

# Annual Audit Letter

London Borough of Hammersmith and Fulham

Audit 2010/11



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**Traffic light explanation**

Red  Amber  Green 

# Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

Key audit risk	My findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

## Audit opinion and financial statements

I issued an unqualified opinion on the financial statements.

## Value for money

I issued an unqualified conclusion stating the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Other audit work

I have also completed other work in the year including:

- certification of the Council's whole of government accounts submission;
- monitoring of progress on the national fraud initiative;
- certification of grant claims with a total value of £355 million; and
- issue of an unqualified opinion on the Wormwood Scrubs Charitable Trust accounts.

# Current and future challenges

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## **Local Government Finance Settlement**

The Local Government Finance Settlement reduced Central Government funding available to the Council. The Council's financial strategy shows the need for £27 million of savings in 2011/12 increasing to £64 million by 2013/14. The latest budget monitoring reports show that the Council is on track to meet these savings in the first year. Finding further savings for the 2012/13 budget while maintaining service quality will be the biggest challenge facing the Council over the coming year.

## **Tri-borough partnership**

In May 2011, the Council agreed plans to combine certain services with City of Westminster Council and the Royal Borough of Kensington and Chelsea. Children's services and libraries are the first services to be shared under this 'tri-borough' programme and discussions are ongoing with Central London Community Healthcare NHS Trust over further integration of adult social care. In addition, there are some 'bi-borough' initiatives involving the Council and the Royal Borough, including the appointment of a joint chief executive from October 2011. The tri-borough programme's objective is to improve people's lives across the three boroughs whilst delivering significant savings to the partners that can be used to protect front-line service provision. Demonstrating the improvement and efficiency outcomes and embedding sound governance arrangements to underpin the initiative will be critical to the Council's (and its partners') continuing achievement of value for money in the use of resources.

## **Financial statements**

With international financial reporting standards (IFRS) implemented in the previous year, the framework for preparing local government financial statements will remain relatively stable in 2011/12. However there are some changes, notably:

- changes to the Housing Revenue Account financing system;
- authorities are required to account for tangible heritage assets in accordance with FRS30 Heritage Assets; and
- CIPFA may publish additional guidance on how to account for schools.

The Audit Commission is running a series of workshops in 2012 to help ensure finance teams are briefed on the impact of such changes and that lessons are learned from IFRS implementation.

# Financial statements and annual governance statement

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**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

## **Overall conclusion from the audit**

I issued an unqualified opinion on the financial statements. The Council met its statutory deadline to publish its accounts by the 30 September. This is a significant achievement given the additional work required to convert the current year and previous years' accounts from being prepared under UK Generally Accepted Accounting Principles to International Financial Reporting Standards. However, as a result of the additional work required a complete set of accounts and working papers was not provided to audit until later than in previous years. I recommended in the Annual Governance Report that arrangements are put in place to ensure a complete set of accounts and working papers is available at the commencement of the 2011/12 audit.

I did not identify any significant weaknesses in your internal control arrangements. I did however made recommendations in the Annual Governance Report where current arrangements could be strengthened in respect of property, plant & equipment, school bank accounts and contracts with partners.

## **Pension Fund accounts**

I also issued an unqualified opinion on the Pension Fund financial statements and did not report any significant matters in the Annual Governance Report. The Pension Fund accounts and working papers were prepared earlier than the Council accounts for audit. Officers should ensure similar strong arrangements are in place for 2011/12, particularly given that there may be additional risks to the audit from the change in Pension Fund administrator and the transfer of treasury management functions to 'tri-borough' arrangements.

# Value for money

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**I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

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## Value for money criteria and key messages

Criterion	Key messages
<b>1. Financial resilience</b> <b>The organisation has proper arrangements in place to secure financial resilience.</b>	The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to operate for the foreseeable future.
<b>2. Securing economy efficiency and effectiveness</b> <b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b>	<p>The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p> <p>The Council has approved ambitious proposals for sharing services, premises and management capacity in partnership with the Royal Borough of Kensington and Chelsea and Westminster City Council. I reviewed the initial proposals and there was no impact on my 2010/11 conclusion.</p>

**Criterion****Key messages**

The effectiveness of the proposals will be reviewed further as part of the 2011/12 conclusion in the context of:

- short and medium-term financial planning (including savings projections) and supporting budgetary processes;
  - the methodology for the attribution of costs and savings; and
  - governance arrangements to support the joint management of services.
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# Other audit work

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## Whole of Government Accounts

Whole of Government Accounts (WGA) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. Local authority auditors are required to submit an audited 'pack' to the Department for Communities and Local Government by the end of September. I received the pack in time to allow me to issue an unqualified opinion and to meet this deadline.

## National Fraud Initiative

Since 1996 the Audit Commission has conducted the National Fraud Initiative (NFI), a data matching exercise which matches electronic data within and between participating bodies, to prevent and detect fraud. NFI has led to the detection of fraud and payments totalling £765 million nationally (as at June 2011). New NFI matches were released to the Council on 25 January 2011. The Council has made some progress in investigating these matches, though some high risk reports remain unopened. The remaining high risk matches should be investigated as a matter of priority.

## Grant Claims

I will certify nine grant claims for the authority with a total value of £355 million. Work on six of these has already been completed and I expect to certify the remaining three in December. Overall the quality of grant claims presented to audit is good. The two qualifications issued to date are as follows.

- The national non-domestic rates return was qualified as evidence was not retained to demonstrate that one property from a sample of ten was entitled to receive empty property relief.
- The housing benefits claim was qualified as some overpayments were incorrectly classified as either claimant or local authority error. We are currently undertaking additional testing to quantify the impact.

Table 1 summarises the results of my grants certification work.

Table 1: 2010/11 Grant Claims

Scheme	Value (£)	Amendments to the claim required?	Qualifications?	Date certified
National non-domestic rates return	154,909,390	Yes	Yes	September 2011
Pooling of housing capital receipts	1,494,480	Yes	No	September 2011
Disabled facilities	459,000	No	No	October 2011
Housing finance base data return	n/a	No	No	October 2011
Sure start, early years and childcare, and aiming high for disabled children grant	9,937,542	No	No	October 2011
Teachers' pensions return	8,871,720	No	No	October 2011
Housing and council tax benefits scheme	162,665,468	Yes	Yes	TBC
Housing revenue account subsidy	13,799,756	TBC	TBC	TBC
New deal for communities	2,890,775	TBC	TBC	TBC

### Wormwood Scrubs Charitable Trust

The Council is sole trustee to Wormwood Scrubs Charitable Trust. The Council have appointed me as auditor to the charity under Section 43 of the Charities Act 1993. My audit work is substantially complete and I plan to issue an unqualified opinion on the financial statements in December 2011.

# Closing remarks

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I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 8 December 2011 and will provide copies to all board members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Opinion audit plan	January 2011
Annual Governance Report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Final accounts memorandum	October 2011
Wormwood Scrubs Charitable Trust auditor's report giving the opinion on the financial statements	December 2011
Annual audit letter	December 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

The Audit Commission's in-house Audit Practice currently undertakes the majority of audits for local public bodies. In July 2011, Department for Communities and Local Government Ministers confirmed their preference for transferring this work to the private sector through a contractual outsourcing exercise. The Audit Commission is therefore carrying out a procurement process to give private sector bidders the chance to compete for this audit work. This will mean all the Audit Commission's in-house work undertaken by the Audit Practice, including the Council's audit, will be outsourced from the audit of the 2012/13 accounts. The Audit Commission itself will remain in place to oversee the contracts and its other statutory functions, but will be significantly smaller following the outsourcing.

Against this background, my focus remains:

- fulfilling my remaining responsibilities and delivering the Council's 2011/12 audit to the high standards the Council expects; and
- managing a smooth transition to the new audit provider for 2012/13.

Jon Hayes  
District Auditor  
November 2011

# Appendix 1 – Fees

	Actual (£)	Proposed (£)	Variance (£)
Council scale fee	400,000	400,000	0
Pension fund scale fee	35,000	35,000	0
Grant claim certification work	75,000*	110,000	35,000
Non-audit work	0	0	0
<b>Total</b>	<b>510,000</b>	<b>545,000</b>	<b>35,000</b>
Wormwood Scrubs Charitable Trust	11,500	11,500	0

The Audit Commission is paying a rebate of £36,907 to you in respect of the financial year 2010/11 as part of its strategy to reduce audit costs for audited bodies. This rebate is not included in the figures above.

\* Grant fees are estimated based on the likely time required to complete all certification work

# Appendix 2 – Glossary

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## **Annual governance statement**

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

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

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

## **Audit opinion**

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

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

## **Opinion**

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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