

Annual Audit Letter

London Borough of Hammersmith and Fulham

Audit 2008/09

November 2009



Contents

Key messages	3
Financial statements and annual governance statement	5
Value for money and use of resources	8
Closing remarks	13
Appendix 1 – Use of resources scores	15
Appendix 2 – Action plan	16

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.
-

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 in 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) in October 2009.
 - 2** I have not issued a certificate on my 2008/09 audit because:
 - I am required to review any information published with the financial statements for consistency. However, the Pension Fund Annual Report is not required to be published by the CLG until 1 December. The Council submitted the Pension Fund Annual Report in line with the CLG deadline but after the date of the opinion on the financial statements. My review of the Pension Fund Annual Report is currently in progress; and
 - audit work in relation to matters brought to my attention by Council electors is yet to be concluded.
-

Value for money

- 3** 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 in September 2009.
 - 4** I also assessed how well the Council used its resources in 2008/09 against the Audit Commission's new Use of Resources framework. Overall, the Council is performing strongly with regard to managing its finances and governing the business themes, but with opportunities for improvement in respect of managing its resources theme.
 - 5** The Council and the local NHS primary care trust have begun to integrate the two organisations more closely. Continuing to embed these new relationships while delivering better services underpinned by robust governance arrangements that safeguard the two separate organisations will be a key challenge in the coming year.
-

Actions

- 6** Recommendations are shown within the body of this report and have been agreed with the Council. I have not repeated recommendation that have already been made in my Annual Governance Report issued in September 2009.
-

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.

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.

- 8 I issued an unqualified opinion on the Council's financial statements and on the Pension Fund in 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) in October 2009.
- 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 in September 2009 in my Annual Governance Reports. The key issues arising from both my audits are summarised below.
- 10 Overall, there were no significant adjustments required to either the Council or Pension Fund accounts. Working papers in respect of the accounts have improved from the previous year, reflecting the appointment of permanent staff into key finance roles that were previously filled by temporary staff. The Council should ensure the strength of its current finance team is maintained.
- 11 I have not issued a certificate on my 2008/09 audit because:
 - I am required to review any information published with the financial statements for consistency. However, the Pension Fund Annual Report is not required to be published by the CLG until 1 December. The Council submitted the Pension Fund Annual Report in line with the CLG deadline but after the date of the opinion on the financial statements. My review of the Pension Fund Annual Report is currently in progress; and
 - audit work is in relation to matters brought to my attention by Council electors is yet to be concluded.

Material weaknesses in internal control

- 12 I did not identify any material weaknesses in your internal control arrangements in respect of the Council accounts. However, I did find a number of areas where controls could be strengthened to facilitate an earlier conclusion of the year end financial audit. These recommendations were made as part of my interim accounts report and officers have agreed to action them.

13 I did report on weaknesses in the Pension Fund internal control environment as follows.

- There were differences between employee and employer contribution figures in the accounts and the working papers supplied by the London Pensions Fund Authority (LPFA). Whilst these were not material to the accounts, the Council should strengthen controls to ensure that its records are regularly reconciled with those of the LPFA.
- The Council operates a joint bank account for itself and the pension fund. Although this is not uncommon practice, the current accounting arrangements mean that the cash balance is a 'balancing item' within the Pension Fund accounts. As a result, it is not possible to verify the Pension Fund cash balance to an actual bank statement. It would be good practice to establish a separate bank account for the pension fund.

Accounting Practice and financial reporting

14 I considered the qualitative aspects of your financial reporting. I reported the following issues in my annual governance report in respect of the Council accounts.

- The advice received from the Council's valuers in respect of asset valuations during the year did not adequately reflect trends elsewhere in the London market or within the Borough itself. It took a significant amount of work to understand the reasons for this and demonstrate that the values in the accounts were after all materially correct. Whilst such valuation estimates can vary due to a number of factors, Future professional advice sought needs to be clearly scoped to avoid misunderstandings and also assessed by the Council for overall reasonableness.
- The accounts contain parking debts totalling £58 million, of which £54 million is over one year old in respect of old parking tickets. This debt is offset by a corresponding bad debt provision. In addition, during the year the reporting of outstanding debtors from the parking system was unreliable. This outstanding debt needs to be reviewed and written off where appropriate and the parking system reporting strengthened. As there is a sufficient bad debt provision set aside by the Council, any write off made will not impact on the bottom line financial position of the Council.
- The bad debt provision for Housing Rents and Temporary Accommodation is currently based on old methodology (i.e. based on values, rather than age of debt) and needs to be reviewed and brought into line with current good practice.
- Last year I reported that the accounting system contains some cost codes that have not moved during the year. The Council has embarked on a review of these cost codes but this had not been fully completed at the time of my audit. While these cost codes were not material to the accounts, this review process still needs to be completed to improve the accuracy of the accounts.

15 I did not report on any issues of accounting practice and financial reporting in respect of the Pension Fund accounts.

Financial statements and annual governance statement

Recommendation

R1 The Council should implement the recommendations set out in my Annual Governance Report to improve its accounts.

International Financial Reporting Standards

- 16** The introduction of international financial reporting standards (IFRS) into the public sector raises significant challenges for local government to ensure that arrangements are in place if they are to publish timely and accurate IFRS-compliant accounts for 2010/11. Our experience in other sectors has shown that despite an apparently long lead-in time, it is important for authorities to retain their focus and continue to plan for an early completion of this work.
- 17** The Council has put in place good arrangements to commence work on IFRS, including a project management board and specific work plans to address areas of high risk. The next few months will be critical to successful transition as the more technical aspects of the change are addressed. Regular monitoring of progress and support where necessary by the Audit Committee will be essential because IFRS has an impact on most parts of the Council.

Recommendation

R2 Ensure regular reporting of the progress of implementation of IFRS to the Audit Committee.

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 key line of enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body. My judgements on each of the areas assessed 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.
- 20** As part of this conclusion I carried out a review of the King Street Regeneration Project management arrangements. I concluded that sound and comprehensive arrangements had been put in place and made one recommendation for improvement concerning the need to widen consultation arrangements to ensure that business views on regeneration plans are also adequately captured and considered.

Use of resources judgements

- 21** In forming my scored use of resources judgements, I have used the methodology set out in the Audit Commission's new [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 2 below. Appendix 1 details the scores at KLOE level.

Table 1 Use of resources theme scores

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

24 The 2009 assessment was more challenging than the 2008 use of resources assessments with the focus very much on outcomes. The Council has performed strongly across the themes for financial management and governing the business and been commended for notable practice for the Customer Access Strategy. The Council has met minimum standards on the theme for managing resources where there are opportunities for improvement through better demonstration of outcomes from the actions taken. My key messages are set out below.

Managing Finances

- 25** The Council has strong medium term financial planning processes which link service and financial planning. This has facilitated a better understanding of costs of services and, through benchmarking and market testing exercises, improved value for money for some services and reductions in council tax over the last three years.
- 26** The Council is financially stable with an appropriate amount held in reserves and a track record of delivering on budget without unforeseen over/under spends. The Council identifies and monitors efficiencies through the year and can provide examples of achievements such as the £1.3 million of savings from market testing.
- 27** The accounts are prepared in line with statutory deadlines and the finance team has been strengthened during the year resulting in improved working papers and reduced costs. Financial reporting is good with consultation on the format of summary accounts with actions being taken as a result. Readers have stated they find the summary accounts informative. The Council newspaper, a key medium for engaging with electors, has won the Good Communications Award 2009.
- 28** The recession has had an immediate impact on the Council's accounts, including a fall in the value of fixed assets, decrease in interest on investments and reductions in capital receipts. However, the Council has made a positive response including clear reporting of the impact of the recession on the financial position and establishment of earmarked reserves to mitigate against risks from the downturn. The Council has also adopted a prudent approach to treasury management pending the full revision of the treasury management strategy to reflect CIPFA best practice guidance.

Governing the business

- 29** The Council can demonstrate strong performance and outcomes across most aspects of this theme. Council services have been redesigned and commissioned based on a detailed understanding of the users of services which has also led to savings and more efficient working practices. This service redesign has been nominated as notable practice that others might benefit from.
- 30** The Council produces relevant and reliable data and arrangements for data security and business continuity are in place, though the Council's Annual Governance Statements acknowledges the requirement to keep these under review. Performance indicators show a general improvement and there are examples of where action has been taken to resolve poor performance.
- 31** The Council demonstrates good governance. Members provide effective leadership and clear governance arrangements are also in place for partnerships.
- 32** Risk management arrangements are comprehensive and the prudent approach to treasury management helped guard the Council from loss during the banking crisis. Anti-fraud arrangements are in place and the Council has joint working with the police to ensure it can apply the Proceeds of Crime Act to benefits fraud. There is an effective audit committee and internal audit function in place.
- 33** A key challenge for the Council in the coming year will be to demonstrate that its closer integration with the local primary care trust brings positive benefits through reduced costs and better services for local residents while ensuring that the respective governance arrangements of the two organisations remain robust.

Managing resources

- 34** 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.
- 35** The Council understands the importance of the use of natural resources and can demonstrate some outcomes in relation to reductions in car usage amongst staff and at schools, and reductions in energy usage in some buildings. Recycling is available across the Borough and in offices. The Council has also developed a Green Procurement Guide. However, the Carbon Management Plan is still in development and the governance structures put in place to tackle green issues have yet to take effect.
- 36** The Council has an asset management strategy which is focused on achieving more efficient working practices and reducing energy consumption. There are some examples of outcomes in these areas, such as disposal of surplus assets within the Children's Department which has generated capital receipts and revenue savings. However, backlog maintenance remains an issue and the Council has not yet implemented the Corporate Asset Management system to improve the quality of performance data available for its assets. Plans are in place to work closely with the PCT and the third sector in relation to asset management, though there are not yet any outcomes in this area.

Value for money and use of resources

Use of Resources Assessment 2009/10

- 37** The 2010 assessment fieldwork will be completed in January to March 2010. This is earlier than the 2009 assessment and will include an assessment of a new KLOE on 'workforce planning'. It is important that the Council is prepared to demonstrate its significant outcomes in line with this timetable and in the new KLOE. To help the Council with this preparation, I will highlight the areas where evidence could be strengthened in my detailed use of resources report.

Recommendations

- R3** Implement the recommendations for improvement highlighted in our detailed use of resources report.
- R4** Ensure arrangements are in place for the earlier 2010 use of resources assessment, including consideration of the new assessment of workforce planning.

National Fraud Initiative

- 38** The Audit Commission runs the National Fraud Initiative (NFI), an exercise that matches electronic data within and between audited bodies to prevent and detect fraud. The Council participates in this exercise and is responsible for investigating the data matches supplied to it by the Audit Commission.
- 39** The Council has implemented appropriate arrangements for the follow up of NFI matches and has filtered the data to focus resources on those matches deemed highest risk. Good progress is being made and some instances of potential fraud and error are being investigated further.

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. Schemes requiring audit range from substantial areas of expenditure such as housing benefits to relatively small schemes such as the Single Programme Hammersmith and Fulham 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 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 were 12 claims which require audit. Work remains in progress on four claims which are programmed to be completed before December 2009. Of the eight claims where audits have been completed, two have been subject to amendments and three have had qualification letters issued at audit.

Organisational Assessment

- 42 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 Hammersmith & Fulham Council and the local area have been assessed by the Audit Commission can be found after 10 December 2009 on the our website at:
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 Director of Finance. I will present this letter at the Audit Committee in November 2009 and will provide copies to all committee 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
Audit & Inspection Plan	April 2008
Regeneration report	December 2008
2008 Use of resources assessment	February 2009
Opinion audit plan	March 2009
Data quality report	June 2009
Interim audit memorandum	July 2009
Annual governance report	September 2009
Auditor's report giving an opinion in the financial statements and value for money conclusion	September 2009
Final accounts memorandum	November 2009
2009 Use of resources assessment	Being drafted
Grant claims report	To be drafted on completion of all claims

Audit fees

- 45** There are no changes to the audit fee from those reported in the original audit plan. Table 1 summarises the audit fees for the year. However, there will be an additional charge for work to resolve queries brought to my attention by Council electors. This charge will be finalised when the work is complete.

Table 3 Audit fees

	Audit fee £000
Financial statements and annual governance statement	320
Value for money	95
Audit of the pension fund	38
Total audit fees	453

- 46** 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

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.

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

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R1 The Council should implement the recommendations set out in my Annual Governance Report to improve its accounts.	2	Deputy Director of Finance	Yes		March 2010
7	R2 Ensure regular reporting of the progress of implementation of IFRS to the Audit Committee.	2	Deputy Director of Finance	Yes	Project plan reported previously. Next report due at March Audit Committee - preparation of B/f balances.	Ongoing
11	R3 Implement the recommendations for improvement highlighted in our detailed use of resources report.	2	Deputy Director of Finance	Yes	There are no direct recommendations as such in the Use of Resources report, but the opportunities for development will be considered in improvement planning.	December 2009
11	R4 Ensure arrangements are in place for the earlier 2010 use of resources assessment, including consideration of the new assessment of workforce planning.	2	Deputy Director of Finance	Yes		December 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.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, audio, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2009

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk
