

Annual Audit Letter

Hounslow London Borough Council

Audit 2008/09

November 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 report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit opinion

- 1 I issued an unqualified opinion on the Council's financial statements and those of the Pension Fund on 30 September 2009. I also issued an unqualified opinion upon the Council's Whole of Government Accounts submission to the Department of Communities and Local Government (CLG) on 1 October 2009.
 - 2 I issued an unqualified opinion on the pension fund accounts included in the Council's Pension Fund Annual report on 25 November 2009. The report was prepared in accordance with the Council's own plans and ahead of the Department of Communities and Local Government (CLG) deadline of 1 December 2009.
 - 3 I certified the conclusion of the Council's 2008/09 audit on 25 November 2009.
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Financial statements

- 4 I reported the significant issues arising from my audit of the Council's financial statements and that of the Council's pension fund to the Audit Committee on 24 September 2009 in my Annual Governance reports. These reports were subsequently updated and re-issued with my final comments.
 - 5 I identified four material misstatements to the financial statements which management amended. None of these amendments had an impact on the level of the Council's General Fund or Housing Revenue Account (HRA) reserves.
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Value for money (VFM)

- 6 I issued on 30 September 2009 an unqualified VFM conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.
 - 7 Under the new Use of Resources (UoR) framework which has three themes, I assessed the Council as performing strongly against the Governing the Business theme and performing adequately against the Managing Finances and Managing Resources themes.
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Actions

- 8 My audit recommendations are shown within the body of this report and have been agreed with the Council. An Action Plan to address these recommendations is currently being prepared by the Council.

Independence

- 9 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

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

- 10 I issued an unqualified opinion on the Council's financial statements and those of the Pension Fund on 30 September 2009. I also issued an unqualified opinion upon the Council's Whole of Government Accounts submission to the Department of Communities and Local Government (CLG) on 1 October 2009 and on the pension fund accounts in the Pension Fund Annual report on 25 November 2009.
- 11 I reported the significant issues arising from my audit of the Council's financial statements and that of the Council's Pension Fund to the Audit Committee on 24 September 2009 in my Annual Governance reports. These reports were subsequently updated and re-issued with my final comments.
- 12 I identified four material misstatements to the financial statements which management amended. None of these amendments had an impact on the level of the Council's General Fund or HRA reserves.
- 13 Council officers are to be commended for their co-operation with the audit process in spite of a reduction in staffing levels. Their assistance facilitated the completion of the opinion audit to the required deadline.

Material weaknesses in internal control

- 14 In my June 2009 interim report to the Audit Committee, I had commented that there were gaps in some areas in the operation of financial controls during the year, for example, payroll, purchase ledger and fixed assets. Steps were subsequently taken by the Council to improve controls which assisted me in reaching my opinion on the Council's accounts. Action now needs to be taken to ensure that these improvements are embedded in 2009/10.

Recommendation
R1 Embed the actions taken to address the recommendations from the 2008/09 internal and external audit reviews of financial systems.

Accounting Practice and financial reporting

- 15 I considered the qualitative aspects of your financial reporting and identified the following key areas for improvement.
- Debtor and creditor balances were materially overstated as the Council had not cleared balances from a significant number of holding and suspense accounts.
 - The Housing Revenue Account (HRA) did not reflect all relevant transactions such as the impairment of the Council's housing stock.
 - The valuations of some secondary schools had been undertaken on an incorrect basis.
 - The cashflow statement provided for audit could not be reconciled to the working papers provided to support it.

Recommendation

- | |
|---|
| R2 Ensure that action is taken to address the recommendations set out in my Annual governance reports. |
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International Financial Reporting Standards (IFRS)

- 16 From 2010/11, all local government organisations will be expected to prepare IFRS compliant financial statements. This has significant implications for the way in which councils prepare their annual financial statements, particularly with regard to accounting for fixed assets, leases and Private Finance Initiative (PFI) schemes
- 17 Experience from the private sector and NHS bodies confirm that an early start and good planning is essential to ensure a smooth transition to IFRS. The Audit Commission and its appointed auditors are committed to helping councils through this process. A briefing for councils is available on the Audit Commission website [IFRS Briefings - LG](#). Future briefings will keep councils informed of key developments and their implications
- 18 I have undertaken initial work to assess the Council's progress in implementing the requirements of IFRS. This has found that while there is a good awareness of the implications of IFRS in the Finance department, engagement of other departments who will be affected by IFRS is still at an early stage.

Recommendation

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|---|
| R3 Action should be taken to assess the progress made to implement IFRS and any further support needed to meet the required deadlines. |
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Value for money and use of resources

I 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.

I also 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 (VFM) conclusion.

VFM conclusion

- 19 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. The Audit Commission specifies each year, which of the use of resources key line of enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas assessed this year are set out in Appendix 1.
- 20 I issued an unqualified 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

- 21 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. Level 1 represents a failure to meet the minimum requirements at level 2.
- 22 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.
- 23 The Council's use of resources theme scores are shown in Table 1 below. The key findings and conclusions for the three themes, and the underlying KLOE, are set out in my detailed report.

Table 1 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	3
Managing resources	2

24 The 2009 assessment was a new, more challenging assessment with the focus very much on outcomes. The Council has performed strongly against the Governing the Business theme and has met the minimum standards required for the remaining two themes. My key messages emerging from this work are set out below.

Managing finances

- 25 The Council has a robust medium term financial strategy and a good track record of managing spending within budget. It has established a sound level of reserves based on a risk assessment and has made efficiency savings which has allowed it to keep council tax rises to zero per cent for three years. The Council produces reliable financial information for in year monitoring and also engages well with internal and external stakeholders in developing its financial plans.
- 26 The Council understands its costs and has reduced them in areas it has prioritised through benchmarking and other initiatives. However, overall costs are still relatively high per head of population and need to be kept under review.
- 27 The Council's financial reporting arrangements are generally good but there are opportunities to improve the quality of the accounts in some areas, including the supporting working papers.

Governing the business

- 28 The Council's procurement and commissioning arrangements are continuing to develop, particularly with partners, but need to be supported by an up to date strategy to ensure that there is greater clarity about expected outcomes. However, the Council's monitoring and delivery arrangements are well established and are closely aligned to its strategic priorities and supported by reliable data. These have been commended by the Care Quality Commission for adult services. These arrangements also cover business critical and key performance indicators drawn from the Local Area Agreement, as well as, information management and security matters.
- 29 There is a clear governance framework in place. The Council has reviewed its governance arrangements against the principles and standards set out in CIPFA's 'Delivering Good Governance in Local Government'. There is a protocol on relationships between councillors and officers where responsibilities are clearly defined and Member involvement in the business of the Council is proactive at ward level and through the five area committees.

Value for money and use of resources

- 30 The Council has good departmental risk management arrangements in place but the corporate risk register has not been updated May 2007. The Council is proactive in its efforts to combat fraud. Internal controls are adequate but steps need to be taken to ensure that they are embedded for some key financial systems.

Managing resources

- 31 This theme covers the use of natural resource by the Council and its management of fixed assets. The Council meets minimum standards across this theme and is in the early stages of being able to demonstrate some outcomes.
- 32 The Council's approach to sustainability is still relatively new though it was commended at the 2009 Local Government Business Awards for its Green Toolkit. The Council has a clear understanding of its own consumption of natural resources and has completed an emissions baseline of the level of CO2 emissions. Some 84% of schools now have a travel plan and car use to schools has also fallen by 8.4%. However, much of the work is at an early stage and the Council does not yet have a climate change strategy.
- 33 The Council has an Asset Management Plan which is linked to the Council's Capital Asset Strategy and the overall budget and financial strategy. The Council also has advanced plans to implement a new fixed asset register in 2009/10 which will address weaknesses in the current register. There is also effective collaboration with Hounslow Primary Care Trust (PCT), for example, through the joint use of a building that was underutilised by the Council to establish an intermediate care centre to help with hospital discharge..
- 34 Specific recommendations emerging from our use of resources work are set out below.

Recommendations	
R4	Demonstrate clear outcomes and achievements to inform the 2009/10 use of resources assessment.
R5	Update and implement the commissioning and procurement strategy.
R6	Ensure that the weaknesses identified by external audit with regard to risk management are addressed.
R7	Develop the approach to sustainable use of natural resources and develop a climate change strategy.

Specific risk-based reviews

- 35 I carried out the following specific pieces of work to inform my use of resources and VFM conclusion.
- Your business at risk (IT survey).
 - Review of regeneration.
 - Review of the Council's performance Improvement programme.

Your Business at Risk (YB@R)

- 36 Organisations must address information governance issues if the increased use of new technology is not to be matched by a decrease in public confidence in the security of the information held by public bodies.
- 37 Most respondents to our YB@R staff survey were clear that all Council staff have a part to play in IT security arrangements. However, there remains scope to improve staff awareness of:
- secure mechanisms available to share personal data outside the Council;
 - secure methods of accessing Council data when working out of the office; and
 - the need to report information security incidents.
- 38 My findings and recommendations were reported to the Council in May 2009 and action to address the matters raised is in hand.

Review of economic development arrangements

- 39 We carried out a review of the Council's arrangements for promoting economic development in the local area. The key aim of the review was to assess how the Council and its partners are facilitating an increase in economic activity to raise the standard of living enjoyed by residents.
- 40 The Council has set out clearly its objectives and approach to economic development in a number strategies and plans. Good use is made of up to date data by relevant departments. Our review also found examples of good consultation arrangements in some departments. However, there are opportunities for a more co-ordinated and coherent approach to addressing economic development through:
- the development of an overarching employment and skills strategy to guide economic development;
 - an improvement to the quality of data used to drive economic policies; and
 - the development of a corporate consultation strategy which builds on examples of good practice which already exists in some areas.

The results of this review were considered by the Executive on 14 July 2009 and the Council is now addressing the recommendations.

Review of the Council's performance improvement programme

- 41 The Council has been implementing a Performance Improvement Programme (PIP) with the aim of implementing savings of £53m over the period 2007/08 to 2010/11. We carried out a review to assess the extent to which the Council had achieved its savings target and secured value for money for local residents.
- 42 Our overall conclusion is that the Council has achieved significant savings through the PIP. It has become more efficient and has aligned spending more effectively with priorities through its medium term financial planning.

Value for money and use of resources

43 We have made recommendation designed to assist the Council in maintaining the efficiencies resulting from the PIP. These include:

- ensuring that Council officers have sufficient capacity and skills to continue to deliver the efficiencies and saving identified in the PIP; and
- ensuring that robust monitoring arrangements are in place for monitoring the impact of the PIP on the delivery of local services, particularly for the most vulnerable groups.

The Council is currently considering the findings set out in our detailed report.

Recommendation

R8 Ensure that the agreed recommendations set out in our risk based performance reports are implemented.

Economic downturn

44 The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. There are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams.

45 This impacts on the audit and as part of my responsibility, I have reflected on the wider environment, specific issues and risks and the Council's response. In particular I have noted that:

- the Council is closely monitoring the implications of the recession on services;
- the Council has embedded treasury management arrangements in place and had no investments in Icelandic banks at the time of their collapse. To date the Council has not suffered any loss of income from defaulted investments and it has not needed to impair its investment assets; and
- following audit amendments the Council financial statements properly recorded the impaired asset values resulting from the fall in land and property values in London.

I will continue to assess the Council's response to the economic downturn during my 2009/10 audit.

National Fraud Initiative (NFI)

46 The National Fraud Initiative (NFI) is a computerised data matching exercise designed by the Audit Commission to identify overpayments to suppliers and benefit claimants and to detect fraud perpetrated on public bodies. The referrals from the current exercise were released to participating bodies in February 2009.

- 47 The Council has started its review and to date has focused on a number of areas including housing benefits and blue badges cases. There is still work to be done to resolve queries identified through this matching exercise. However, to date:
- one property has been recovered following investigation of a fraudulent claim; and
 - Civil Enforcement Officers have been notified of blue badge permit numbers for all deceased pensioners. This will enable officers to check and identify where blue badges are being used fraudulently.

Recommendation

- R9 Complete the review of the NFI data matches and ensure that all identified issues are properly investigated and action is taken.

Grant claims

- 48 Central government departments require certain claims from local authorities in respect of specified expenditure to be audited in accordance with agreed criteria. Schemes requiring audit range from substantial areas of expenditure such as housing benefits to relatively small schemes such as the Single Programme. When certifying expenditure on the schemes, I am required to consider whether there are errors in the original claims which require amendment or whether there are issues arising which I am required to report to the grant paying department. Claims are audited in accordance with deadlines specified by the grant paying department.
- 49 For the 2008/09 financial year, there were ten claims which required audit. Work remains in progress on four claims which are programmed to be completed before December 2009. Of the six claims where audits have been completed, five have been subject to amendments and four have had qualification letters issued at audit. These amendments or qualifications to the grant claims have been completed to meet departmental requirements. Officers are working with my team to strengthen arrangements for these grant claims for future years.

Organisational Assessment

- 50 During 2009, the Audit Commission introduced new arrangements for the assessment of council performance, known as the organisational assessment. The organisational assessment forms part of the Comprehensive Area Assessment which assesses public sector bodies within a geographical area. Details of how Hounslow Council and the local area have been assessed by the Audit Commission can be found after 9 December 2009 on the our website at:
www.audit-commission.gov.uk/localgov/audit/CAA/Pages/oneplace.aspx

Closing remarks

- 51** I have discussed and agreed this letter with the Chief Executive and the Director of Finance. My successor, Andrea White, will present this letter at the Audit Committee in early 2010 and will provide copies of the letter to all council members.
- 52** Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued to the Council during the year.

Table 2

Report	Date issued
Audit Plan	July 2008
Opinion Audit Plan	June 2009
Annual governance report	September 2009
Your Business at Risk	May 2009
Final accounts audit report	November 2009
Economic regeneration	February 2009
Review of the Performance Improvement Plan (PIP)	November 2009
Annual Audit letter	November 2009

Audit fees

- 53** I reported my fee proposals as part of the Audit Plan for 2008/09. The table below reports the outturn fee against that plan.
- 54** As the working papers provided in support of the financial statements were incomplete in some areas, an additional fee was charged to conclude the audit of the financial statements.

Table 3

	Actual	Proposed	Variance
Financial statements and annual governance statement (excluding pension fund)	212,150	195,650	16,500
Value for money	129,000	129,000	0
Total audit fees	341,150	324,650	16,500
Pension fund audit fee	38,000	38,000	0

- 55 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.

Kash Pandya
District Auditor

30 November 2009

Appendix 1 – Use of resources scores

- 1 The use of resources assessment consists of three themes, each of which is underpinned by key lines of enquiry (KLOE). The score against each KLOE is amalgamated to arrive at an overall theme score. These scores are detailed in the table below.
- 2 The use of resources assessment is also used to inform my annual conclusion on the Council's arrangements for securing economy, efficiency and effectiveness (the value for money conclusion).

	Score	VFM criterion met?
1. Managing finances	2	
1.1 Financial planning	3	Yes
1.2 Understanding costs and achieving efficiencies	2	Yes
1.3 Financial reporting	2	Yes
2. Governing the business	3	
2.1 Commissioning and procurement	2	Yes
2.2 Data quality and use of information	3	Yes
2.3 Good governance	3	Yes
2.4 Risk management and internal control	2	Yes
3. Managing resources	2	
3.1 Use of natural resources	2	Yes
3.2 Strategic asset management	3	Yes

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendations						
5	R1 Embed the actions taken to address the recommendations from the 2008/09 internal and external audit reviews of financial systems.	3	Stephen Fitzgerald	Yes	Successful implementation of actions will be monitored through all relevant management functions.	Ongoing
6	R2 Ensure that action is taken to address the recommendations set out in my Annual governance reports.	3	Hugh Godsland	Yes	Recommendations are subject to regular review through all relevant management functions.	Ongoing
6	R3 Action should be taken to assess the progress made to implement IFRS and any further support needed to meet the required deadlines.	2	Hugh Godsland	Yes	A detailed action plan is being developed, including assessment of resource requirements.	31 January 2010
9	R4 Demonstrate clear outcomes and achievements to inform the 2009/10 use of resources assessment.	3	Chris Bates	Yes	Preparatory work on the 2009/10 Use of Resources assessment will address the issues raised.	31 March 2010
9	R5 Update and implement the commissioning and procurement strategy.	2	Paul Kennelly	Yes	The Council's procurement strategy is currently being reviewed and will be issued shortly.	31 March 2010
9	R6 Ensure that the weaknesses identified by external audit with regard to risk management are addressed.	3	Ajay Kwatra	Yes	The matters identified will be reviewed and corrective action taken as necessary.	30 June 2010

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R7 Develop the approach to sustainable use of natural resources and develop a climate change strategy.	2	Mike Jordan	Yes	Work currently in hand will be further developed and appropriate recommendations made to Executive and Borough Council.	Ongoing.
11	R8 Ensure that the agreed recommendations set out in our risk based performance reports are implemented.	3	IT – Willie Griffin	Yes	Work is continuing on the development of the IT function. The recommendations will be addressed as part of this work.	30 June 2010
			Regeneration – Mike Jordan	Yes	The results of this review were reported to Executive on 14 July. Work is currently in hand to implement the recommendations.	30 June 2010
			PiP – Mark Gilks	Yes	The recommendations are being embedded in the Council's management processes.	Ongoing.
12	R9 Complete the review of the NFI data matches and ensure that all identified issues are properly investigated and action is taken.	3	Ajay Kwatra	Yes	This will be addressed as part of the work of Internal Audit during 2010/11.	30 June 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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