

Annual Audit and Inspection Letter

January 2006



Annual Audit and Inspection Letter

London Borough of Hammersmith and Fulham

Audit 2004-2005

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- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

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Key messages

Council performance

- 1 Under the new 2005 Comprehensive Performance Assessment (CPA), the harder test, the Council has been assessed as improving well and demonstrating a three-star overall performance. The Council is consistently delivering above minimum requirements for users, is cost effective, and is well placed to continue to improve the way it works and the services it provides to local people. The majority of core service indicators have improved since 2002/03 and the 2005 external inspections of housing management and supporting people assessed these services as good with excellent or promising prospects for improvement.
- 2 Overall the Council meets the new higher standard in its use of resources assessment. Financial management and value for money were assessed as consistently delivering above minimum requirements although there are still some high-cost areas that need addressing. The Council also needs to secure improvements in some areas such as housing benefits and financial reporting.

The accounts

- 3 The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Our Letters to members in previous years' have highlighted the need to make improvements in this area and whilst progress has been achieved, the draft accounts submitted for audit still contained a number of significant shortcomings. Consequently they were assessed as not meeting the minimum requirements for the financial reporting theme of the harder use of resources assessment.
- 4 In agreement with the Council, the issue of our audit opinion and the meeting of the Approval of Accounts Committee have been delayed. This was pending the completion of work by officers to substantiate the capital financing requirement which is used as the basis for calculating the set aside from revenue to finance debt. This has now been substantiated and we expect to issue an unqualified opinion shortly.

Financial position

- 5 The 2004/05 outturn was strong and the surplus of £2.9 million increased the useable general fund balance to £15.9 million.
- 6 The pension fund's investment return for 2004/05 was below the benchmark set for it. The Council has taken action to address the poor performance and appointed a new investment manager and restructured its investment arrangements.

Other accounts and governance issues

- 7 As noted in the Council's Statement of Internal Control, there are weaknesses in the arrangements for reconciling major financial systems to the ledger. Our last two Audit Letters have commented on the difficulties experienced in reconciling the cash and bank account and whilst significant progress has been made to address this issue, reconciliations have not been undertaken every month and contained unresolved balances.
- 8 The Council is also experiencing difficulties reconciling the new housing benefits system and unresolved differences remain on the year end reconciliation. Inability to satisfactorily complete reconciliations creates uncertainty over the reliability of the output from the feeder systems and the overall accuracy of the accounts.
- 9 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption nor in the framework established by the Council for ensuring the legality of its significant financial transactions.

Action needed by the Council

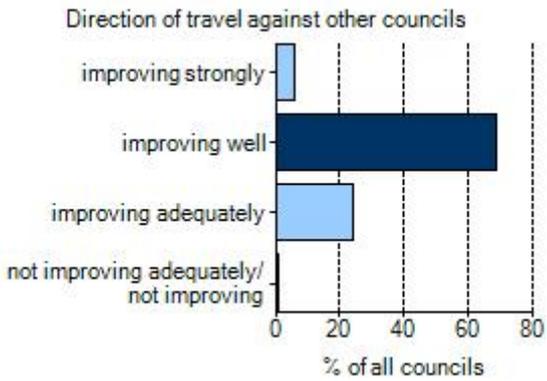
- 10 Members should:
 - satisfy themselves that arrangements are in place to ensure that good quality and timely financial reporting is achieved for the future;
 - continue to monitor performance of the pension fund to ensure improvements are secured; and
 - monitor progress to improve the arrangements for reconciling the bank and cash and other major financial systems to the ledger.

Performance

CPA scorecard

- 11 The CPA judgements this year have been made using revised methodology: CPA - the harder test. As the title implies CPA is now a more stringent test with more emphasis on outcomes for local people and value for money. We have also added a new dimension, a Direction of Travel judgement, which measures how well the Council is improving.

Table 1 Hammersmith and Fulham 2005 scorecard

| Comprehensive Performance Assessment (CPA) | |
|-----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| Under the new framework the Council is improving well and demonstrating a three-star overall performance. |  |
|  |  |
| Element | Assessment (out of 4) |
| Children and young people | 3 |
| Social care (adults) | 3 |
| Use of resources | 2 |
| Housing | 3 |
| Environment | 2 |
| Culture | 2 |
| Benefits | 2 |
| Corporate assessment/capacity to improve (not reassessed in 2005) | 4 |

(Note: 1 = lowest, 4 = highest)

Direction of Travel report

- 12 The Council is making good progress and is well placed to continue to improve the way it works and the services it provides to local people. The majority of core service indicators have improved since 2002/03 and the 2005 external inspections of housing management and supporting people assessed these services as good with excellent or promising prospects for improvement.
- 13 The Council has prioritised areas highlighted by the public as important, for example, investing in cleaner streets and improving the local environment and has contributed towards wider community outcomes, including improvements in health, road safety and regeneration. The Council is improving access to services for all its citizens and has established a contact centre to enhance access and responsiveness. Overall value for money is good, however, there are still some high cost areas that need addressing. The Council also needs to secure improvements in some areas such as housing benefits and financial reporting.
- 14 Performance management is effective and organisational capacity has been strengthened, including the establishment of an IC&T partnership. There are initiatives in place to further improve governance arrangements.

Other performance work

- 15 As part of our use of resources judgement, we assessed the Council's overall arrangements for achieving value for money. We concluded that the Council is performing well and consistently above minimum standards and that costs are largely commensurate with performance. The Council is committed to 'providing high quality affordable services at a reasonable cost to the council tax payer' and Band D council tax is below average and is the 11th lowest of all the London boroughs. There are some high cost areas, such as spending on housing management and on children and families, however, these have been recognised and the Council is working to reduce costs where appropriate.
- 16 The medium-term financial strategy, best value reviews, financial and performance monitoring are all tools used by the Council to improve value for money. Clear information on costs and performance and how these compare to others is used both by members and officers to challenge and scrutinise service provision. Forward and backward looking efficiency statements have been produced with planned efficiencies to meet the Gershon targets. The Council's procurement strategy has been updated to take account of the National Procurement Strategy and the Council has been appointed (with the Association of Local Government and Westminster City Council) to lead the establishment of a Centre of Procurement Excellence in London, one of nine regional centres.
- 17 Our assessment identified a number of areas for improvement including:
 - further develop the use of whole life costing throughout the Council;
 - successfully tackle areas identified as high-cost; and
 - monitor targets set for efficiency savings to ensure they are achieved.

Performance information

Best value and data quality

- 18 The Council published its best value performance plan (BVPP) by the statutory deadline of 30 June 2005. The BVPP complied in all significant respects with the statutory requirements and we issued an unqualified opinion on it.
- 19 Compared with previous years the audit of performance indicators was significantly reduced but included some new indicators that did not form part of the BVPP. The new indicators were included for CPA purposes and have not been subject to audit in previous years. Of the 18 indicators tested ten were amended during the audit and four of the non-BVPP indicators were reserved due to the systems in place not being auditable. Further work will be undertaken on data quality in 2006.

Other Audit Commission inspections

- 20 During 2005, we reported on the following two inspections:
- housing management; and
 - supporting people.

Housing management

- 21 Hammersmith and Fulham HMS (ALMO) was assessed as providing a good two-star service that has excellent prospects for improvement. Positive aspects of the service included: a strong culture of customer care backed up by policies and processes; 71 per cent of the tenants satisfied with the service provided; and service standards in place for all housing services. The service standards have been developed in partnership with customers.
- 22 Aspects of the service that need further attention included the variable standards of access in area offices and improving performance against 'void turnaround targets', some of which were not very challenging.

Supporting people

- 23 The Council was assessed as providing a two-star (out of three) programme that has promising prospects for improvement. The inspection noted some positive outcomes for service users from the Supporting People Programme. Other strengths included: effective governance arrangements in place; considerable skill and expertise within the supporting people team which is well regarded by service providers; and strong partnership working with other West London sub-regional authorities on supporting people issues.
- 24 Aspects of the programme that still needed to be addressed included ensuring a more consistent involvement of the health and probation designated representatives in the governance arrangements and implementing integrated assessment and referral procedures.

Working with other inspectorates and regulators

25 An important aspect of the role of the relationship manager is to work with other inspectorates and regulators who also review and report on the Council's performance and with whom we share information and seek to provide 'joined up' regulation. These include:

- Ofsted;
- Commission for Social Care Inspection (CSCI);
- Benefits Fraud Inspectorate (BFI);
- DfES; and
- Government Office for London.

Accounts and governance

Audit of 2004/05 accounts

- 26 The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources.
- 27 In previous Audit Letters to the Council, we have emphasised the importance of improving the quality of the draft accounts and supporting working papers and of meeting earlier statutory deadlines. This year the Council's performance in relation to financial reporting has also been assessed as part of the new use of resources assessment for CPA which represented a more demanding test than the previous judgements. Whilst the Council's accounts were approved by members on 26 July 2005, meeting the earlier deadline, there were a number of material errors and qualitative aspects of non-compliance with accounting practice and financial reporting standards.
- 28 Several significant errors to the draft accounts were identified over the course of the audit. The three largest related to £36 million of unfunded pension fund liabilities on the general fund for the award of discretionary added years by the Council, £14.5 million of pension fund liabilities in respect of employees who transferred to the ALMO, and the reduction in value of Stamford House by some £5 million, due to its change of use. These changes impacted on both operating expenditure, understated by £23.5 million, and total assets less liabilities, overstated by £53.2 million; however, there was no overall impact on the general fund balance.
- 29 The accounts also included some instances of non-compliance with the statement of recommended practice. These mainly affected disclosure notes which provide additional information to the accounting statements.
- 30 There were delays in providing some important working papers and, as in previous years, a high number of matters were raised for officers' attention over the course of the audit. As a consequence, the Council's performance in relation to financial reporting has been assessed as not meeting minimum requirements for the use of resources judgement.

- 31 In order to improve its performance in relation to financial reporting, the Council needs to:
- review closedown arrangements to meet earlier deadlines in 2006;
 - improve quality assurance to correct errors and omissions and overall compliance with accounting standards;
 - eliminate delays and improve accuracy with respect to working papers;
 - take ownership of the accounts at a member level and subject them to robust scrutiny; and
 - consult with a range of stakeholders to establish their requirements in respect of the publication of summary accounts.

Audit opinion

- 32 In agreement with the Council, we delayed the issue of our audit opinion pending the completion of work by officers to resolve an outstanding matter. The matter related to the implementation of the new prudential regime for financing capital expenditure. Officers were asked to substantiate the capital financing requirement which is used as a basis for calculating the set aside from revenue to repay debt incurred in financing capital expenditure. The review by officers entailed examination of records going back to the early 1990s. The review has been concluded and the matter resolved and we expect to be able to issue an unqualified opinion shortly.
- 33 Whilst the review was ongoing the Council published its draft accounts to meet the statutory deadline of 31 October, but they did not include the auditor's opinion and were subject to further amendment. We are required by professional standards to report to those charged with governance (in this case to the Approval of Accounts Committee) matters arising from our audit before we give an opinion on the accounts. The meeting of the Committee to receive our report was deferred pending completion of the work referred to above. Now that the uncertainty has been resolved we will shortly be submitting our reports to the Committee and will provide further detail on this issue. We will also report on the nature of the adjustments that have been required to be made to the draft accounts and on other weaknesses in internal control.

Financial management

- 34 We concluded that the Council's arrangements for financial management are soundly-based. The Council has a strong medium-term financial strategy process which is embedded and integrates with service planning processes. Budget setting and monitoring processes are reasonably robust although the quarterly revenue reports evidence some unexpected variations in projected outturns indicating scope for further improvement by departments. Areas of continuing overspend, such as the Children's Trust, are being targeted and subject to review by officers to identify potential savings.

35 Our review identified some further opportunities for improvement including:

- developing the best value performance plan to meet more clearly the functions of a corporate plan;
- applying the new reserves policy to all reserves and balances to ensure transparency as to their level and purpose and to link this review to the medium-term financial strategy and risk assessment processes; and
- develop clearer action plans to address areas of overspend and arrangements to monitor profiled saving targets.

General fund spending and balances

36 The outturn for 2004/05 was strong with a surplus of £2.9 million which increased the general fund balance to £15.9 million. Contributory factors to the surplus were a £1.6 million under spend by the direct services department, of which £0.8 million was returned to the housing revenue account; additional interest earned as a result of increased cash balances due to slippage on the capital programme, and unspent contingency budgets.

37 The Council is projecting a £3.4 million overspend for 2005/06. There are continuing budget pressures in relation to the Children's Trust and adult social services, totalling some £3.8 million, including anticipated shortfalls in asylum seeker grant income. £1.4 million is being transferred from reserves to partly offset the projected overspend and efficiency measures implemented by the Children's Trust has reduced the forecast overspend by a further £143,000. Savings have been identified in the arrangements for administering housing benefits, however these have yet to be achieved and an overspend of £0.8 million is forecast in this area for 2005/06. The projected general fund balance at 31 March 2006 is £12.5 million.

Housing Revenue Account

38 The projected balance on the Housing Revenue Account at 31 March 2006 is £2.3 million. This includes an overspend of £0.5 million forecast at quarter 2 resulting from deficiencies in the budget setting process.

Capital programme

39 Our last Audit Letter reported the findings from our review of the Council's arrangements for managing its capital programme. A matter referred to was the high level of slippage in completing capital schemes despite over programming. In 2004/05, slippages of £13.4 million occurred in relation to total expenditure of £58 million. We intend to follow up progress against our recommendations during 2006 and will report the findings in our next Letter.

- 40 The Council manages its asset base through its updated asset management plan, rolling three-year capital programme and planned maintenance programme. A new corporate capital strategy has recently been documented and as such has yet to be reviewed and approved by the Council, although the underlying processes are embedded in existing arrangements. The Council needs to finalise its capital and asset management strategies and develop a plan to address the backlog of maintenance work.

Income collection and arrears

- 41 Last year we reported on the need to review and standardise arrangements for monitoring and collection of sundry debtor income as there were a number of weaknesses including inconsistencies between departments and limited monitoring of the age of outstanding debt, a key indicator of debt recovery performance. We understand officers are currently addressing these issues and we will review progress in 2006.

Pensions fund deficit

- 42 Investment values continue to show some improvement following the recent decline in the world equity market and the net value of the Pension Fund increased by £30 million during 2004/05, as shown at Table 2. Since the year-end, the value of the fund increased by a further £41 million as at 30 September 2005.

Table 2 Annual comparison of net assets

| Net assets | 2004/05 £m | 2003/04 £m | 2002/03 £m | 2001/02 £m | 2000/01 £m |
|---------------|---------------|---------------|---------------|---------------|---------------|
| Start of year | 317 | 260 | 339 | 354 | 401 |
| Movement | +30 | +57 | -79 | -15 | -47 |
| End of year | 347 | 317 | 260 | 339 | 354 |

- 43 Local authority actuarial valuations are carried out every three years. The most recent actuarial valuation of the pension fund was carried out as at 31 March 2004. The results showed a past service deficit of £171 million and a funding ratio of 66 per cent, compared to 98 per cent at 31 March 2001. The contribution rate required for the pension fund to be fully funded over a period of 25 years is 21 per cent, representing a significant increase from 12 per cent in 2004/05. The increase in contribution rates is being taken in stages of 3 per cent, equivalent to some £2.7 million, to 2008/09.

- 44 The fund had an investment return for 2004/05 of 9 per cent undershooting its customised benchmark of 9.9 per cent. The benchmark was set with regard to the fund's liabilities. The underperformance was recognised by the Council and reported to the Pension Fund Investment Panel which took the decision, in December 2004, to replace one of its investment managers, with immediate effect and to restructure its investment arrangements. The new arrangements have been in place since 1 September 2005. A new specialist investment consultant was also appointed in July 2005, replacing the two consultants who previously supported the Pension Fund Investment Panel.
- 45 Members should continue to monitor performance of the fund to ensure improvements are secured, and consider the impact of the funding requirements on the Council's medium-term financial strategy.

Systems of internal financial control

- 46 It is the Council's responsibility to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness. In 2004/05, the Council was required to comply in full with the new requirement to report on its arrangements in its published accounts by way of a Statement on Internal Control.
- 47 The Statement of Internal Control is underpinned by the Council wide assurance framework which identifies risks and associated sources of assurance as to their effective management. For the first part of the financial year the assurance framework was relatively under developed. However, much work has been undertaken in the latter part of the year to improve arrangements. Overall, the design of the assurance framework is good and the key challenge for the Council is to ensure this process is embedded and operating effectively including obtaining representations from management.
- 48 The Council's Statement of Internal Control identified some significant exceptions to the Council's system of control. In summary these related to:
- the lack of monthly bank and cash reconciliations with outstanding balances on the completed reconciliations;
 - the absence of a formal strategy for business continuity;
 - weaknesses in the arrangements to reconcile some major financial systems to the main accounting system, most notably the new housing benefits system;
 - the need for continued progress to embed risk management in the culture and processes of the Council;
 - a deficit of £2.4 million on the Collection Fund; and
 - the need to take a corporate approach to sundry debtor management.

Internal Audit

- 49 Internal Audit is a vital element in the Council's control framework and needs to be maintained at a level where the role can be effectively discharged. Following difficulties experienced in recruiting staff, the Council decided to outsource the service. Deloitte and Touche have provided the internal audit service since October 2004 and the new Chief Internal Auditor started in January 2005.
- 50 We have continued to be able to place reliance on the work of internal audit and maintained good communications with regular meetings. These have included discussions on how we can work together more efficiently, in particular helping us to meet the new audit requirements for 2005/06 in relation to the documentation of systems. We plan to undertake a review of the service early in the new year now that the new internal audit arrangements have had time to become established.

Risk management

- 51 We followed up our previous recommendations in relation the Council's arrangements for risk management and found good progress has been made. The Council has agreed a risk management policy and appointed a lead member. Risk workshops have been held in most of the departments and risk registers developed. A corporate risk register has been established and has now been in operation for several months. There are areas where further enhancements could be made such as incorporating targets for risk management into managers targets.
- 52 Our gap analysis, which reviewed the Council's risk management arrangements against the use of resources criteria, identified a number of areas for improvement including:
- continuing to develop risk training for staff and members based on the e-survey and analysis of need;
 - incorporating risk assessment in reports to members where decisions are required; and
 - ensuring departmental risk registers are maintained to the required standard.

Reconciliations

- 53 Our last two Audit Letters commented on the difficulties experienced by the Council in reconciling its cash and bank account to the financial ledger following the implementation of automated procedures. Whilst significant progress has been made to re-launch the system, reconciliations have not been undertaken every month throughout this period and significant unreconciled balances have generally remained. More recently progress to address this has been made and reconciliations have been undertaken at the end of September, October and November 2005.

- 54 The reconciliation of bank and cash is a fundamental control within the Council's financial system and members should ensure that sufficient resources are devoted to ensuring it is satisfactorily reconciled on a monthly basis. We will continue to monitor progress to address this issue and follow up recommendations made in our report.
- 55 The Council introduced a new system, Academy, to administer its housing benefits in 2004/05. As at the year-end the system had not been reconciled to the accounting system and therefore estimated figures were included in the accounts. A reconciliation between the accounting system and Academy has recently been completed but it still contains unresolved differences creating some uncertainty over the reliability of the output from the new benefits system.

Other audit reviews

- 56 We have a number of reviews that are in progress:
- follow-up review of the establishment of the Children's Trust: being undertaken jointly with the PCT to review its governance arrangements;
 - review of arrangements for responding to the Civil Contingencies Act which looks at building 'service resilience' - improving emergency planning and service continuity arrangements; and
 - reviewing the set up of the new Local Area Agreement and governance arrangements.
- 57 We will report our findings from these reviews in our next Letter.

Standards of financial conduct and the prevention and detection of fraud and corruption

- 58 The Council has made good progress in addressing the recommendations made in our previous letters to strengthen its arrangements for preventing and detecting fraud and corruption. The completed anti-fraud and corruption strategy was reviewed by the Leaders Scrutiny Panel in November and promoted amongst staff through the inclusion of leaflets with the September payslips. Plans have also been developed to embed the culture of counter fraud into the organisation through further campaigns and training sessions. We are currently liaising with officers to set up a survey and workshop to assess the impact of these new arrangements.
- 59 The Council agreed in September, to establish an Audit Committee and training for its members commenced early in the new year. The Committee should provide a mechanism for strengthening the Council's governance arrangements by providing a focal point of requisite skills and experience to carry out the main functions of an audit committee. These include responsibility for the system of internal control, overseeing the development of risk management and subjecting the financial statements to robust scrutiny.

Ethical governance

- 60 The findings of our review of the Council's arrangements for maintaining high standards of ethical behaviour were discussed with the Leader's Scrutiny Panel in February. We concluded that the Standards Committee meets regularly and performs its functions well, for example, preparations have been made for undertaking local investigations when these are requested by the Standards Board for England. However, the Council still needs to develop a forward plan and become more proactive in promoting high ethical standards. More generally in carrying out the scrutiny role, dialogue between the political parties is minimal and this limits the contribution some members can make.

Legality of transactions

- 61 We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions.

Use of resources judgements

- 62 The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the authority. It looks at how the financial management is integrated with strategy and corporate management, supports Council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. For single tier and county councils, the use of resources assessment forms part of the CPA framework.
- 63 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in five areas.

Table 3 Use of resources judgements

| Element | Assessment out of 4 |
|--------------------------------|---------------------|
| Financial reporting | 1 |
| Financial management | 3 |
| Financial standing | 2 |
| Internal control | 2 |
| Value for money | 3 |
| Overall score for CPA purposes | 2 |

(Note: 1 = performance below minimum requirements, 2 = performance at minimum requirements, 3 = performance consistently above minimum requirements, 4 = well above minimum requirements)

- 64 In reaching these judgements we have drawn on the above work and supplemented this with a review against specified key lines of enquiry. Measured against this harder test, the Council has performed strongly in relation to its arrangements for securing value for money and financial management. As reflected elsewhere in this letter, the Council is making significant progress to improve arrangements for securing a sound system of internal control and the impact of these enhanced arrangements should become evident over the coming months.
- 65 The most significant area where further development is needed is in relation to improving arrangements for financial reporting. This has historically proved problematic for the Council and members will recall it has featured in recent Letters.

Other work

Grant claims

- 66 In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims and the Council has benefited from a significant reduction in the number of claims due to its status as an excellent authority.
- 67 We agreed a grant claims protocol with corporate finance to improve the quality of grant claims and supporting working papers. Subsequently, a workshop for council officers was run jointly to explain the protocol and to emphasise the importance of good working papers. However, improvements are still needed in the quality of the supporting working papers and claims. To date, approximately 60 per cent of claims have been submitted late. Of the 22 that have been certified, 13 have required amendment, and 7 have been submitted with qualified reports.
- 68 The majority of our time is spend certifying the largest claim, housing benefits, which continues to prove problematic. Due to a changeover in the IT system from HBIS to Academy there have been significant data quality issues which has resulted in the housing benefit deadline being missed.
- 69 We have good liaison arrangements with corporate finance to monitor progress with the claims certification and we will continue to work with officers to secure improvements.

National Fraud Initiative

- 70 In 2004/05, the local authority took part in the Audit Commission's National Fraud Initiative (NFI). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000. As at November 2005, the Council reported the identification £340,000 of frauds identified by this exercise.

Looking forward

Future audit and inspection work

- 71 We have an agreed plan for 2005/06 and have reported in this Letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.
- 72 We have sought to ensure, wherever possible, that our work is risk-based and we will continue with this approach when planning our programme of work for 2006/07. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2006. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

Revision to the Code of Audit Practice

- 73 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 74 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with the Chief Executive. The key changes include:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
 - a clearer focus on overall financial and performance management arrangements.

Closing remarks

- 75 This Letter has been discussed and agreed with the Chief Executive. A copy of the Letter will be presented at the Leadership Scrutiny Panel on 15 February 2006.
- 76 The Council continues to take a positive and constructive approach to our audit and inspection and I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Availability of this Letter

- 77 This Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

Les Kidner
District Auditor and Relationship Manager
January 2006

Appendix 1 – Background to this Letter

The purpose of this Letter

- 1 This is our Audit and Inspection ‘Annual Letter’ for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council’s Relationship Manager and District Auditor. The Letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 4 Appendix 3 provides information about the fee charged for our audit and inspections.

Audit objectives

- 5 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.
- 6 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 1.

Figure 1 Code of Audit Practice

Code of practice responsibilities



- 7 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best value performance plan.

Appendix 2 – Audit reports issued

Table 4

| Report title | Date issued |
|---------------------------------------------------------------------------------------|-----------------------|
| 2004/05 Audit Plan | May 2004 |
| Improvement and Assessment | |
| Direction of Travel | November 2005 |
| Housing Management | February 2005 |
| Supporting People | September 2005 |
| Best Value and Performance Information | |
| Best Value Performance Plan 2004/05 | February 2005 |
| Best Value Opinion | December 2005 |
| Use of Resources | |
| Use of Resources Report | November 2005 |
| Financial Aspect of Corporate Governance | |
| Bank and Cash Reconciliation | April 2005 |
| Setting High Ethical Standards | April 2005 |
| Risk Management (follow-up) | August 2005 |
| Risk Management Gap Analysis | August 2005 |
| Accounts | |
| Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610) | To be issued |
| Final Accounts Memorandum | December 2005 (draft) |
| Annual Audit and Inspection Letter | January 2006 |

Appendix 3 – Audit fee

Table 5 Audit fee update

| Audit area | Plan 2004/05 £000 | Actual 2004/05 £000 |
|----------------------------------------------|------------------------------|--------------------------------|
| Accounts | 172 | 172 |
| Financial aspects of corporate governance | 140 | 140 |
| Performance | 46 | 46 |
| Total Code of Audit Practice fee | 358 | 358 |
| Additional voluntary work (under section 35) | 0 | 0 |
| Total | 358 | 358 |
| 2003/04 grant claims | 210 | 150 |

** This does not include a further fee, estimated between £20-30,000 relating to additional work to resolve outstanding issues auditing the final accounts.*

Inspection fee update

- 8 The full year inspection fee is £22,000. The work reported in this Audit and Inspection Letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years, the actual fee will be in line with that planned.