

Annual Audit Letter

City of Westminster Council

Audit 2008/09

December 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

This annual audit letter summarises the findings from my 2008/09 audit. It includes messages arising from the audit of the Council's financial statements and the results of the work I have undertaken to assess the Council's arrangements to secure value for money in its use of resources.

Audit opinion

- 1 I issued an unqualified opinion on the financial statements of the Council and its pension fund on 30 September 2009. I also issued an unqualified opinion on the Council's Whole of Government Accounts (WGA) submission to the Department of Communities and Local Government (CLG) on 13 November 2009.
 - 2 I have not issued a certificate closing the 2008/09 audit as I am currently considering an objection from a local elector. I have also yet to review the 2008/09 pension fund annual report which officers are currently preparing in accordance with the CLG timetable.
 - 3 Since my last annual audit letter in February 2009, I have concluded my 2007/08 audit and issued my certificate. There are no matters to bring to the Council's attention.
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Value for money and use of resources

- 4 I issued an unqualified value for money conclusion on 30 September 2009 stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.
 - 5 I have also assessed how the Council uses its resources in line with the new methodology developed by the Audit Commission. I have concluded that the Council performs well overall and has demonstrated excellent performance in aspects of its arrangements for managing its finances and governing its business.
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Actions

- 6 Recommendations are shown within the body of this annual audit letter and have been agreed with the Council.
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Independence

- 7 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.
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Financial statements and annual governance statement

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

Significant issues arising from the audit

- 8 I reported the significant issues arising from my audit of the Council's financial statements and its pension fund to the Audit and Performance Committee on 17 September 2009 in my annual governance reports. Additional key issues arising from the completion of my audit work were discussed with the chairman of that committee in accordance with the delegated authority agreed at that meeting.
- 9 I issued unqualified opinions on the financial statements on 30 September 2009. There were no material amendments, although a number of non-trivial amendments were made as a result of the audit.
- 10 Whilst improvements were noted this year, for example in the preparation of the pension fund financial statements and supporting working papers, the Council's arrangements for clearing outstanding audit queries late in the audit process and producing the final, amended financial statements required improvement. Indeed, a final set of signed statements was not received by audit until late on 30 September 2009.
- 11 The WGA consolidation pack was not provided for audit until 7 October 2009, after CLG's 1 October 2009 deadline for auditors to submit audited returns. I subsequently issued an unqualified WGA opinion on 13 November 2009.
- 12 I have discussed with officers how the audit process may be improved next year and have made some more detailed recommendations in the final accounts memorandum.

Material weaknesses in internal control

- 13 I did not identify any weakness in the design or operation of an internal control that might result in a material error in the Council's financial statements of which the Council is not aware. A number of significant internal control issues have, however, arisen with regard to the Council's accounts payable and receivable systems, where Internal Audit were only able to provide 'limited assurance' that the controls on which the Council relies to manage the systems were operating effectively. I was therefore unable to place reliance on controls testing to provide me with the required assurance over the accuracy of year-end figures produced by those systems. I therefore had to undertake substantive testing in respect of income/debtors and expenditure/creditors, significantly increasing required audit work.

Financial statements and annual governance statement

Recommendations

- R1** Deliver improved arrangements for 2009/10 for the clearance of audit queries and the production of the final, amended financial statements.
- R2** Ensure that key controls in the accounts payable and accounts receivable systems are reviewed and strengthened, and that Internal Audit recommendations are promptly actioned.

International Financial Reporting Standards (IFRS)

- 14** The introduction of IFRS in the public sector raises significant challenges for councils to ensure arrangements are in place if they are to produce timely and accurate IFRS-compliant accounts for 2010/11. Officers have set up a project development team and made a start assessing the potential impact by reviewing the Council's financial information to ensure it can meet the reporting requirements.
- 15** Experience in other sectors has shown that, despite an apparently long lead in time, it is important to maintain focus and continue to plan for the early completion of required work. It is also important that the Council has the capacity in place to deliver assessments in the key risk areas of leases, contracts and group accounts. Members should therefore scrutinise and monitor progress against the Council's IFRS plan and timetable on an ongoing basis.

Recommendation

- R3** Ensure the preparations for implementing IFRS proceed to plan and are subject to ongoing Member scrutiny.

Value for money and use of resources

I assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

I also considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

Value for money conclusion

- 16** I assessed the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources against criteria specified by the Audit Commission. The Audit Commission specifies each year which of the use of resources key lines of enquiry (KLOE) are the relevant criteria for the value for money conclusion at each type of audited body. My conclusions on each of the areas specified for 2008/09 are set out in Appendix 1.
- 17** I issued an unqualified value for money conclusion on 30 September 2009, stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Use of resources judgements

- 18** From 2008/09, the use of resources assessment forms part of the Comprehensive Area Assessment (CAA) and comprises three themes that focus on:
- sound and strategic financial management;
 - strategic commissioning and good governance; and
 - the management of natural resources, assets and people.
- 19** In seeking to foster continuous improvement, the Audit Commission introduced a more rigorous and broader based methodology for assessing use of resources in 2008/09. The three themes are informed by nine detailed KLOE and the assessment criteria are more stringent than previously, with a focus on outcomes for the local communities rather than internal processes. Members should take this into account when considering relative performance between 2008/09 and previous years.
- 20** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each KLOE using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. This assessment is integrated with the value for money conclusion reported above. A score of 2 indicates an adequate performance for the purposes of that conclusion.

Value for money and use of resources

- 21** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 22** The Council has been assessed as performing well, level 3, in its overall approach to use of resources. The Council's use of resources theme scores are shown in table 1 below. The scores for the nine underlying KLOE are summarised in Appendix 1.

Table 1 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances How effectively does the Council manage its finances to deliver value for money?	3
Governing the business How well does the Council govern itself and commission services that provide value for money and deliver better outcomes for local people?	4
Managing resources How well does the Council manage its natural resources, physical assets and people to meet current and future needs and deliver value for money?	3

- 23** The Council has demonstrated a number of areas of excellent performance, showing notable and innovative practice, covering:
- understanding of costs and performance and achieving efficiencies;
 - commissioning and procuring of quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money;
 - promoting and demonstrating the principles and values of good governance; and
 - managing risks and maintaining a sound system of internal control.
- 24** Further detail on my findings and conclusions was set out in the use of resources report issued in November 2009. The Council will need to continue to innovate and demonstrate achievement of outcomes across all areas of the KLOE to maintain and improve further its scores.

Local risk work

- 25** My assessments were informed by a programme of risk-based reviews. Key issues are set out at Table 2 overleaf.

Table 2 Risk-based reviews

Review	Key issues
Worksmart	<p>Worksmart is a highly successful, innovative project, designed to use technology supported business process re-engineering to reduce costs and deliver efficiency savings. The project is supported by strong, clear leadership from Members and senior managers. Effective leadership helps to create the right environment to drive out and maximise benefits. Whilst financial savings quantification is developed, with annual savings of £13m and cumulative cash savings of £21m identified to the end of 2008/09, more can be done to quantify non-financial benefits.</p>
Health inequalities	<p>The Council has established robust arrangements with NHS Westminster to tackle health inequalities and is deploying resources effectively in support. There are, however, some areas where further improvement can be made, in particular:</p> <ul style="list-style-type: none"> • increased engagement with GP and practice based commissioners could deliver greater impact on local health outcomes; and • increased engagement with provider organisations could enhance capacity.
ICT disaster recovery	<p>The Council's arrangements for IT disaster recovery are strong in a number of aspects. It has made a significant commitment to planning and testing the arrangements to an extent beyond that seen at many other local authorities, but now needs to:</p> <ul style="list-style-type: none"> • complete its identification of business critical systems and plan back-up and recovery requirements on a full analysis of business risk; and • consolidate the various elements of ICT disaster recovery planning into an overall plan.
Contract management follow up	<p>The Council continues to demonstrate good contract management practice and processes overall. The Council has made good progress in addressing the recommendations of our previous review.</p>

Recommendation

- R4** Implement the recommendations from the use of resources report and the risk based reviews, in particular to:
- define the non-financial benefits that a project should achieve, in measurable terms wherever possible, establishing the baselines and the measures that will be used to assess delivery; and
 - strengthen IT disaster recovery arrangements.

Value for money and use of resources

The economic recession

- 26** The economic downturn and banking crisis is having a significant impact on public finances and the bodies that manage them. Although there is an immediate impact on treasury management, there is a wider and more fundamental impact on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are also further challenges for policy priorities where patterns of demand for services are changing.
- 27** Whilst the recession has had an immediate impact on the Council's balance sheet at 31 March 2009, with a £350m fall in the value of fixed assets and a decrease in interest on investments, the Council has made a positive response through its City Recovery Programme. The Council has recognised that meeting its financial targets from 2009/10 will be challenging in the current economic climate and has budgeted to use reserves, whilst instigating further efficiency savings, to address the short-to-medium term impact. My 2009/10 audit programme will consider the Council's response to the economic downturn in more detail, informing my 2009/10 use of resources judgement.
- 28** My 2007/08 annual audit letter noted the Council's exposure to potential losses of funds deposited with defaulting Icelandic banks. The Council responded quickly, bringing in external advisors to review both its treasury management strategy and its treasury management operations. A number of recommendations were made to strengthen personnel and procedures, which have since been implemented. A revised treasury management strategy was approved by Cabinet in April 2009. The Council continues to monitor the recovery process on an ongoing basis, although the 2008/09 accounts reflect that £4.5m of the funds on deposit with Icelandic banks may prove to be uncollectable. The robustness of the Council's ongoing approach to maintaining its financial standing means it is well placed to manage any impact from its exposure.

National Fraud Initiative (NFI)

- 29** The Audit Commission's NFI matches data across different sectors. Potential matches could indicate fraudulent activity. The Council has strong arrangements for responding to potential fraud risks identified through the NFI data matching exercise, with a high percentage of potential matches investigated in comparison to other London Boroughs.

Grant claims

- 30** The Council prepares its significant grant claims well. Its arrangements to support the preparation of smaller grants have also improved, with a quality review process undertaken by the grant claims co-ordinator. However, there is scope for further improvement in the preparation of grant claims going forward. Actions are being agreed with officers.

Organisational assessment

- 31** During 2009, the Audit Commission introduced new arrangements for the assessment of performance, known as organisational assessment. This forms part of the CAA which assesses public sector bodies within a geographical area. Details can be found on the Audit Commission website at: <http://www.audit-commission.gov.uk/localgov/audit/CAA/Pages/oneplace.aspx>.

Closing remarks

- 32** I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present it to the Audit and Performance Committee in February 2010. Copies will also be provided to all Members.

Audit fees

- 33** My audit plan presented to the June 2008 Audit and Performance Committee contained my proposed fee for the 2008/09 audit. Table 3 shows the outturn.

Table 3 2008/09 audit fees

	Actual (£000)	Proposed (£000)	Variance (£000)
Financial statements and annual governance statement	292	282	10
Value for money/use of resources	113	113	-
Total audit fees	405	395	10
Pension fund	38	38	-
Total (excluding grant certification)	443	433	10

-
- 34** An additional fee of £10,000 was agreed with the Council in September 2009 for the audit of the 2008/09 financial statements, reflecting the issues discussed earlier in this letter.
- 35** Additional audit work has been incurred in respect of matters raised with me by members of the public. These mainly relate to parking enforcement issues and include an objection to the 2008/09 financial statements. I will need to raise an additional fee, although, as this work remains in progress, I am currently unable to provide an estimate.
- 36** My audit plan for 2008/09 estimated the fee for grant certification work to be £101,000. As this work is still in progress, I cannot confirm the total fee charged, but it is likely to be within the estimated figure.

Audit reports

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

Table 4 Reports issued during 2009

Report	Date issued
Audit plan	April 2008
Supplementary opinion letter	April 2009
Worksmart benefits realisation report	September 2009
Annual governance report	September 2009
ICT business continuity report	October 2009
Health inequalities report	November 2009
Use of resources report	November 2009
Final accounts memorandum	November 2009
Contract management follow up	November 2009

Acknowledgement

38 The Council has taken a positive and constructive approach to the audit. I would like to thank all staff for their support and co-operation during the audit.

Michael Haworth-Maden
 District Auditor
 December 2009

Appendix 1 – Use of resources scores and conclusions

1 The following table summarises the scores and conclusions for the individual KLOE.

Table 5

Themes (in bold) and key lines of enquiries	Use of resources score	Adequate arrangements for the value for money conclusion?
Managing finances		
Planning for financial health	3	Yes
Understanding costs and achieving efficiencies	4	Yes
Financial reporting	3	Yes
Governing the business		
Commissioning and procurement	4	Yes
Use of information	3	Yes
Good governance	4	Yes
Risk management and internal control	4	Yes
Managing resources		
Natural resources	3	Yes
Strategic asset management	3	Yes
Workforce planning*	n/a	n/a

* Workforce planning will be assessed for the first time for 2009/10.

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
5	R1 Deliver improved arrangements for 2009/10 for the clearance of audit queries and the production of the final, amended financial statements.	3	Peter Carpenter and John Parmenter	Agreed	Work has already started on drafting the timetable for the closure of the 2009/10 accounts. It is anticipated that through better joint planning and earlier production of the draft statement of accounts, staff resources will be available to resolve all audit queries to the agreed timescales.	31 March 2010
5	R2 Ensure that key controls in the accounts payable and accounts receivable systems are reviewed and strengthened, and that Internal Audit recommendations are promptly actioned.	3	Peter Carpenter and Martin Hinckley	Agreed	Internal Audit work in these areas with any outstanding procedural issues due to be resolved in January/February.	28 February 2010
5	R3 Ensure the preparations for implementing IFRS proceed to plan and are subject to ongoing Member scrutiny.	3	John Parmenter	Agreed	A detailed plan is in place with a clear associated governance structure. Grant Thornton have been appointed to support the review and implementation process and investment in new asset management software has been completed. A full report on IFRS is planned to go to the February 2010 Audit & Performance Committee.	2 February 2010

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	<p>R4 Implement the recommendations from the use of resources report and the risk based reviews, in particular to:</p> <ul style="list-style-type: none"> define the non-financial benefits that a project should achieve, in measurable terms wherever possible, establishing the baselines and the measures that will be used to assess delivery; and strengthen IT disaster recovery arrangements. 	2	Peter Carpenter and Alastair Gilchrist	Agreed	Initial Use of Resources review/preparation meeting for 2009/10 is on the 15 December. These items will be discussed and action plans implemented for their delivery.	31 January 2010

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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