

Annual Audit and Inspection Letter

London Borough of Hammersmith and Fulham

Audit 2007/08

March 2009



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Status of our reports

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

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

- 1 The Council is improving strongly with particular improvements in services for older people, children's services and culture.
- 2 Areas for improvement that the Council has already targeted are building confidence in safeguarding practices for vulnerable older people and reducing the number of surplus places in secondary schools.
- 3 The Council is strong at delivering value for money and is well placed to continue to deliver service improvements in the future.
- 4 The year has seen significant developments on the public health partnership agenda in Hammersmith and Fulham with the appointment of key jointly funded posts between the Council and the PCT.
- 5 The slowdown in the national economy is beginning to be reflected in changes to the local demand for public services. The Council can expect to face increased demand for a range of key services while the constraints of public funding regimes are tightened. These challenges will test governance and financial management arrangements fully, particularly in the context of the Council's ambitions to reduce the overall burden of local taxation. In this respect the Council must remain vigilant and ensure it takes appropriate action to address threats to its financial position.
- 6 We gave unqualified opinions on the Council's statements of accounts and pension fund for the year ended 31 March 2008. 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

- 7 The Council should:
 - ensure that the areas for improvement already targeted in relation to building confidence in safeguarding practices for vulnerable older people and reducing the number of surplus places in secondary schools are achieved;
 - monitor the impact of the economic downturn on demand-led services;
 - monitor related financial pressures in the context of the local funding strategies; and
 - ensure planned improvements in accounts preparation are realised to support an efficient audit of the 2008/09 Statement of Accounts.

Purpose, responsibilities and scope

- 8 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 2007/08 and from inspections undertaken since the last Annual Audit and Inspection Letter.
- 9 We have addressed this letter 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.
- 10 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. In addition the Council is planning to publish it on its website.
- 11 The appointed auditor is 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, the auditor reviews and reports 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 for 2007/08 was prepared and published in line with legislation and statutory guidance.
- 12 The Comprehensive Area Assessment Lead (CAAL) is responsible for reporting inspection work carried out in accordance with the Audit Commission's duty under section 13 of the 1999 Act, and accordingly. This letter summarises the key issues arising from the CPA and any such inspections.
- 13 This work includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999.
- 14 We have listed the reports issued to the Council relating to 2007/08 audit and inspection work at the end of this letter.

How is the Council performing?

15 The Audit Commission’s overall judgement is that the Council is improving strongly 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 Overall performance of councils in CPA



Source: Audit Commission (percentage figures may not add up to 100 per cent due to rounding)

How is the Council performing?

Our overall assessment - the CPA scorecard

Table 1 CPA scorecard

| Element | Assessment 2008 |
|--|--------------------|
| Direction of Travel judgement | Improving strongly |
| Overall | 4 star |
| Corporate assessment/capacity to improve | 3 |
| Current performance: | |
| Children and young people* | 3 |
| Social care (adults)* | 3 |
| Use of resources* | 3 |
| Housing | 3 |
| Environment | 4 |
| Culture | 3 |
| Benefits | 3 |

(Note: * these aspects have a greater influence on the overall CPA score)
(1 = lowest, 4 = highest)

The improvement since last year - our Direction of Travel report

- 16** Hammersmith & Fulham Council is improving strongly. Overall, more than two thirds of performance indicators have improved, and the Council now has a third of its indicators in the best quartile. There are particular improvements to indicators in services for older people, children's services and culture. Educational attainment, particularly at key stage three, has also improved. Other areas for improvement that the Council has already targeted include building confidence in safeguarding practices for vulnerable older people and reducing the number of surplus places in secondary schools.
- 17** This ambitious Council has delivered, with partners, on outcomes for the community including: the Westfield retail centre, improved public transport facilities, two new train stations and a bus terminal and the innovative 24/7 policing pilot which has achieved reductions in crime. The Council has also worked successfully with health partners to reduce teenage pregnancies and delayed hospital discharges. The Council has achieved good use of resources and is strong at delivering value for money. The Council is well placed to continue to deliver service improvements in the future.

How is the Council performing?

Service Inspections

- 18 An important aspect of the role of the CAAL is to work with other inspectorates and regulators who also review and report on the Council's performance. CAALs share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates.

CSCI Adult Social Care Performance Judgements for 2007/08

- 19 CSCI's Annual Performance Assessment of Social Care Services for Adults in Hammersmith and Fulham judged the delivery of outcomes as 'good' and the Council's capacity to improve services further as 'excellent'. Areas for improvement are contained in the report that can be found on the CSCI website.

Ofsted Annual Performance Assessment of Services for Children and Young People in the London Borough of Hammersmith and Fulham 2008

- 20 The overall 2008 CPA Children and Young People Service score for Hammersmith and Fulham is a 3. The Council's capacity to improve its services for children and young people is good and it's management of these services is good. Areas for improvement are contained in the report that can be found on the Ofsted website.

The audit of the accounts and value for money

Audit of the Council's accounts

- 21** We presented our Annual Governance Report to the Council's Audit Committee in September 2008. The Committee fulfils 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 2008; 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 2008.
- 22** The Council's financial statements were presented for audit in accordance with the agreed timetable. They exhibited great clarity and relatively few adjustments were identified during our audit. However, once again we were unable to conclude the audit efficiently due to weaknesses in evidence trails in some areas and, as in previous years, an additional audit fee was necessary to obtain sufficient assurance to reach an opinion on the accounts.
- 23** The Council was hampered through insufficient capacity within corporate finance in 2008, and consequently evidence to support the figures in the accounts remains one of its weaker disciplines. The Director of Finance has already taken steps to strengthen corporate finance and we are working with key officers via a workshop and regular meetings to build an understanding of how to improve the final accounts closedown arrangements in 2009.
- 24** Our 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.
- Build capacity within corporate finance to improve working papers and hence facilitate a more efficient audit.
 - Ensure technical accounting areas, such as impairment and lease accounting are carried out in accordance with recommended practice.
- 25** As there are no outstanding objections to the accounts the audit was certified as closed on 29 September 2008.

Use of Resources

- 26** The Use of Resources score is a component of the CPA framework, and is derived from assessments made by the auditor across the following five 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).
- 27** The key lines of enquiry for the Use of Resources score are classified into a further 11 'sub-themes' and the assessment criteria are tightened each year to encourage councils to strive for continuous improvement.
- 28** In 2008 the Council continues to demonstrate improvement and has again been assessed as performing well (level 3) overall in its use of resources assessment for the year 2007/08. The Council achieved scores of four in four 'sub-themes' compared with two last year with improved arrangements in financial management and value for money. Although no scores fell, performance is not consistent across the five themes, and aspects of financial reporting and internal control need particular attention as they have the potential to result in lower scores in the future.
- 29** We have recommended several Council practices and arrangements as notable practice which will be more widely publicised and contribute to a knowledge base designed to foster continuous improvement nationally.
- 30** A detailed report of the findings and improvement opportunities was issued to the Chief Executive and Director of Finance in December 2008, with the key issues set out briefly in the table below.

The audit of the accounts and value for money

Table 2 Use of Resources: Summary findings

(Figures in brackets are the use of resources scores for last year)

| Theme | Assessment* | Summary findings and improvement areas |
|----------------------|--------------|--|
| Overall | 3 (3) | |
| Financial Reporting | 2 (2) | The overall quality of the Council's accounts is good, with relatively few errors in compilation. However working papers are of variable quality and the finance team had insufficient capacity to facilitate an efficient audit. Arrangements to promote external accountability are good. |
| Financial Management | 3 (3) | Financial planning and budget setting is excellent and the Council manages its performance against budgets and asset base well. |
| Financial Standing | 4 (4) | The Council continues to demonstrate a clear strength in managing council tax reductions for two consecutive years without weakening its overall financial position. Reserves are managed in line with policy and members receive comprehensive reports to support their stewardship of Council finances. |
| Internal Control | 3 (3) | The Council has strong arrangements to identify and manage risks. Arrangements to improve internal control are improving and the Council has resolved some important financial reconciliations which have remained outstanding for some years. Business continuity is acknowledged as an area to strengthen. Anti-fraud arrangements are good with much done to promote fraud awareness and pursue National Fraud Initiative matches, although ensuring that registers of potential conflicts of interest are complete remains an area of focus. |
| Value for money | 3 (3) | The Council continues to deliver good value for money and achieve efficiencies. The Council's costs compare well to others, are commensurate with service delivery and reflect priorities. Significant savings have been delivered in high spending areas such as children services. Monitoring arrangements are exemplary and assessed as notable practice. Procurement is well-developed and partnership working is effective. |

Other audit work

Reducing Health Inequalities

- 31** Addressing health inequality in the borough is a key challenge that requires extensive collaboration between local partners. Our review has been undertaken in two stages. The first stage was conducted in mid-2008 and found that leadership for the health inequalities agenda is clearly defined across the borough and the Primary Care Trust (PCT). The year 2007/08 has also seen significant developments on the public health partnership agenda in Hammersmith and Fulham with the appointment of key jointly funded posts between the Council and the PCT. These posts provide increased strategic public health capacity within the Borough and have been supported by the establishment of a Public Health Strategic Alliance.
- 32** The Council and the PCT have developed complementary strategies which take into account how each organisation will tackle the health inequalities agenda. However, there is no overarching strategy to tackle the causes of health inequalities. Reviews undertaken by the IDeA and the National Support Team (NST) from the Department of Health in early 2008 had also produced a range of recommendations which officers were beginning to address.
- 33** In recent months there has been some significant progress building on the outcomes of these reviews.
- A healthy borough framework has been developed between the partners covering the health and wellbeing and health inequality agenda across Hammersmith and Fulham which has been presented to the Overview and Scrutiny Committee.
 - There are plans to develop an inequality monitoring framework that will include indicators to track progress on health inequalities locally. These indicators will aim to demonstrate the impact that commissioned services have on local inequalities and include a matrix for contracts.
 - A Joint Strategic Needs Assessment (JSNA) steering group has been established and the partnership is focusing work on this area.
- 34** To explore these issues further and support a way forward we ran a facilitated workshop for relevant staff in collaboration with the NST in January 2009.

Regeneration: the King Street project

- 35** The Council's ambitious plans to regenerate the borough represent a significant challenge, and our work in 2008 included assessing how the Council was managing the risks involved in these developments. To this end we focused a high-level review of the Council's preparatory arrangements for the King Street regeneration project.

Our findings were positive and it is clear that the planning to date for this project has been well managed, for example:

- good arrangements were in place to consult with local people affected by the project;
- the Council's strategic and operational property objectives are clear;

The audit of the accounts and value for money

- good arrangements have been put in place to identify and deliver efficiencies;
 - the Council's asset management approach gives due consideration to the potential for sharing and working with partners;
 - benchmarking arrangements are adequate; and
 - the project has been effectively resourced, aligned with other projects and makes good use of management tools such as risk management.
- 36 We made one recommendation concerned improving the arrangements for capturing the views of the business community. The report has been discussed with relevant officers and an action plan agreed.
- 37 The main messages from the rest of our audit work are summarised in Table 3 below.

Table 3 Other audit work

| Audit | Main issues arising |
|---|--|
| Data quality | The Council's arrangements for maintaining sound data quality continue to be assessed as good. Our detailed testing of five indicators identified one, concerning the speed of processing benefits, that was not fairly stated. A detailed report was sent to officers in January 2009. |
| Certification of grant claims for 2007/08 | Performance on grant claims shows continued gradual improvement, in particular with respect to the largest claim, housing benefits. Audit fees have again fallen, by around 10 per cent to £120,000, but further improvements can be achieved in respect of timeliness and accuracy. The grants coordinator has an important role to play in addressing these issues. A report setting out our detailed findings from the grant claims audit will be issued to officers in March 2009. |

Looking ahead

- 38** The public service inspectorates have developed 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.
- 39** CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate area assessment and reporting performance on the new national indicator set, together with an organisational assessment which will combine the external auditor's assessment of value for money in the use of resources with a joint inspectorate assessment of service performance.
- 40** 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 National Indicator Set and key aspects of each area's Local Area Agreement.

Closing remarks

- 41 This letter has been discussed and agreed with the Leader, Chief Executive and Director of Finance. A copy of the letter will be presented at the VFM Scrutiny Sub-Committee in April 2009 and subsequently tabled at Cabinet. The Council will arrange to provide copies to all Council members.
- 42 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 Reports issued

| Report | Date of issue | Issued to |
|--|----------------|------------|
| Planning | | |
| Audit and inspection plan | March 2007 | Management |
| Supplementary opinion audit planning letter | June 2008 | Management |
| Inspection | | |
| Direction of Travel | January 2009 | Members |
| Use of Resources | | |
| Value for money conclusion | September 2008 | Members |
| Use of resources assessment* | December 2008 | Management |
| Data Quality* | January 2009 | Management |
| Health Inequalities | January 2009 | Management |
| Regeneration | January 2009 | Management |
| Opinion | | |
| Annual Governance Report | September 2008 | Members |
| Opinion on financial statements and pension fund | September 2008 | Members |
| Workshop on outcome form opinion audit | December 2008 | Management |
| Grant claims | March 2009 | Management |
| Overall | | |
| Annual audit and inspection letter | March 2009 | Management |

*Part of 2008/09 audit programme; ** reported in last year's AAIL

Closing remarks

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

Availability of this letter

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

Annette Furley
Comprehensive Area Assessment Lead

March 2009

The Audit Commission

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.

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