

Annual Audit Letter

London Borough of Hammersmith & Fulham

Audit 2009/10

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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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (page 4); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 7).**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Audit opinion and financial statements

1 I issued an unqualified opinion on the Council's financial statements on 30 September 2010. The financial statements did not require any material amendments.

2 My audit opinion on the financial statements included an unqualified opinion on the Pension Fund's financial statements. While material amendments were not needed, the quality of the Pension Fund working papers could be improved.

Value for money

3 I issued an unqualified value for money conclusion on 30 September 2010 stating the Council had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

Current and future challenges

4 The Council continues to made good progress on the transition to accounting under International Financial Reporting Standards. However, challenges remain, particularly in respect of some changes to the finance team and accounting for leases.

5 Arrangements for completion of grant claims remain generally sound, with all claims were submitted by the government certification deadlines. However, the Teachers' Pension claim continues to be problematic and the working papers require improvement.

6 The financial outlook for the public sector is challenging. The Council has already taken action to reduce costs and increase efficiency. The Council will need to ensure its innovative plans to work closely with two neighbouring boroughs are underpinned with appropriate governance arrangements.

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.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September 2010.

Overall conclusion from the audit

7 I gave an unqualified opinion on the Council's 2009/10 financial statements. The audit was completed earlier than in previous years with most work completed by the end of August. The Council's arrangements for supporting the audit process have improved significantly in recent years. To further improve the process the Council could ensure that all the working papers set out in my working paper requirements schedule are available at the start of the audit.

8 I also gave an unqualified opinion on the Pension Fund's 2009/10 financial statements. The Pension Fund audit was more problematic and the process could be improved by ensuring the working papers are provided at the start of the audit and that the accounts are fully reconciled to the working papers provided by the London Pension Fund Authority.

Significant weaknesses in internal control

9 I did not identify any significant weaknesses in your internal control arrangements.

Recommendation

R1 Improve the timeliness and quality of the working papers to support the Pension Fund financial statements.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

10 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

11 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

12 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

13 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

14 The following table shows a summary of my findings.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes
Strategic asset management	Yes
Workforce	Yes

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

Risk-based performance reviews

16 To support my review of the criteria I undertook a review of market testing, focusing on how the Council monitored the benefits of market testing, how the Council captured learning and good practice from the exercises and on contract management.

17 I have reported my detailed findings to the Council in a separate report. I found that the arrangements in place were generally sound. Recommendations were made concerning the monitoring of findings from post implementation reviews, measuring the success of the contract managers' forum and ensuring proportionate contract management arrangements are in place.

Approach to local value for money work from 2010/11

18 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

19 My work will be based on a reduced number reporting criteria, specified by the Commission and concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

20 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

International Financial Reporting Standards

21 Financial statements will be prepared using International Financial Reporting Standards (IFRS) for the first time in 2010/11. The Council has made good progress to date on the transition from UK Generally Accepted Accounting Practice to IFRS. However, challenges remain. The high risk areas for the Council are accounting for leases, employee benefits and group accounting.

22 The Council has also lost some key staff in the finance team in recent months and it is important that their skills are replaced. I will assist the Council by profiling early audit work in line with the expected leave date of staff. I will also continue to provide regular feedback on the Council's progress.

Recommendation

R2 Ensure the capacity of the finance team is maintained.

Grant Claims

23 The Council's arrangements for completion of grant claims remain good. Claims are received by audit in line with government submission dates and amendments are few or generally not significant. However, the Teacher's Pension claim remains problematic and arrangements should be put in place to improve the quality of the working papers and to respond to auditor queries in a more effective manner.

24 To date we have certified ten grant claims out of an expected 16 for the year. Five of these claims have been certified without any amendments, five have been subject to amendments and the pooling of housing capital receipts return included a minor qualification in relation to late payment penalties.

25 The Housing benefits claim remains the claim that requires the most time both from auditors and officers. The quality of claim assessments made by officers has improved but there are still errors. Officers need to ensure that internal processes are adhered to more rigorously to improve the quality of claimant assessments.

Recommendation

- R3** Improve the quality of working papers provided in support of the Teachers' Pension Grant Claim.
- R4** Improve the level of compliance with internal procedures when making housing benefit claimant assessments.
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National Fraud Initiative

26 The Audit Commission runs the National Fraud Initiative (NFI) to help detect fraud, overpayments and errors. The NFI 2008/09 found record levels of fraud, overpayments and errors of £215 million across the UK, up 54 per cent from our previous exercise in 2006/07.

27 The Council has submitted data for the 2010/11 NFI round. The data matched will be released in January 2011 and the Council should ensure that resources are in place to investigate matches..

The abolition of the Audit Commission

28 You may have seen the announcement on 13 August by the Secretary of State for Communities and Local Government about the proposed abolition of the Audit Commission. This is likely to take place in 2012 or 2013 and the government has announced its plan to seek legislation in this session of Parliament to effect this.

29 The Audit Commission's Managing Director for Local Government & Community Safety has written to your Chief Executive to confirm there is no immediate change to the audit arrangements for the Council.

30 The Audit Commission has confirmed there would be no change to its proposed approach to the value for money element of the 2010/11 audit.

31 The Audit Commission is in discussion with the Department of Communities and Local Government about the proposed legislation and the details that need to be worked through. I will keep the Council informed about the future audit programme and any changes to audit arrangements.

Future developments

32 The wider financial outlook continues to be challenging for the public sector. At the end of the first quarter of 2010/11 the Council reported a forecast overspend of £2 million on its General Fund due to reduced revenue grants, though this can be met through earmarked reserves. There has also been a £190 million reduction in capital funding from the changes to the Building Schools for the Future scheme. Clearly, in such a challenging environment effective financial management becomes ever more critical. This is recognised by the Council as can be seen in its ambitious World Class Financial Management programme.

33 In the face of the challenging financial climate, the Council recognises the need to maintain its focus on the continued identification of efficiencies. Key to its plans is its work with the City of Westminster Council and the London Borough of Kensington & Chelsea to achieve closer collaboration and integration. The Council needs to ensure that this innovative development is underpinned by appropriate governance arrangements, for example to:

- Manage the transition.
- Maintain the roles and responsibilities of statutory officers.
- Avoid actual and/or perceived conflicts of interest.
- Maintain constitutional integrity.
- Address legal, financial and risk management requirements.
- Allow for and manage potential termination/withdrawal.

Recommendation

R5 Underpin closer collaboration and integration with the City of Westminster Council and the London Borough of Kensington & Chelsea with appropriate governance arrangements.

Closing remarks

34 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 December 2010 and will provide copies to all board members.

35 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued (Council)	Date issued (Pension Fund)
Audit Fee Letter	April 2009	April 2009
Council opinion audit plan	March 2010	March 2010
Annual governance report	September 2010	September 2010
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2010	September 2010
Final accounts memorandum	September 2010	September 2010
Opinion on Whole of Government Accounts	September 2010	n/a
Review of market testing	July 2010	n/a

36 The Council has taken a positive and helpful approach to our audit. I wish to thank the Council staff for their support and cooperation during the audit.

Jon Hayes
District Auditor

November 2010

Appendix 1 – Audit fees

Council audit	Actual (£)	Proposed (£)
Financial statements and annual governance statement	328,500	328,500
Value for money	85,500	85,500
Whole of government accounts	5,000	5,000
Total audit fees	419,000	419,000

Pension Fund Audit	Actual (£)	Proposed (£)
Financial statements	35,000	35,000
Total audit fees	35,000	35,000

Appendix 2 – Glossary

Annual governance statement

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

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

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

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

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

Financial statements

The annual accounts and accompanying notes.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

Appendix 1 Action Plan

Recommendations

Recommendation 1

Improve the timeliness and quality of the working papers to support the Pension Fund financial statements.

Responsibility	Deputy Director of Finance Finance & Corporate Services Department
Priority	High
Date	Immediate and ongoing
Comments	The Council recognises the need to improve in both these areas. An action plan has been produced which assigns responsibilities to named individuals with deadlines and clear expectations. Particular problems were encountered in reconciling membership numbers between the council and the LPFA and this is being addressed with the LPFA with monthly reconciliations taking place (from September 2010). It is hoped that regular monitoring and reconciliations during the year (on a monthly basis) will allow the working papers to be produced earlier and to a higher standard.

Recommendation 2

Ensure the capacity of the finance team is maintained.

Responsibility	Deputy Director of Finance Finance & Corporate Services Department
Priority	High
Date	Ongoing
Comments	The Council recognises the challenges ahead in respect of accounts preparation and readiness for audit. Plans are in place to replace members of the team who have recently left and existing staff are working flexibly to resource areas such as IFRS implementation and quality and timeliness of working papers. The position is monitored on a regular basis by the Financial Strategy Board (FSB) and the Financial Development Board (FDB).

Recommendation 3

Improve the quality of working papers provided in support of the Teachers' Pension Grant Claim.

Responsibility	Assistant Director (Human Resources) Finance & Corporate Services Department
Priority	High
Date	By April 2011
Comments	It is recognised that improvements need to be made in the quality of working papers submitted and in the responses to auditors' queries. A review of the 2009/10 issues is underway and an action plan will be produced by December 2010 to address them. The plan for the 2010/11 audit will be shared with the Audit Commission to ensure it meets the grant certification requirements and this will form the basis for information produced and submitted in support of the claim.

Recommendation 4

Improve the level of compliance with internal procedures when making housing benefit claimant assessments.

Responsibility	Assistant Director (H&F Direct)- Finance & Corporate Services Department
Priority	High
Date	May 2011
Comments	The Subsidy team was established 3 years ago and has been successful in reducing the errors in the overall subsidy claim to a net £21k in the 2008/09 claim. Whilst the system of quality checking has made improvements we accept in now needs to be reviewed to maximise the impact of the quality checking that we can currently resource. This will be undertaken after the 2009/10 subsidy claim audit has been completed.

Recommendation 5

Underpin closer collaboration and integration with the City of Westminster Council and the London Borough of Kensington & Chelsea with appropriate governance arrangements.

Responsibility	Chief Executive and Director of Finance & Corporate Services
Priority	High
Date	Ongoing
Comments	Hammersmith & Fulham, Westminster and Kensington & Chelsea are looking at plans to share more services. Various working groups are being set up to develop and study options for four main areas: children's services, environmental services, adult social care and corporate services. A variety of options are being considered and all are at an exploratory stage. All viable proposals will be presented to the Leaders and Chief executives of the three boroughs in an official report by the end of February 2011.

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