

# Annual Audit and Inspection Letter

**London Borough of Hammersmith and Fulham**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- 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.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **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.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- 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.

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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## Key messages

- 1 The Council is improving well, provides good value for money and has been assessed as four-star against the Audit Commission's Comprehensive Assessment Framework. Improvements are being made in priority areas including adult social care, services to children and young people and environmental services, while meeting the decent homes standard remains a significant challenge.
- 2 The Council continues to pursue vigorously its policy to reduce its cost base and deliver Council Tax reductions to residents. To date it has managed the risks that arise when undertaking a substantial change agenda well, but must remain vigilant that it retains a corporate capacity commensurate with the requirements to deliver the Council's ambitions. In particular, it must have due regard to the financial outlook and ensure it takes appropriate action to address threats to its financial position.
- 3 We gave unqualified opinions on the Council's statements of accounts and pension fund for the year ended 31 March 2007. Our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources was also unqualified.

## Action needed by the Council

- 4 The Council should:
  - continue to monitor the delivery of budgetary objectives given the Council's ambitious programme of Council Tax reductions;
  - maintain sufficient corporate resource to manage the change programme; and
  - secure further improvement in financial reporting, including delivering the project to modernise the accounting system in time for the 2008/09 closedown of accounts.

## Purpose, responsibilities and scope

- 5 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter. It also includes the results of the most recent corporate assessment.
- 6 This letter is addressed to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 7 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). In addition the Council is planning to publish it on its website.
- 8 As your appointed auditor I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I review and report on:
  - the Council's accounts;
  - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
  - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 9 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report and the results of inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 10 Reports issued to the Council relating to 2006/07 audit and inspection work are listed at the end of this letter.

## How is the Council performing?

- 11 The Audit Commission's overall judgement is that the Council is improving well and we have classified the Council as four 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.

**Figure 1**



Source: Audit Commission

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

### Our overall assessment - the CPA scorecard

**Table 1 CPA scorecard**

Element	Assessment 2007	Assessment 2006
Direction of Travel judgement	Improving well	Improving well
<b>Overall</b>	<b>4 star</b>	<b>4 star</b>
Corporate assessment/capacity to improve	4	4
Current performance:		
Children and young people	3	3
Social care (adults)	4	4
Use of resources	3	3
Housing	3	3
Environment	3	2
Culture	2	2
Benefits	3	3

*Note: 1 = lowest and 4 = highest.*

### The improvement since last year - our Direction of Travel report

- 13 Hammersmith and Fulham Council is improving well. The Council continues to deliver improvements in priority areas such as in adult social care, including support for older people with mental health problems, children and young people's services, and recycling and waste collection services. More than two-thirds of performance indicators have improved since last year which is above the national average.
- 14 Challenges remain in meeting the decent homes standard, and reducing burglaries and theft from cars. Effective partnership working is securing improvements across communities, including a reduction in the time young people stay in temporary accommodation, and a decrease in smoking by mothers.

- 15 The Council has good knowledge of its diverse communities and uses this to drive service improvements, achieving significant increase in take up of direct payments for people with high care needs. The Council continues to improve its use of resources, provides good value for money and has a sustained focus on performance management and procurement. The Council is ambitious, has strong governance arrangements and has the capacity to deliver continuous improvements in services that matter to local people.

## Corporate assessment

- 16 During 2007, the Audit Commission carried out a corporate assessment under the revised CPA framework. The purpose was to assess how well the Council engages with and leads its communities, delivers community priorities in partnership with others and ensures continuous improvement across the range of Council activities.
- 17 The assessment concluded that the Council is performing well, consistently above minimum requirements. In particular, the benefits and adult social care services have improved significantly. Similarly educational attainment has improved. Local people are more satisfied with the way the Council runs its services. The direction of travel report draws on the findings of the corporate assessment.
- 18 Our detailed findings and recommendations were published in February 2008. The review identified the following areas for improvement:
- more clearly involve partners in the medium term planning process;
  - improve the consistency of scrutiny by providing further focused training for councillors involved; and
  - ensure that there is a clear link between performance information and staff supervision.

## Service inspections

### Re-inspection of H&F Homes

- 19 The Audit Commission has recently been carrying out a re-inspection of H&F Homes. The findings of the inspection are expected to be published in spring 2008.

## The audit of the accounts and use of resources

### Audit of the accounts

- 20** There was some improvement in the processes for preparing the Council's accounts although this remains one of the weaker disciplines. We were able to conclude our work by the deadline of 30 September, although an additional audit fee was necessary in order to obtain sufficient assurance to reach an opinion on the accounts.
- 21** We presented our Annual Governance Report to the Council's Audit Committee in September 2007. 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 2007; 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 2007.
- 22** The report contained a number of recommendations. Officers have accepted these and have embarked on the actions required to improve arrangements. The main recommendations are repeated here for completeness:
- ensure the project to modernise the accounting system addresses the weaknesses identified in this year's audit;
  - establish and maintain effective controls over all bank accounts currently in use;
  - ensure robust scrutiny of main systems reconciliations is in place on a monthly basis; and
  - review and eliminate the reconciliation problems between the ledger and the Council Tax and NNDR systems.
- 23** There are no other significant issues or recommendations arising from the audit of the financial statements to bring to members' attention. We have provided officers with a detailed report with recommendations as to how the process may be further improved in 2008.
- 24** As there are no outstanding objections to the accounts the audit was certified as closed on 29 September 2007.

## Use of Resources

- 25 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 the assessments made by the auditor in the following areas:
- 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); and
  - value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 26 The Council achieved level 3 (performing well) again in 2007. The financial standing theme improved from 3 to 4 and there were also notable improvements in the production of the accounts and risk management. This should be considered against more demanding assessment criteria in place this year, in accordance with the principles of continuous improvement and the *Harder Test*. Two examples of notable practice (in financial and performance monitoring and anti-fraud arrangements) were identified during the assessment. However, the Council should note that although there was an improvement in the quality of the financial reporting from the previous year, this theme scored a 2 (adequate performance) and therefore remains the weakest theme and the one most in need of further attention.
- 27 A detailed report of the findings and improvement opportunities was issued to the Chief Executive and Director of Finance in December 2007, with the key issues set out briefly in the table overleaf.

**Table 2 Use of Resources: Summary findings**

Theme	Assessment*	Summary findings and improvement areas
<b>Overall</b>	<b>3 (3)</b>	
Financial Reporting	2 (2)	There were improvements in the accounts from the previous year with no material errors. Some improvements in the closedown process were evident and working papers were adequate, though there is still room for improvement in terms of both quality and timeliness. Capacity to deal with audit queries and the poor coding structure of the accounting system presented significant challenges to the audit.
Financial Management	3 (3)	The Council's arrangements for financial planning and budgetary control remain good. The asset base is well managed.
Financial Standing	4 (3)	The Council exhibits a clear strength at managing its spending within the available resources. In 2006/07, as in previous years, the budget was achieved despite a challenging efficiency agenda. Reserves are in line with the risk-assessed reserves policy (general fund £12 million and earmarked reserves £27 million).
Internal Control	3 (3)	<p>The Council has strong arrangements to manage significant business risks which are now embedded in the Council's working arrangements and give rise to notable practice. The Council has adequate arrangements in place to maintain internal control. Key areas to improve include financial reconciliations, partnership governance and the effectiveness of the Audit Committee.</p> <p>The Council exhibits some very strong practices with respect to deterring fraud, but needs to embed an anti-fraud culture further. Key areas to address are the completeness of the registers of interest and demonstrating the highest ethical standards, for example, with reference to Council publicity.</p>

Theme	Assessment*	Summary findings and improvement areas
Value for money	3 (3)	The Council delivers good value for money. In most cases spend reflects the Council's priorities. High cost areas are known and are being addressed through a number of initiatives. The Council is determined in its pursuit of improved levels of efficiency and value for money.

\*2 = adequate performance, 3 = performing well, 4 = performing strongly and brackets refer to 2006 scores.

## Other audit work

- 28 The main messages from the rest of our audit programme are summarised in Table 3 below.

**Table 3 Other audit work**

Audit	Main issues arising
Best value performance plan	We certified that the Council's BVPP for 2007/08 complies with relevant regulations and there are no matters to report.
Data quality	The Council's arrangements for ensuring data quality are assessed as good. A detailed spot check of six indicators was performed with three requiring only minor amendments and none requiring material amendments. A detailed report was sent to officers in January 2008.
Certification of grant claims for 2006/07	Performance on grant claims is similar to that reported last year. By the end of the 2006/07 claims programme fees are expected to have fallen by 27 per cent to £130,000 but this is primarily due to the reduction in the number of claims. Late presentation remains a problem (42 per cent per cent over one month late) as is accuracy with 45 per cent being qualified (similar to last year). A full report was issued to officers in February 2008.

<b>Audit</b>	<b>Main issues arising</b>
Review of The Bridge Partnership	The Council has established satisfactory governance and contract management arrangements for the Hammersmith and Fulham Bridge Partnership (HFBP). These provide a sound basis for delivering the partnership's objectives. As viability depends on achieving sizeable savings the monitoring of financial performance must be a priority for the Council. Other key issues to address include providing business continuity and clarifying potential termination arrangements. A full report with an agreed action plan was issued in January 2008.

## Looking ahead

- 29 The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 30 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 31 The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

## Closing remarks

- 32 This letter has been discussed and agreed with the Chief Executive, Director of Finance and the Leader. The Council will arrange to provide copies to all Council members and it will be discussed at a future meeting of members.
- 33 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

**Table 4 Main outputs from the 2006/07 audit plus 2007/08 reports to date**

Planned output	Date of Issue	Addressee
<b>Planning</b>		
Audit and inspection plan	March 2006	Management/Audit Committee
Supplementary opinion audit planning letter	July 2007	Management
<b>Inspection</b>		
Corporate Assessment*	January 2008	Members
ALMO Re-inspection*	February 2008 (Draft)	
<b>Use of Resources</b>		
Use of resources assessment*	November 2007	Management
BVPP report*	December 2007	Management
Data Quality*	January 2008	Management
Partnerships – follow up	May 2007	Management
Contracts Management	March 2008 (Draft)	Management
Value for money conclusion	September 2007	Management

Planned output	Date of Issue	Addressee
<b>Opinion</b>		
ISA 260 report on financial statements to those charged with governance.	September 2007	Members
Opinions on the financial statements and pension fund	30 September 2007	Members
Report on the opinion audit	October 2007	Management
<b>Overall</b>		
Annual audit and inspection letter	February 2008	Members

\* Part of 2007/08 audit programme

- 34 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

## Availability of this letter

- 35 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the Council's website.

**L.J.Kidner**  
**Relationship Manager**

March 2008