

Annual Audit and Inspection Letter

March 2007



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London Borough of Hammersmith and Fulham

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As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

Status of our reports

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

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- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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Our overall summary

Introduction

- 1 This Letter provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council and inspections that have been undertaken in the last year and from a wider analysis of the Council's performance and its improvement over the last year, as measured through the Comprehensive Performance Assessment (CPA) framework.
- 2 The Letter is addressed to the Council. In particular it has been written for members, but is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The Letter is in a shorter format than in previous years because its focus is on our inspection role. The main issues from our audit work were reported in our Annual Governance Report (AGR), and presented to the Audit Committee in September 2006. This Letter contains brief details of the main issues from the AGR, and the most important messages from our more recent audit work.

Summary of main findings

- 4 The Council is improving well, provides good value for money and has been assessed as three star in the Audit Commission's Comprehensive Assessment Framework. Most services are improving in line with priorities, notably in secondary education, street cleaning, homelessness and adult social care, while further challenges remain in respect of crime and cultural services.
- 5 We gave unqualified opinions on the Council's statements of accounts and pension fund for the year ended 31 March 2006. Our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources was also unqualified.
- 6 The Council is committed to a vigorous programme of improvement allied to reductions in Council Tax. This will require outstanding financial, performance and risk management over the next three years. Improvement is also being sought through more effective procurement and partnership working.

Action needed by the Council

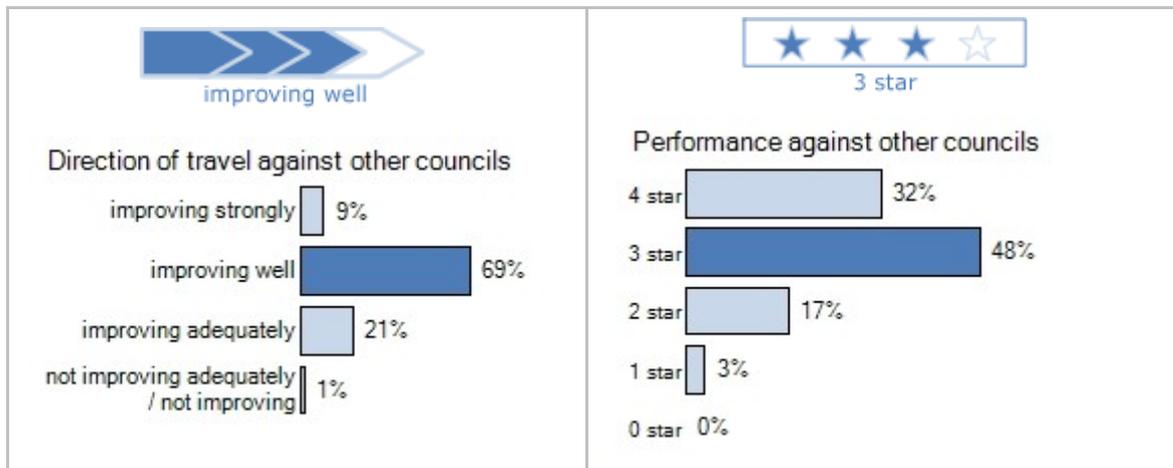
7 The Council should:

- continue to monitor the delivery of budgetary objectives given the Council's ambitious programme of Council Tax reductions;
- ensure that Council objectives within crime and cultural services are monitored closely; and
- ensure that measures are in hand to improve the arrangements for financial reporting, particularly the closedown programme and quality assurance.

How is the Council performing?

- 8 The Audit Commission’s overall judgement is that the Council is **improving well** and we have classified the Council as **three star** in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.

Table 1 Comparison of scores (to be updated)



Source: Audit Commission

- 9 The detailed assessment for the Council is as follows.

Our overall assessment - the CPA scorecard

Table 2 CPA scorecard

Element	Assessment 2005	Assessment 2006
Direction of Travel judgement	Improving well	Improving well
Overall	3 star	3 star
Current performance:		
Children and young people	3	3
Social care (adults)	3	4
Use of resources	2	3
Housing	3	3
Environment	2	2
Culture	2	1

Element	Assessment	Assessment
	2005	2006
Benefits	2	3
Corporate assessment/ capacity to improve (not reassessed in 2006)	4	4

Note: 1=lowest, 4=highest

The improvement since last year - our Direction of Travel report

- 10 Hammersmith and Fulham Council is performing well and services are improving in line with priorities, notably in secondary education, street cleaning, homelessness and adult social care. Over two thirds of performance indicators have improved in the last year which is above the national average. Further challenges remain in some areas, including crime and cultural services.
- 11 The Council has a good understanding of the needs of its communities, through which it contributes to wider community issues such as achieving a reduction in teenage pregnancies. The Council has a good level of awareness of its diverse communities and in response has improved the services it offers such as older people's services. The Council has improved its use of resources, provides good value for money and has a strong focus on performance management. It has built its capacity through organisational changes and advances in procurement arrangements. The Council continues to face challenges in recruiting and retaining key staff, for example in adult social care services.
- 12 The Council is well placed to deliver improvements in services that matter to local people.

Governance and use of resources

Governance report

- 13 As your appointed auditors we presented our Annual Governance Report to the Council's Audit Committee in September 2006. The Committee is considered to fulfil the role of those charged with governance. Our report included:
- unqualified opinions on your accounts and those of the pension fund for the year ended 31 March 2006; and
 - an unqualified conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2006.
- 14 To obtain unqualified opinions on the financial statements and pension fund one month earlier than in previous years was a notable achievement for the Council. However, our report highlighted an unacceptably high number of errors within the initial draft financial statements and further problems associated with audit trails and compliance with accounting practices. The Council is struggling with a poor coding structure which requires substantial manual input to translate into accounts. Mistakes occur when the closedown process is to a much tighter timetable, as is required by the Accounts and Audit Regulations.
- 15 We made three recommendations designed to improve the Council's financial reporting:
- review the year end closure arrangements and quality controls for producing the financial statements to ensure the accounts presented for approval are free from significant errors, comply with accounting recommended practice and are supported by a robust set of working papers;
 - ensure the cash book to bank reconciliation is completed and approved promptly each month, and that suitable reporting mechanisms are introduced to ensure the status is monitored by senior management; and
 - review accounting policy applicable to parking income to provide for the inclusion of debtors and (as necessary) provisions in respect of parking control notices issued and thus enable the effectiveness of debt recovery procedures to be assessed.
- 16 Subsequently we have provided officers with a detailed report on the matters arising from this audit. We have also issued an additional fee invoice for £9,000 in respect of the extra work required to complete the audit. We understand the Council is taking steps to address the matters arising in preparation for the audit of the financial statements for the year ended 31 March 2007, although the loss of key corporate finance staff is a risk to the successful implementation of the recommendations.
- 17 As there are no outstanding questions or objections the audit certificate was issued with the opinion to signify that the 2005/06 audit is now closed.

Use of Resources

- 18 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from assessments made by the auditor in respect of the following themes.
- Financial Reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support council priorities).
 - Financial Standing (including the strength of the Council's financial position).
 - Internal Control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 19 Overall the Council is assessed as performing well, an improvement on 2005. A detailed report covering findings and opportunities for improvement was discussed with the Chief Executive and Director of Finance in November, and the key issues are set out briefly in Table 3 below.

Table 3 Use of Resources: Summary findings

Theme	Assessment*	Summary findings and improvement areas
Overall	3 (2)	
Financial Reporting	2 (1)	Weaknesses in accounts compilation and evidencing as discussed above recurred in 2006, but better reporting to the public led to an improved score.
Financial Management	3 (3)	Medium-term financial strategies, budgetary control and performance monitoring arrangements are well managed and aligned to strategic priorities.
Financial Standing	3 (2)	The Council's commitment to reducing the Council Tax base is ambitious and underpinned by a demanding efficiency programme. Financial standing is adequate but not substantial, and it is essential that progress in respect of efficiency savings and key risks, such as the non-delivery of savings programmes and changes in the annual grant settlement, are reported unambiguously and monitored closely. Current projections indicate that the Council will meet its financial objectives for 2006/07.

Theme	Assessment*	Summary findings and improvement areas
Internal Control	3 (2)	The Council maintains a sound assurance framework, but needs to focus on ensuring key reconciliations (cash book and the major feeder systems to the main accounting system) are performed promptly and completely each month. Anti-fraud, risk management and business continuity arrangements are good, but improvements can be made in anti-fraud measures and to IT resilience in the event of a widespread failure.
Value for money	3 (3)	The Council delivers good value for money and the balance between costs, performance and quality of services is above average. Spending reflects Council priorities and investment plans. Improvement is being sought through the efficiency programme, including more effective procurement and partnership working. Key challenges include increasing resident satisfaction in priority areas and building engagement with all sectors of the local community.

*2=performing adequately, 3=performing well, 4=performing strongly; brackets refer to 2005 scores.

Other audit work

- 20 The main messages from the rest of our audit programme are summarised in the table below.

Table 4 Other audit work

Audit	Main issues arising
Best Value Performance Plan	We certified that the Council's BVPP complies with relevant regulations and there are no matters to report.
Partnership working: Children's Trust	Early in 2006 we assessed the Council's progress towards developing integrated children's services. We found that while the relationship with the Hammersmith and Fulham PCT was good, progress in a number of key areas was slow, hampered by delays in filling key senior positions. The key areas to improve include joint governance arrangements, risk management, employment matters such as secondments and recruitment, information sharing, and performance management. A detailed report was discussed and agreed with the Council and Hammersmith and Fulham PCT and a detailed action plan agreed in September 2006.
Performance Information	Overall arrangements for ensuring data quality meet minimum standards, but our detailed testing of Best Value Performance Indicators suggests that improvements in quality assurance are needed to ensure compliance with detailed guidance is achieved. A report is currently being discussed with officers.
Certification of grant claims for 2005/06	The Council continues to struggle to improve the standard of preparation of grant claims and despite good liaison arrangements and a protocol, the audit fee is likely to remain at around £170k. The largest claim, housing benefits, presents significant data quality problems, and the extended testing required contributes to the deadline being missed. Elsewhere, improvements are needed in the quality of supporting working papers and, as last year, claims continue to be submitted late (46% over one month late), require amendment (62%) or qualification (50%). A full report will shortly be issued to officers.
Legality	We receive correspondence from third parties on a variety of issues. Where appropriate, we have made investigations and discussed issues with officers. There are no matters of unlawful expenditure or otherwise to report to members.

Conclusion

- 21 This letter has been discussed and agreed with the Chief Executive and Director of Finance on 2 March and the Leader on 6 March. A copy of the letter will be presented at the VFM Scrutiny Committee on 25 April 2007.

Reporting

- 22 Further detailed findings, conclusions and recommendations on the subjects covered by this year's work are included in the reports issued to the Council during the year. The table below highlights the reports issued since my last annual audit and inspection letter in January 2006.

Table 5 Reporting

Report	Date of issue
Audit and inspection plan 2006/07	March 2006
Interim audit report 2005/06	July 2006
Annual governance report 2005/06	September 2006
Opinion on financial statements 2005/06	September 2006
Value for money conclusion 2005/06	September 2006
Civil Contingencies	October 2006
Children's Trust	October 2006
Final accounts memorandum 2005/06	November 2006
Use of resources auditor judgements 2006	December 2006
BVPP report 2006/07	December 2006
Direction of travel assessment 2006	February 2007
CPA scorecard 2006	February 2007
Annual Audit and Inspection Letter 2005/06	February 2007
Reports due shortly:	
Data quality arrangements and BVPIs 2006/07	March 2007
Grant claims 2005/06	March 2007

Fees

- 23 The outturn fees for the year are set out in the table below.

Table 6 Fee update

Area	Planned 2005/06 £000	Actual 2005/06 £000
Accounts*	240	249*
Use of resources	112	112
Total audit fee	352	361
Inspection	14	14
Total audit and inspection fee	366	375
Grant claim certification**	-	170**

*additional fee billed due to weaknesses in evidencing accounting entries.

** estimated outturn

- 24 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Availability of this letter

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

L.J. Kidner
Relationship Manager