010 triennial valuation will assess the scheme liabilities and funding position over the longer term, including the favourable impact of the change from using the Retail Price Index to the Consumer Price Index in calculating future pension liabilities. The actuarial review is also likely to take account of government pension policy changes in response to the Hutton report. Increased contributions may be required to ensure the pension scheme maintains an appropriate long-run funding level.

The Council's Icelandic banks investments

18 Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of these banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £2.5 million deposited with Heritable Bank at that point. Based on the latest information available and, in accordance with accounting practice, the Council considered that it was appropriate to make an impairment adjustment for the deposits in its 2008/09 accounts.

19 The impairment was reviewed during 2009/10 and the impairment charge reduced by £152,000 leaving an impairment provision in the accounts totalling £404,000. Information received from the Administrators indicates that the Council is likely to recover a total of 85 per cent by the end of 2012/13 and during 2009/10 the Council received three dividends totalling £902k from the Administrators representing 36% of the Council's investments.

20 The Council has not taken advantage of government regulations which allow the impact of the impairment charge relating to this investment to be deferred until 2010/11. Therefore, impairment losses have already been charged to the general fund and any impact on future years' accounts should not be significant.

Adoption of International Financial Reporting Standards

21 From 2010/11, local government bodies have to prepare their financial statements to meet International Financial Reporting Standards (IFRS). This marks a significant change in the basis of reporting the figures in the annual accounts and the format of some of the core statements.

22 The Audit Commission has undertaken a national study on the transition to IFRS in local government. This study aims to assess councils' progress towards preparing IFRS-based accounts in two phases.

23 In October 2009 I completed the phase-one survey at the Council, and assessed the Council as 'green'. I concluded that the finance team were well aware of reporting requirements and were preparing for future developments including readiness for the implementation of International Financial Reporting Standards

24 In July this year I carried out the phase-two survey to assess the Council's progress, and I decided the Council was an 'amber' risk. This was because, although the Council had made good progress in tackling challenging issues, member involvement was limited and at the date of my assessment substantial work remained to be done in relation to the treatment of non-current assets.

25 The Audit Commission briefing paper ;Progress on the transition to IFRS; published in October 2010, which draws on the July survey shows that more than 50 per cent of other local authorities are in a similar position to the Council, assessed as having minor issues but being on track to complete key steps in IFRS transition by 31 December 2010.

26 Whilst the task facing the Council remains challenging and there is more that needs to be done, I am confident that the Council will meet its statutory responsibilities for first time reporting under IFRS.

Recommendation

R2 Members should receive an update on progress in implementing changes associated with first time reporting under IFRS.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

27 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

28 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

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

VFM conclusion

30 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

31 Table 1 provides a summary of my findings at the Council in respect of these specified criteria.

Table 1: **Assessment for VFM conclusion**

The specified use of resources criteria were achieved

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	
Governing the business	Yes
Commissioning and procurement	Yes
Use of information	Yes
Risk management and internal control	Yes
Managing resources	
Strategic asset management	Yes
Workforce	Yes

32 Based on the above, I therefore issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources for the 2009/10 year.

Assessment of arrangements

33 For the lines of enquiry that I considered, the Council delivered achievements and improvements in the 2009/10 year in that:

- The Council has extended its financial planning timescale to include a three year time horizon extending to five years from 2011/12.
- Links between financial and service planning have been strengthened and the Council is engaging with partners to improve financial planning.
- The use of benchmarking information has contributed to improved outcomes in key services.
- There has been good progress towards identifying specific efficiency savings to be delivered in each of the next three years.
- The Council has examined different options for securing and delivering services and can demonstrate improvements in the way it purchases and delivers services that have led to reduced costs and greater efficiency.
- There are productive working relationships between Members and officers and these are underpinned by an officer/member code of conduct and an updated employee code.

- The Council has an organisation-wide approach to managing assets as a corporate resource and is actively using its assets to invest in its priority area of regeneration.
- The Council has implemented its Job Evaluation and Harmonisation programme with new contracts in place for the majority of staff by April 2010.
- Senior management is supportive of organisational change and training programmes are in place to help line managers to deal with the change management agenda.

Opportunities for further improvement

34 I suggest the Council should focus further improvements in its arrangements to secure value for money in the use of resources in the following areas:

Managing finances

- Develop a more systematic approach to benchmarking and the use of unit cost information in identifying cost savings that can be applied Council-wide.
- Draw upon the lessons learned from the shared services venture which the council withdrew from earlier this year and develop a strategic document which informs the direction for the management and delivery of future support service development projects as part of the Council's change agenda.

Governance arrangements

- Achieve further economies in procurement through the greater use of procurement performance indicators to monitor progress and assess outcomes.
- Exploit opportunities to aggregate demand and reduce costs by setting up central contracts for commonly used items are fully exploited.
- Improve data quality arrangements by undertaking an assessment of systems and processes for data and performance information provided by external bodies to ensure compliance with the Council's standards for data quality.
- Ensure the Council's scrutiny processes operate efficiently and effectively in contributing to internal challenge and in holding the Cabinet to account.
- Develop the role of the Audit Committee and undertake a formal assessment of its effectiveness against the CIPFA statement on the role of Audit Committees in Local Government.
- Review existing risk management arrangements and the effectiveness of the current corporate structure.
- Address weaknesses in the Council's overall control environment identified by the work of Internal Audit and my review of financial systems and introduce standards of performance can be applied consistently across all departments and can be monitored at a corporate level.

- Review the Council's severance policy and delegated arrangements to ensure that these are clear and unambiguous and are reflective of best practice.

Managing resources

- More effectively utilise the Council's workforce; focusing on the development of council wide workforce plan with partners so that resources can be optimised cross sectors and increasing the number of appraisals taking place so that staff are clear how their roles contribute to strategic objectives.

Recommendation

- R3** The Council should consider the opportunities for improvement identified in my use of resources review and develop plans to address areas of corporate priority.
-

Approach to local value for money work from 2010/11

35 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

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

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

37 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Public rights of challenge

38 During my audit I received questions and requests for audit action from two local electors these are outlined in the following paragraphs.

39 One elector raised a query about the realisation of best value arising from the Council's decision to disposal of land at Upton Court Park. I was able to reassure the elector that I was satisfied from my enquiries that the Council had acted appropriately pursuant to its duties and responsibilities in relation to the disposal of this land.

40 Another local elector raised queries about the award of early retirement payments to two senior Council officers. I obtained assurance that the severance payments made to both officers reflected their statutory entitlement under the Local Governance Pension Scheme and was a decision properly taken by officers and in accordance with the Council's internal procedures. However, I was of the view that existing policies and procedures could be improved to remove ambiguity and to clarify the respective roles of members and officers.

41 There were no matters arising from my audit that required use of the special reporting powers set out in the Audit Commission Act. Accordingly I was able to certify completion of my audit on 30 September 2010.

Current and future challenges

The Council's Finances

42 The Council faced sizeable cost pressures at the start of the 2009/10 financial year. In order to deliver a balanced budget the Council had to identify, implement and deliver cost reduction measures and efficiencies totalling £10.3 million.

43 As the 2009/10 year progressed the Council faced further pressure from reductions in income as a result of the national economic climate. This was offset by a reduction in borrowing costs so the overall impact was minimised. Nevertheless, delivery of a balanced position still required sound financial management and the net outcome was that the Council achieved its efficiency targets for the year; reporting a small under-spend of £253,000 against its revised budget.

44 As at 31 March 2010, General Fund reserves stood at £5.4 million. The Housing Revenue Account (HRA) overspent by £1.9 million against its approved net budget, leaving balances of £9.0 million as at 31 March 2010. The balances on both funds, notwithstanding the loss on the HRA remained at a prudent level at the year end.

45 Capital resources remained under pressure in the year due to the reduction in capital receipts linked to the downturn in the property market and the high level of capital investment required to improve assets. The Council's strategy was a combination of re-profiling and reducing the size of the capital programme during the year to reflect these downward pressures.

46 Looking ahead to 2010/11, I am assured that the Council took into account major potential financial risks, known growth pressures and quantified the efficiency savings required to deliver a balanced position including plans as to how these were to be delivered, at the inception of its original budget for the year. The Council was in a sound position at the start of 2010/11 but the government announcement in June 2010 that substantial grant funding reductions were to be imposed across the public sector, signalled an immediate financial impact for the Council of £3.3 million which meant that it had to find further savings in addition to those already built into the original budget.

47 Since then, the Council has carried out an in depth review of the medium and longer term implications of the grant funding reductions and comprehensive spending review published in October 2010 and has considered what this means for its finances over the next four financial years; 2011/12 to 2014/15. The Council estimates that it will need to reduce its overall costs during this period by £23.9 million. Savings of £4.4 million have already been built into the 2011/12 budget thereby leaving the Council with a cumulative funding gap of £19.5 million.

48 The Council recognises that the unprecedented level of change required to meet this scale of challenge will require significant planning and lead in times. This has driven a front loaded savings profile, targeting back office and corporate service areas. The Council has identified a range of initiatives covering six key areas of activity which it anticipates will generate £6.9 million per annum of savings opportunities by the 31 March 2011. Parallel to this short term savings realisation programme, the service transformation agenda in operational areas to deliver future years savings is underway with detail yet to be determined, to close the forecast funding gap of £12.6 million.

49 The Council has already faced some difficult choices and taken difficult decisions in balancing the 2011/12 budget and in positioning itself for the future. Part of the Council's efficiency agenda involves major re-organisational reform which will see major changes in the way the Council operates.

50 The full scale of the financial challenge facing the Council will not become clear until after the government publishes the grant determination in December. In this respect the Council continues to be concerned about the proper measurement of the Borough's population for the calculation of revenue support grant. Nevertheless it is unlikely that the announcement, when made, will make the scale of the task facing the Council any less demanding than the Council's current predictions.

51 My preliminary assessment indicates the Council is taking the necessary steps to meet the challenges to its financial stability over the coming years and to ensure it can continue to deliver key services for its residents. I will further examine the Council's financial resilience within the scope of my 2010/11 audit.

Closing remarks

52 I have discussed and agreed this letter with the Chief Executive and the Strategic Director of Resources. I will present this letter at the Cabinet meeting on the 24 January 2011 and will provide copies to all Councillors.

53 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit Fee Letter	April 2009
Audit Plan Refresh	March 2010
Internal Audit Review	April 2010
Pre-statement Audit Memorandum	June 2010
Annual Governance Report	September 2010
Summary of VFM recommendations	September 2010
Shared Services Review	October 2010
Annual Audit Letter	November 2010

54 I can confirm the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence. The fees for my audit are levied in accordance with guidance issued by the Audit Commission. The audit fees for 2009/10 are detailed in Appendix 1.

55 The Council has taken a positive and helpful approach to my audit. I wish to thank the Council's staff for their support and cooperation during the audit.

Phil Sharman
District Auditor
November 2010

Appendix 1 Audit fees

	Actual £	Proposed £	Variance
Financial statements and annual governance statement	200,800	200,800	0
Value for money	123,300	123,300	0
Total audit fees	324,100	324,100	0
Non-audit work	0	0	0
Total	324,100	324,100	0

Appendix 2 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2010.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946