

Annual Audit and Inspection Letter

March 2008



Annual Audit and Inspection Letter

London Borough of Hillingdon

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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Contents

Key messages	4
Action needed by the Council	4
Purpose, responsibilities and scope	5
How is Hillingdon Council performing?	6
The improvement since last year - our Direction of Travel report	7
Cultural services inspection	8
Hillingdon Homes Ltd (ALMO) inspection	8
The audit of the accounts and value for money	10
Other audit work	14
Looking ahead	15
Closing remarks	16

Key messages

- 1 This letter provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from:
 - the audit of the Council;
 - an analysis of the Council's performance and its improvement over the last year, as measured through the comprehensive performance assessment (CPA) framework; and
 - the inspections of culture and housing.
- 2 The letter is addressed to the Council. It has, in particular, been written for councillors, but is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The letter's main messages are the Council:
 - is improving well and has continued to be assessed as a two star authority under the CPA framework;
 - has delivered significant efficiencies in response to a challenging financial position; and
 - has received an unqualified opinion on its 2006/07 financial statements and an unqualified conclusion on its arrangements for securing value for money during 2006/07, although after the statutory deadline.

Action needed by the Council

- 4 The Council now needs to:
 - regain its focus on financial reporting, specifically regarding accounts preparation and reconciling feeder systems;
 - continue to develop partnership working arrangements, for example in respect of health inequalities, and ensure arrangements are integrated into financial planning and risk management;
 - maintain a focus on improving performance in environmental services; and
 - continuing to deliver improvements in value for money.

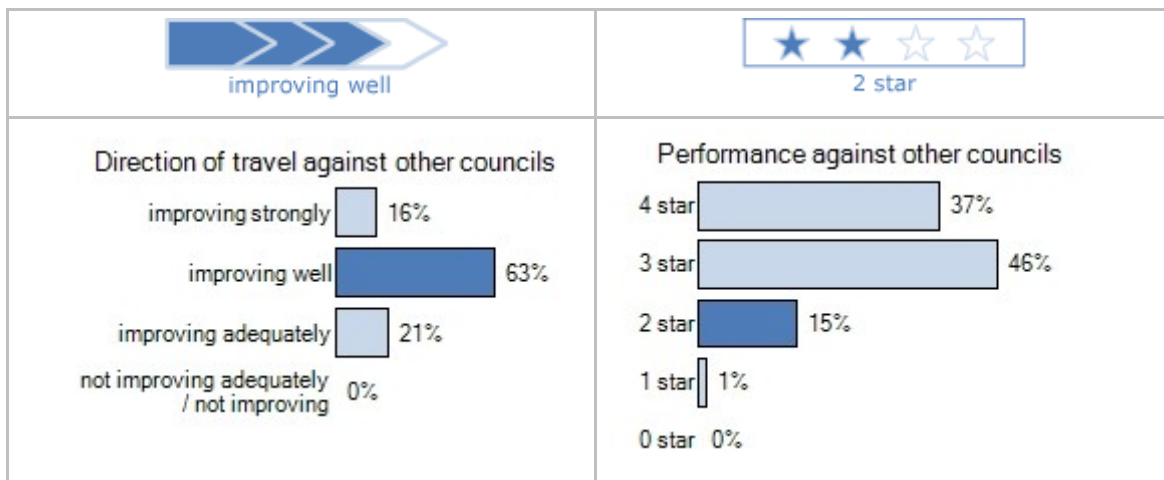
Purpose, responsibilities and scope

- 5 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 6 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 7 This letter also communicates the significant issues to key external stakeholders, including members of the public. The Council is planning to publish this letter on its website. In addition, we will publish this letter on the Audit Commission website at www.audit-commission.gov.uk.
- 8 As your appointed auditor I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I review and report on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 9 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 10 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

How is Hillingdon Council performing?

- 11 The Audit Commission’s overall judgement is that Hillingdon Council is improving well and we have classified the Council as two-star in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.

Figure 1



Councils with a CPA star rating under review or with a direction of travel judgement that is subject to review are excluded from this analysis

Source: Audit Commission

- 12 The detailed assessment for Hillingdon Council is as follows.

Our overall assessment - the CPA scorecard

Table 1 CPA scorecard

Element	Assessment 2006	Assessment 2007	Change
Direction of Travel judgement	Improving well	Improving well	-
Overall	2 star	2 star	-
Corporate assessment/capacity to improve	2	2	-
Current performance	out of 4	out of 4	
Children and young people*	2	3	↑
Social care (adults)*	3	3	-
Use of resources*	3	2	↓
Housing	4	4	-
Environment	3	2	↓
Culture	2	2	-
Benefits	4	4	-

(Note: * these aspects have a greater influence on the overall CPA score)
(1 = lowest, 4 = highest)

The improvement since last year - our Direction of Travel report

- 13 Hillingdon has a track record of improvement in its priority areas with significant improvements in services for children and young people and continued improvement in housing and adults' services. Just over three-quarters of indicators have improved over the last year, above the national average, and one-third are top performing. However, the pace of improvement in some environmental services has slowed. Partnerships are used well in adult and community learning services to meet community and employers' needs. Contributions to wider community outcomes include responding to young peoples' concerns about safety by appointing more community safety officers to travel with them and providing new sports and other facilities. There has been a fall in the overall level of crime, but there is still some way to go to meet crime reduction targets and to deliver improved outcomes for residents from community cohesion work. The Council is performing well in delivering value for money, but needs to refocus on financial reporting. A review of its improvement programme is building capacity through development of leadership skills and resource management, and implementation of cultural change.

Cultural services inspection

- 14 Our inspection of the Council's cultural services (published in September 2007) reported that the Council provided a 'fair', one-star service, with promising prospects for improvement. The Council is developing an action plan to address the recommendations in our report. The full report can be found at www.audit-commission.gov.uk
- 15 Culture is a clearly stated priority for the Council and its community partners, and tangible investment is being made, backed by senior managerial and political support. Users recognise that change is happening and are satisfied with their experience. Cultural services are contributing to local priorities, for example, addressing childhood obesity and adult health by promoting participation in sport and healthy exercise, and improving the quality of life for residents through care of the natural and built environment. Residents have access to a range of generally well managed cultural facilities and there are some external quality accreditations such as Green Flag awards for parks. Arrangements for managing and monitoring value for money are improving.
- 16 However:
- whilst newly refurbished libraries are providing good access, the quality of leisure centre, swimming and fitness facilities is poor in the most deprived part of the Borough;
 - the Council is not engaging consistently with people who do not currently use services and its knowledge of diverse communities is incomplete. As a result it may not know what the barriers to access are and cannot prioritise investment and actions effectively to target those in greatest need;
 - explicit service standards for cultural related activities are not made available to local people and performance against them is not regularly reported;
 - although services are contributing to local targets, the lack of robust outcome measures means that the Council is unable to assess the difference it is making to the wider community; and
 - key cultural partnerships are not yet in place and there is a gap in the performance management framework between the service and the Local Area Agreement levels, which means that the contribution which culture can make to community targets may not be being maximised.

Hillingdon Homes Ltd (ALMO) inspection

- 17 Hillingdon Homes Ltd is an arms length management organisation (ALMO) and manages the housing stock on behalf of the Council. Councils using ALMOs can secure additional capital funding if the ALMO has received at least a good rating from the Audit Commission's Housing Inspectorate. The initial inspection in March 2004 judged Hillingdon Homes to be a good, two-star service. The current inspection shows the Council has sustained a good, two-star service with excellent prospects for improvement. The full report can be found at www.audit-commission.gov.uk.

- 18 The ALMO demonstrates a commitment to customer service and access to services in all service areas. It has taken steps to identify and address weaker areas, such as repairs reporting. Major, cyclical, planned and DHS works, including aids and adaptations are done on time and tenants are happy with the outcome of the work and the way it is undertaken. There is a high level of commitment to equality and diversity across the organisation and service delivery focuses on the needs of the customers.
- 19 The leadership, quality of staff and IT are considerable strengths. The ALMO has invested in them and addressed recruitment and retention issues. It has an effective medium-term financial strategy, has invested financial and human resources in developing modern procurement methods, and has been successful drawing in additional investment.
- 20 There is a strong focus on value for money and driving efficiencies which are embedded in the organisation. This is underpinned by a clear focus on maximising the impact from resources, undertaking good practice in procurement and using effective partnerships to achieve value for money.
- 21 Areas for improvement include:
 - accessibility of services through reporting performance and reviewing the availability of the repairs service;
 - although empty properties are all repaired within timescales, and to the agreed standard, the cost is relatively high when compared to its peers;
 - whilst there is a wide range of rent payment methods, tenant satisfaction with debt advice and good liaison with the housing benefits team, the collection rate is average;
 - there are weaknesses in case management of vulnerable tenants and tenants do not yet recognise recent improvements in the service;
 - recently introduced more robust inspection arrangements and service standards have yet to be fully embedded and tenant perceptions are mixed; and
 - some aspects of engagement with leaseholders

The audit of the accounts and value for money

Audit of accounts

- 22 As your appointed auditor, I have issued an unqualified opinion on your accounts and an unqualified vfm conclusion on 10 March 2008. This is later than the statutory deadline of 30 September 2007. I have separately reported to the Audit Committee on the issues leading to this late opinion in my updated Annual Governance report on 4 March 2008.
- 23 A combination of staffing difficulties in the finance department and a focus on delivering efficiency savings affected the Council's performance in preparing the annual financial statements. The impact led to a deterioration in the quality of some key areas of working papers, a loss of staff knowledge and experience during a critical stage of the audit of the financial statements, and significant errors in the statements presented for audit. Weaknesses in payroll reconciliations required additional substantive audit testing and an additional audit fee to enable sufficient assurance to give an unqualified opinion. The Council needs to ensure that main feeder systems are regularly reconciled and closedown arrangements for 2007/08 are reviewed to address the key issues arising during our audit.

Use of resources

- 24 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support council priorities).
 - Financial standing (including the strength of the Council's financial position).
 - Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for money (including an assessment of how well the Council balances the costs and quality of its services).

- 25 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 2

Element	Assessment (out of 4) 2006	Assessment (out of 4) 2007	Change
Financial reporting	3	1	↓
Financial management	3	3	-
Financial standing	3	3	-
Internal control	2	2	-
Value for money	2	3	↑
Overall assessment of the Audit Commission	3	2	↓

(Note: 1 = lowest, 4 = highest)

The key issues arising from the audit

- 26 The Council has generally maintained good arrangements, whilst improving its arrangements for securing value for money. Earlier in my letter, I have referred to specific factors affecting the Council's performance in respect of financial reporting and the opinion on the financial statements. Table 3 highlights some areas for the Council to consider for improvement.

Table 3 Use of resources' improvement opportunities

Element	Improvement opportunities
Financial reporting	<p>Review and strengthen arrangements for the closure of the 2007/08 financial statements, including appropriate internal quality assurance arrangements to ensure appropriate provision of working papers and the availability of suitably qualified and experienced staff during the audit.</p> <p>Evidence consultation undertaken in respect of any decision on whether to produce an annual report.</p>
Financial management	<p>Use the MTFF to describe jointly agreed plans with partners and key stakeholders.</p> <p>Undertake a review of the effectiveness of financial leadership, ensuring that the role of members, eg at Cabinet, is addressed.</p> <p>Embed the use of local performance indicators and use of benchmarked information concerning asset management, demonstrating changes in outcomes.</p>

Element	Improvement opportunities
Financial standing	<p>Review the portfolio of financial health indicators in order to establish that they are consistent across services, are challenging and are fit for purpose.</p> <p>Report to members on the opportunity costs and accrued benefits of holding balances.</p>
Internal control	<p>Implement and embed risk management training for key members and for staff.</p> <p>Ensuring the risk assessment process specifically includes consideration of risks in relation to partnerships.</p> <p>Reconcile significant feeder systems on a regular and timely basis, with variations promptly reviewed and cleared.</p>
Value for money	<p>Continue to review priority services to ensure that costs are commensurate with performance.</p> <p>Further develop and embed use of information on equity to promote access and value for money across the whole community.</p> <p>Expand the use of activity information in performance and financial monitoring beyond non-demand led information and increase the use of local factors.</p> <p>Develop clear baselines (costs and performance) to assess the impact of procurement and to ensure good practice is shared.</p>

Financial standing

- 27 The Council successfully delivered a difficult budget in 2006/07. In the face of financial pressures resulting from the local Primary Care Trust (PCT) and asylum costs, the Council achieved planned savings of £8.5m, together with an in-year surplus of £4m. The surplus assisted the Council in increasing its general fund balance to £9.3m, in line with its recommended range of between £8 and £15m.
- 28 The financial position remains challenging in the short and medium-to-longer term. The February 2008 revenue monitoring report to Cabinet (month 9) shows that the Council is projecting an underspend of £1.949m on a revised net 2007/08 budget of £178m. Whilst departmental budgets are predicting a small increase in net expenditure of approximately £700,000, there is additional income forecast of over £2.2m arising from investment income from higher than expected interest rates and rephased capital programme. The report forecasts continued financial pressures for the remainder of the financial year, primarily in respect of potential PCT cost shunts and asylum spend, although the revenue forecast reports that the current contingency allocation has sufficient resources for the potential costs. With a tight financial settlement facing local government in 2008/09 onwards, the Council needs to continue to exercise vigilance and strong financial management to maintain its financial position.

Health inequalities

- 29** In general terms the health of the population in Hillingdon compares favourably with the rest of England. However, there are health inequalities with life expectancy in the most deprived areas for males and females less than in the least deprived areas. Our health inequalities audit involved a high level review of the Council and the PCTs' joint approach to tackling this issue. It concluded that although there is no overall specific strategy for tackling the causes of health inequalities, clear actions and objectives to improve health inequalities are embedded in other key strategies and plans. Leadership is beginning to operate effectively across the area and partnership and capacity is being built through, for example, the engagement of overview and scrutiny committees and partnerships.
- Good progress is being made in using the Local Strategic Partnership (LSP) and Local Area Agreement (LAA) effectively to deliver change. However, a number of key risks were identified in addition to the absence of an overarching health strategy, including:
 - the lack of a formally adopted joint approach to corporate responsibility;
 - strategies and health inequalities commissioning plans are not yet embedded in financial plans and budgets;
 - limited engagement with acute and mental health provider trusts and under developed partnership arrangements with the voluntary sector and the public and communities of interest;
 - health needs assessments are not consistently utilised to address health inequalities and public health data does not explicitly inform commissioning strategies; and
 - the effective use of the existing workforce to tackle the health inequalities agenda and limited specialist public health capacity.
- 30** We are working with the Council and the PCT to determine the scope and approach to stage 2 the audit which will take place in 2008/09.

Other audit work

- 31 The main messages from the rest of our audit programme are summarised in table.

Table 4 Other audit work

Audit	Main issues arising
Integrated children's services	My last letter referred to the findings from the first stage of our work. The second phase of our work has been completed and agreed with management in July 2007. The results of this work were reported in my Annual Governance report presented to the Audit Committee on 18 September 2007.
Data quality	We assessed the Council's arrangements for ensuring the quality of its data as performing well. The results of this work were reported in my Annual Governance report presented to the Audit Committee on 18 September 2007.
Local Area Agreement (LAA)	We found the LAA at Hillingdon to be at an early stage with further work needed to fully embed it. Mechanisms have been put in place to performance manage the LAA and the first quarterly report was delivered in September 2007. Risk management is at an early stage and a single partnership performance management system across all partners has yet to be developed.
Best Value Performance Plan	I issued my report on 18 December 2007, confirming that the Plan has been audited. There are no issues to bring to your attention.
Certification of grant claims for 2006/07	Fifteen grant claims required audit certification. All claims have been audited by the required deadline. There have been significant improvements by the Council in the timeliness of preparation of claims. The Council is intending to create a new role in Corporate Accountancy to monitor grant claims and oversee quality, thereby reducing the number of amendments.
Legality	There are no issues arising from correspondence with members of the public to bring to your attention.

Looking ahead

- 32** The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 33** CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 34** The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

Closing remarks

- 35 This letter has been discussed with the Chief Executive and Leader. The Council has undertaken to copy the letter to all Council members by 31 March 2008. A copy of the letter will also be presented to the May 2008 Audit Committee.
- 36 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 5 Reports issued

Report	Date of issue
Audit and Inspection Plan 2007/08	March 2007
Annual Governance Report 2006/07	September 2007
Opinion on Financial Statements 2006/07	February 2008
Value for Money Conclusion 2006/07	February 2008
Final Accounts Memorandum 2006/07	December 2007
Use of Resources Auditor Judgements 2007 - working papers	December 2007
BVPP Report 2007/08	December 2007
Data Quality Arrangements and Best Value Performance Indicators	January 2008
Payroll arrangements re implementation of new system	phase 1 - September 2007 phase 2 - February 2007
Culture Inspection	September 2007
Hillingdon Homes Ltd	September 2007
Direction of Travel Assessment	February 2008
CPA Scorecard	February 2008

- 37 The outturn fee for the year is set out in Table 5. This shows a total audit and inspection fee for 2006/07 of £488,000, against a planned audit fee of £429,300. This compares to a 2005/06 total fee of £465,000.

Table 6 Fee update

Area	Plan 2006/07 £000	Actual 2006/07 £
Accounts*	274.3	338
Use of resources	98	98
Total audit fee	372.3	428
Inspection	57	57
Total audit and inspection fee	429.3	488
Grant claim certification (estimated outturn)	200	130

* The actual fee includes the additional costs required to undertake sufficient additional testing to issue an unqualified opinion. It also includes fees for whole of government accounts of £4k and National fraud initiative of £1.5k

- 38 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

Les Kidner
Relationship Manager

March 2008