

Annual Audit Letter

London Borough of Ealing

Audit 2008-2009

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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any 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 have issued unqualified opinions on the Council's financial statements and on the Pension Fund on 30 September 2009. I have 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 have not issued a certificate on my 2008/09 audit, as my work remains in progress in respect of the Council's Pension Fund. The Pension Fund Annual Report is not required to be published by the CLG until 1 December. My audit work to issue an opinion on the pension fund annual report relies upon the availability of the final Pension Fund Annual Report. The Council is currently preparing the report in accordance with the CLG deadline.
 - 3 Since my last letter, I have concluded my 2007/08 audit and issued my certificate. There are no issues arising to bring to your attention.
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Financial Statements

- 4 I reported the significant issues arising from my audit of the Council's financial statements and my audit of the Council's pension fund to the Audit Committee on 23 September 2009 in my Annual Governance Reports. These reports were subsequently updated and re-issued with my final comments.
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Value for money and Use of Resources

- 5 I issued an unqualified value for money conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources for the financial year 2008/09 on 30 September.
 - 6 I have assessed how well the Council uses its resources in line with new methodology developed by the Audit Commission. I have concluded that the Council has performed strongly overall and demonstrated excellent performance in some aspects of managing its finances.
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Actions

- 7 Recommendations are shown within the body of this report and have been agreed with the Council.

Independence

- 8 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 Ealing accounts for its stewardship of public funds.

- 9 I reported the significant issues arising from my audit of the Council's financial statements and my audit of the Council's pension fund to the Audit Committee on 23 September 2009 in my Annual Governance Reports. These reports were subsequently updated and re-issued as final at 5 October. The key issues arising from both audits, which the Council is addressing, are summarised below.

Significant issues arising from the audit

- 10 My reports identified adjusted and unadjusted misstatements to both the Council's and the Pension Fund financial statements. The most significant issue arising was the Council's incorrect treatment of internal recharges which required an adjustment of £47m to the gross Income and Expenditure. There was no resultant impact to the Council's bottom line.

Material weaknesses in internal control

- 11 Whilst I did not identify any significant items to report in respect of the Council's overall internal control arrangements, I did identify the following issues in respect of the arrangements for the Pension Fund

Investment of cash

- 12 It is important that the Pension Panel is able to demonstrate transparency in decision making in its role as steward for pension fund monies. Whilst the Pension Panel members have discussed investment opportunities, the minutes and supporting papers of Pension Panel meetings did not clearly evidence the decision making process to invest Pension Fund cash through the Council as opposed to other investment opportunities

Use of External Assurance Reports

- 13 The Pension Fund receives annual assurance reports regarding the control environment in operation at its fund managers and its custodian. Review of this information is an important part of the internal control framework for the pension fund, especially where the reports identify weaknesses. Training in the interpretation of these reports has now been provided to members at the September Pension Panel meeting. Pension Panel Members should require officers in future to bring any significant internal control weaknesses and resultant implications to their attention together with proposals for action.

Reconciliations

- 14 My audit identified differences between records held by the fund managers and the Council's custodian in respect of cash held in the Bank of New York bank account. My Annual Governance report also identified other reconciliation issues in respect of contributions and supporting papers to the "Change in Market Value of Investments" balance in the Net Assets Statement. The Council needs to ensure that reconciliations are undertaken on a timely basis, with prompt clearance of unreconciled balances.

Accounting Practice and financial reporting

- 15 I considered the qualitative aspects of your financial reporting. Both my Annual Governance Reports on the Council's financial statements and the Pension Fund financial statements identified issues brought to the attention of the Audit Committee. The most significant items concern:

Council's financial statements

- A lack of clarity in some instances in documentation produced at audit to support the capitalisation of expenditure. Whilst the Council's internal policy is in accordance with the Statement of Recommended Practice (SORP) guidance, documentation made available does not always clearly demonstrate that the Council's policy has been followed.
- Bank statements in respect of schools are not at 31 March. As a result, the year end balances are derived by using the bank statement balance earlier on in March. The Council should review its arrangements for schools bank accounts,
- The car parking debtor is shown in the accounts as net of the bad debt provision, and the current method of calculating the debtor balance makes it difficult to evidence that the balance is fairly stated. The Council should clarify the basis of the calculation and disclosure in the financial statements in 2009/10.

Pension Fund financial statements

- The Council processed a £2.5m adjustment to the closing 2007/08 cash balance during 2008/09. The absence of a separate cash book for the pension fund means that the audit trail to support this or similar adjustments is unclear. The Council should consider whether a separate cash book should be maintained for future years.

Financial statements and annual governance statement

- 16** Both my Annual Governance Reports have made other recommendations to the Council including the items raised in this Letter. The Council should ensure that it reviews its arrangements for the preparation of both the Council's financial statements and the Pension Fund financial statements by addressing the issues I have brought to your attention.

International Financial Reporting Standards

- 17** The introduction of international financial reporting standards (IFRS) into the public sector raises significant challenges for local government to ensure arrangements are in place if they are to publish timely and accurate IFRS-compliant accounts for 2010/11. Whilst the Council has been reviewing its financial information to ensure it can meet the reporting requirements, our experience in other sectors has shown that despite an apparently long lead-in time, it is important that the Council retains its focus on IFRS issues and continues to plan for an early completion of this work.

Recommendation

- R1** The Council should review its arrangements for the production of the financial statements, including ensuring timely availability of supporting information.

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

- 18** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 1.
- 19** I issued an unqualified VFM conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Use of resources judgements

- 20** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). The methodology is different to that used in my assessment in 2008 and places more emphasis upon outcomes. Judgements have been made for each key line of enquiry (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.
- 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's use of resources theme scores are shown in Table 2 below.

Table 1 Use of resources theme scores

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

Value for money and use of resources

23 The Council has performed strongly across the three Use of Resources themes. In particular, the Council has demonstrated excellent outcomes from its arrangements for managing its finances. My detailed Use of Resources report sets out my assessment against each of the KLOEs and the individual KLOE scores are set out in Appendix 1. My key messages are set out below.

Managing Finances

- 24** The Council has some excellent processes and good examples of notable practice in its financial planning and monitoring processes, which have underpinned its track record of over £70m in efficiency savings over the last 5 years, together with service improvements and retention of resident satisfaction. The strength of the Council's processes, together with its innovative use of its efficiency dividend led to a score of 4 in financial planning.
- 25** There are also strengths in its arrangements for consulting with stakeholders. However, as reported earlier in my letter, the Council needs to focus on improving its arrangements for the production of the financial statements, including ensuring timely availability of supporting information, if it is to retain its current Use of Resources score of 3 on financial reporting.

Governing the Business

- 26** The Council can demonstrate strong performance and outcomes across all aspects of this theme. In particular, the Care Quality Commission has commended the Council's commissioning arrangements. The Council also has strong procurement processes delivering savings. However, partnership arrangements in respect of housing are not as strong as in other services. The Council is examining these arrangements and has indicated that the contract with Ealing Homes for the management of its housing stock will end in 2011. The Council faces a tough challenge to retain its focus on the delivery of existing services whilst commissioning new arrangements for housing services.
- 27** The Council also has a strong embedded performance culture and works well with partners. It has responded to a security threat to the integrity of its IT systems during 2009 and is reviewing lessons learnt to ensure that awareness of IT controls amongst its staff and key partners is promoted.
- 28** There are strong processes for managing risks, internal control and preventing and detecting fraud and corruption. The Council promotes a strong ethical culture and has implemented some new procedures, such as an enhanced vetting process, which should continue to strengthen its anti-fraud framework.

Managing Resources

- 29** The Council has aspects of strong performance in how it manages its natural resources and its fixed assets. The Council is implementing a number of key plans, such as its Total Facilities Management and Carbon Management Plans, to achieve its objectives and is at the early stage of demonstrate some good outcomes. The Council has an active approach to managing assets to provide value for money and can demonstrate the some outcomes from projects regarding rationalisation of Council premises and working with partners, for example, the Metropolitan Police Service. The key challenge for the Council is to ensure that these major initiatives have clearly defined and measurable milestones which will enable interim outcomes to be quantified.
- 30** During 2010, our assessment of how the Council manages its resources will incorporate a new theme on workforce planning.

Recommendations

- R2** The Council needs to maintain delivery of its housing services working in partnership with Ealing Homes for the duration of the remaining contract, whilst simultaneously looking to develop robust delivery mechanisms for the service beyond March 2011.
- R3** The Council should monitor the delivery of plans to ensure that it can demonstrate outcomes which match expectations against its key asset management and environmental improvement plans.

Health Inequalities

- 31** In forming my judgements, I also had regard to my work on health inequalities undertaken during 2009. My work has been undertaken by working jointly with the Council and Ealing PCT. My report has been agreed with senior officers and will be presented to the Ealing Executive.
- 32** My work found that the Council and PCT have a clear commitment to addressing health inequalities and are taking positive steps to tackle the challenges presented in a borough as diverse as Ealing. There is a good awareness of the issues being faced in the area, and the partnership has plans in place to address health inequalities.
- 33** There are clear partnership arrangements in place with the active engagement of wide range of partners including provider trusts and the voluntary sector. The partnership is working to improve the engagement of all partners such as housing and the business sector and a minority of GP practices. The partnership also actively engages the voluntary sector and communities of interest to contribute to the design and delivery of some services, but recognises that there is room to increase the use of local knowledge and better engagement with all hard to reach groups, whilst finding ways for smaller voluntary sector organisation to contribute to influencing outcomes.

Value for money and use of resources

- 34** Increasingly good use is being made of joint intelligence, information sharing and public health data between the Council and PCT to inform strategic and operation decision making. The collation of meaningful data in a useable format is a complex task, and partners know where gaps exist in their knowledge and information requirements, such as health needs of all children. There are plans in place to develop an integrated intelligence hub to support the production of timely and useful analysis. Performance management systems are also effective at monitoring the achievement of targets, with clear structures and processes in place.
- 35** The partnership is aiming to maximise its efficiency by using the existing workforce to resource the health inequalities agenda. Partners are actively contributing resources both in terms of personnel and funding. Integrated structures and some pooled funding support the delivery of activities aimed at reducing health inequalities. However the short term nature of some funding sources, for example, Choosing Health money limits the ability of projects, such as those run by Active Ealing, to forward plan, making the sustainability of programmes more difficult. In addition, workforce planning has shown that there are some limitations at the Council's partners with the availability of staff resources and their capacity to deliver appropriate training, which may mean that opportunities to address health inequalities as part of mainstream work may be missed.

Recommendation

- R4** The partnership between the Council and the PCT needs to continue to implement its plans to address health inequalities. Particular attention needs to be given to the issue of the availability of resources to continue the progress currently being made.

The Economic Downturn

- 36** The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. Although there is an immediate impact on treasury management, 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. There are further challenges for policy priorities where patterns of demand for services are changing. This impacts on my audit and as part of my responsibility, I have reflected on the wider environment, specific issues and risks and the Council's response.

37 Whilst the recession has had an immediate impact on the Council's balance sheet at 31 March 2009, with a fall in the value of fixed assets and a decrease in interest on investments, the Council has made a positive and proactive response. The Council has recognised that meeting its financial targets in 2009/10 onwards will be difficult in the current economic climate and has increased its range of financial monitoring, including the introduction of a recession scorecard focusing on key economic indicators. Its latest financial monitoring reported to the Cabinet in September 2009 clearly identifies the key financial pressures from the economic climate. The report also shows that whilst early forecasts indicate an underspend of £300k in 2009/10, current pressures on budgets may lead to an overspend of £900k at the end of the year. The Council recognises the difficulties ahead and has plans to address the areas of overspend and to maintain its track record of financial achievement.

Investments in Icelandic Banks

38 The Council was also affected by the impact of the collapse of the Icelandic banks during 2008. Overall, the Council's investments were at £2m small in relation to its investment portfolio of £180m and were made before these problems were identified. The Council has made appropriate arrangements in its accounts by recognising the risks associated with this investment and has calculated recoverability at £1.9m.

National Fraud Initiative

39 The Audit Commission's National Fraud Initiative matches data across different sectors and potential matches of data could indicate fraudulent activity. The Council has arrangements in place to investigate data matches and is working through the potential matches arising. The Council is also liaising with the Audit Commission to enable it to target potential fraud risks more promptly in future.

Grant Claims

40 Central government departments require certain claims from local authorities in respect of specified expenditure to be audited in accordance with agreed criteria. In respect of 2008/09, there are ten schemes which are subject to audit. Schemes requiring audit range from substantial areas of expenditure such as housing benefits to relatively small schemes such as the Ealing youth offer. 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.

41 For the 2008/09 financial year, there are 11 claims which require audit. Work remains in progress on four claims, which are programmed to be completed before December 2009. Of the seven claims which have been completed, three claims have been subject to amendment following audit and I have issued qualification letters in respect of three others.

Organisational Assessment

42 During 2009, the Audit Commission introduced new arrangements for the assessment of performance, known as organisational assessment. The organisational assessment forms part of the Comprehensive Area Assessment which assesses public sector bodies within a geographical area. Details of Ealing Council and the Ealing area have been assessed by the Audit Commission can be found after 10 December 2009 on the our website at:

<http://www.audit-commission.gov.uk/localgov/audit/CAA/Pages/oneplace.aspx>

Closing remarks

- 43** I have discussed and agreed this letter with the Chief Executive and the Executive Director of Finance. I presented this letter to the Audit Committee on 17 November 2009 and will make copies available to all Members.
- 44** 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.

Table 2

Report	Date issued
Annual Audit Plan	May 2008
Supplementary Opinion Plan Letter	April 2009
Pension Fund Audit Plan	April 2009
Annual Governance Report	October 2009
Use of Resources Report	October 2009
Health Inequalities Report	June 2009

Audit fees

- 45** My audit plan presented to the June 2008 Audit Committee contained my proposed fee to undertake the audit. Table 1 below shows my actual resources used for my audit.
- 46** The main variance is in respect of the pension fund audit. The additional resources required to complete my audit were due to the volume of issues arising from the audit as referred to above in this letter, together with the impact of delays in responding to audit queries.

Closing remarks

Table 3 Audit Fees for 2008/09 audit

	Actual £'000	Proposed £'000	Variance £'000
Financial statements and annual governance statement (excl. pension fund)	230	230	
Value for money	120	120	
Pension Fund	43	38	5
Total audit fees	393	388	
Non-audit work	0	0	
Total	393	388	5

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

Kash Pandya

District Auditor

25 November 2009

Appendix 1 – Use of resources scores

The following tables summarise the scores for the KLOEs assessed under the Use of Resources assessment

KLOE	Score
Managing Finances	
Planning for financial health	4
Understanding costs and achieving efficiencies	3
Financial reporting	3
Governing the business	
Commissioning and procurement	3
Use of information	3
Good governance	3
Risk management and internal control	3
Managing resources	
Natural resources	3
Strategic asset management	3

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendations						
7	The Council should review its arrangements for the production of the financial statements, including ensuring timely availability of supporting information	3	Director of Corporate Finance and Audit	Yes	<p>Council has a number of quality assurance methodologies in place with regards to producing the annual statement of accounts.</p> <p>The primary one is the “Closing Board” which will undertake a full post-mortem of the 2008-09 closing process and monitor closely the implementation of any recommendations.</p>	
10	The Council needs to maintain delivery of its housing services working in partnership with Ealing Homes for the duration of the remaining contract, whilst simultaneously looking to develop robust delivery mechanisms for the service beyond March 2011.	3	Director of Housing	Yes	<p>The Council has established a project board staffed by senior officers from across the council to oversee the implementation of the new “post ALMO” arrangements for delivering housing services.</p> <p>Cabinet will be updated regularly as the process continues.</p> <p>The Housing Management team will continue to oversee current service delivery by Ealing Homes.</p>	