

Annual Audit and Inspection Letter

London Borough of Hillingdon

INSIDE THIS REPORT

PAGE 2 - 13

- Executive summary
- Key messages
- Council performance
- Accounts and governance
- Other work
- Looking forward
- Closing remarks

PAGE 14 - 17

Appendices

- Appendix 1 - Reports issued during 2003/04
- Appendix 2 - Scope of audit and inspection
- Appendix 3 - Audit and Inspection fees

Reference:	HI002 Annual Audit and Inspection Letter
Date:	January 2005

Executive summary

The purpose of this Letter

This is our audit and inspection 'Annual Letter' for Members which incorporates the Annual Audit Letter for 2003/04, and is presented by the Council's Relationship Manager and District Auditor. The Letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.

We have issued separate reports during the year having completed specific aspects of our programme. These reports are listed at Appendix 1 for information. Appendix 2 sets out the scope of audit and inspection and Appendix 3 provides information about the fees charged.

Key messages

Council performance

Hillingdon Council was again assessed as weak in the Audit Commission's recent (2004) Comprehensive Performance Assessment (CPA). Whilst it has continued to build capacity this has not yet fully impacted on improving services for residents. The Council now needs to communicate its ambitions and priorities more clearly, prepare robust community and council plans and focus its increasing capacity on delivering real service improvements for local people.

Given their importance in underpinning the Council's performance management arrangements, the deterioration this year in the quality of the Best Value Performance Indicators is of concern.

Our improvement work on specific services, whilst identifying areas of good practice, highlights the need for further efforts in order to make real and lasting service improvements.

The Accounts

We gave an unqualified opinion on the Council's main accounts and pension fund on 30 November 2004.

The accounts met the earlier national timescale, but more weaknesses were evident in the quality of supporting documentation and audit trails than in previous years, mainly in housing. The need to produce good quality and timely accounts and supporting documentation will be even more important for 2004/05 as the national deadlines for the production of the accounts and the audit opinion will advance by a further month (to 31 July and 31 October respectively).

Financial standing

The Council has continued to strengthen its financial management and net expenditure is projected to be contained within budget again in 2004/05, as has been the case for the last two years.

Although balances remain relatively low for a council of Hillingdon's size, medium term financial forecasts provide for further contributions to balances over the next three years assuming efficiency targets are met. Members will need to keep the financial position under close review.

Meanwhile sound fund management and improving equity values have contributed to the pension fund deficit reducing significantly, but the implications of the imminent triennial revaluation are likely to require a substantial increase in the Council's contributions in the forthcoming years.

Other governance issues

Overall the systems of internal financial control are adequate. Risk management arrangements have improved although opportunities for further strengthening exist, and the Council is seeking to ensure that internal audit retains the skills and resources to provide adequate coverage in future through a re-organisation of the internal audit section. The role of the Statement of Internal Control needs to be developed within the Council overall.

We have not identified any significant weaknesses in the Council's arrangements to prevent and detect fraud and corruption nor in the framework established by the Council for ensuring the legality of its significant financial transactions.

Outstanding objections have been concluded and all audits are now closed.

Grant claims

The quality of grant claim submissions is generally good, and opportunities to improve processes and reduce costs have been reported to officers. Late submissions were a problem earlier in the year but matters have improved with the exception of education claims.

Action needed by the Council

The Council needs to:

- communicate its ambitions and priorities more clearly;
- focus its increasing capacity via the Hillingdon Improvement Programme (HIP) into improving services for local people;
- ensure the accounts processes are improved so that high quality accounts and supporting papers are produced in line with the new deadline; and
- continue to build financial reserves to an adequate level.

Council performance

Hillingdon Council was again assessed as weak in the Audit Commission's recent (2004) Comprehensive Performance Assessment (CPA). Whilst it has continued to build capacity this has not yet fully impacted on improving services for residents. The Council now needs to communicate its ambitions and priorities more clearly, prepare robust community and council plans and focus its increasing capacity on delivering real service improvements for local people.

Given their importance in underpinning the Council's performance management arrangements, the deterioration this year in the quality of the Best Value Performance Indicators is of concern.

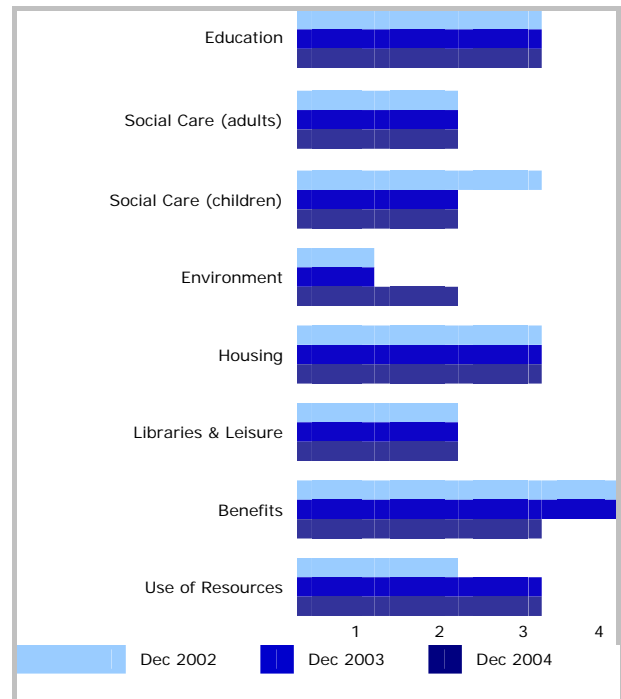
Our improvement work on specific services, whilst identifying areas of good practice, highlights the need for further efforts in order to make real and lasting service improvements.

CPA Scorecard

The Council's CPA Scorecard is set out in Exhibit 1 below.

EXHIBIT 1

Updated CPA judgements



London Borough of Hillingdon continues to be a weak council.

Results have been mixed. The Council has achieved significant improvements in environmental services and made improvements in education, housing services and in its use of resources over the last year.

Waste management has improved, with one of the top recycling rates in London. The planning and highways services are improving but from low bases.

Progress on improving social care, a Council priority, and libraries and leisure has been mixed and overall these areas have shown the least improvement.

The Council has continued to focus on building its capacity, managing its performance better and improving its financial base. There are some effective partnerships working, for example with the police to deliver community safety initiatives, but in general partnership working could be better coordinated. The Council also lacks an up to date community plan, although it is now taking steps to address this.

Hillingdon Council needs to continue to focus its developing capacity on delivering service improvement for local people.

CPA Improvement Report

The Council's progress against key themes is summarised in Exhibit 2 below.

EXHIBIT 2

Review of evidence to support assessment of continuous improvement

Theme	Assessment
Ambition and Priorities	<p>The Council has developed a vision for Hillingdon, but there is some lack of clarity as to priorities, which derive variously from local strategic partners and the Leader's statement.</p> <p>The Council lacks a community plan and council plan but is working with partners to produce these in 2005. In the absence of such plans there is no overarching plan to deliver the vision and ensure that priorities are coordinated and consistent with partners.</p>
Focus	<p>The breadth of the Council's agenda and absence of a council plan contribute to some loss of focus. The Hillingdon Improvement Programme (HIP) is being reviewed to improve focus on service improvement. There has been a clear focus on improving the financial position and on community safety.</p>

Theme	Assessment
Capacity and Performance management	<p>The HIP has contributed to increasing capacity but corporate capacity remains limited.</p> <p>Strong partnerships exist with the police and with health regarding services for older people, as well as with local businesses, colleges and the voluntary sector, but partnership working is not as coordinated as in other authorities.</p> <p>The Council has had to manage staff changes at a senior level which in the short term may have adversely affected its capacity to improve.</p> <p>Improved performance monitoring is in place, with particular emphasis on service improvement priorities. The staff appraisal system is being developed but has yet to become fully embedded in its new form. Scrutiny is gradually improving, but is yet to tackle cross-cutting issues effectively.</p>
Achievement of improvement	<p>Significant service improvement has yet to be achieved although there are some promising signs. The majority of performance indicators show an improvement, but a third remain in the worst quartile, and only 17 per cent are in the best quartile.</p> <p>The Council met 75 per cent of its own targets, but less than half of those for key performance indicators. Future targets are not always stretching.</p> <p>Overall the Council's performance does not compare favourably with top performing councils.</p>
Investment and Future Plans	<p>The HIP continues to provide the framework for investment decisions and over the last year a number of building blocks have been put in place, for example strengthening project and risk management.</p> <p>Investment is evident in social care, waste management and the street scene.</p>

Audit Commission Inspections

During 2004 we have reported on the following three inspections:

- Waste Management;
- Hillingdon Homes; and
- Housing Choice-based lettings.

Waste management

We assessed the waste management services to be a two-star service (Good) with promising prospects for improvement. We found the service to have a high and improving level of user satisfaction, high recycling rates, and a cost effective refuse collection service.

Areas where we suggested further improvements could be made included:

- reducing the amount of waste produced;
- better joint working within the Council across refuse, recycling and street cleansing, and integration with partners; and
- better engagement with communities to assess need.

Our report was published in October 2004.

Hillingdon Homes

Hillingdon Homes, the Council's arm's length management organisation, was established in 2003 and inspected in early 2004. We assessed the new arrangements as good with promising prospects for improvement.

Particular strengths included a strong focus on priorities, good quality services with substantial user involvement, well maintained estates and effective multi-agency working to tackle anti-social behaviour.

Areas for improvement included the need to:

- review the high levels of urgent and emergency repairs and the low post-inspection rates;
- improve contract arrangements with partners;
- meet the right to buy statutory timescales; and
- address the shortfall in the financial resource required to meet the decent homes standard.

Our report was published in March 2004.

Housing Choice-based Lettings

We assessed the Choice-based Lettings service as good with excellent prospects for improvement. We found considerable consultation with users had led to improvements and better levels of customer satisfaction, a strong performance management system was in place, and there was substantial commitment to develop the service further.

Areas we highlighted for further improvement included:

- publicising service standards;
- ascertaining the reasons for high and increasing void re-let times;
- developing more challenging targets; and
- acquiring and sharing good practice with similar schemes nationally.

Our report was published in June 2004.

Performance Information

Best Value Performance Plan 2004/05

The Council published its Best Value Performance Plan (BVPP) by the statutory deadline of 30 June 2004. The Plan complied in all significant respects with the statutory requirements and we issued an unqualified opinion on the Plan on 22 December 2004.

Best Value Performance Indicators

After several years of improvement, the quality of evidence prepared to support the BVPIs, the responsiveness of staff to audit queries and the overall accuracy of the indicators declined this year.

Of 95 BVPIs:

- three were reserved; and
- twenty-two were amended.

The reservations concerned BVPIs 126, 127e and 128. However, these reservations were not within the Council's control as the data included in the PIs was provided by the Metropolitan Police, whose systems were qualified.

The Council relies on accurate information to underpin overall performance management, hence the high number of amendments is a cause for concern. The errors were caused in the main by data being incorrectly included or excluded from analysis, apparently due to carelessness or insufficient knowledge of the guidance.

We have issued a detailed report to assist officers in improving this area next year.

Development control performance information

During the course of the audit we have considered allegations of misreporting of development control statistics and found that the Council had misreported its development control performance over a number of years using the date of decision, rather than the date of despatch of decision. This had a significant impact on the reported performance achieved by the Council. Whilst this misreporting is not acceptable, we have not concluded that it was a deliberate act, whether by the Council or its officers or Members. The Council is not unique amongst local authorities in having erroneously reported performance on this basis.

The Council has revised its systems in response to our findings and reported performance information has now been restated using the correct date. Our detailed report will be considered by the Cabinet in the near future.

Performance work

As part of our improvement work with the Council we carried out performance management reviews in the following risk areas:

- changing the culture (the Hillingdon Improvement Programme);
- performance management (the PADA system);
- special educational needs; and
- youth services.

The results of this work are set out below.

Changing the Culture/Hillingdon Improvement Programme

The Hillingdon Improvement Programme (HIP) has developed following the Council's corporate assessment in 2002 as a key factor in the Council's drive to improve capacity and service delivery.

Our initial findings are that the rationale for the HIP has been well articulated and documented and the implementation and coordination of the programme and projects has been largely undertaken in accordance with a well established methodology.

However the success of the HIP will be judged against key challenges, including the:

- impact on individual services and service delivery;
- achievement of savings;
- more efficient use of assets; and
- engagement and awareness of the workforce.

We will shortly be commencing Stage 2 of our audit which will focus on the progress being made against these key challenges.

As highlighted by this year's CPA results the need to ensure that the HIP delivers on its aims needs to remain a high Council priority.

Performance Management: Staff appraisal system (PADA)

The Council's Performance and Development Agreement (PADA) is seen as an essential element of the organisation's overall performance arrangements. New arrangements have recently been implemented and our review was designed to assess these and comment on any weaknesses.

We found the system to be soundly-based, well resourced and consistent with corporate objectives and policies whilst also including the fundamental elements of good personnel management with respect to capability, disciplinary and absence management procedures and staff recognition.

Key matters to address include:

- providing training to encompass cultural issues and guidance to make sure appraisals are managed effectively; and
- developing indicators to monitor the impact of the PADA system, establishing clear targets and effective monitoring arrangements.

Our report and action plan has been agreed with officers.

Special Educational Needs

Managing Special Educational Needs (SEN) encompasses a wide range of responsibilities and is one of the key roles for local education authorities. Our work reviewed progress since the last OFSTED inspection in 2001.

We found clear evidence of a more strategic approach to the management of SEN, with a focus on increasing the capacity of mainstream and special schools to meet a greater diversity of SEN earlier, preventatively and flexibly.

Our detailed report contains many findings and recommendations, including:

- progress with regard to the future of special schools and the pupils educated therein is slow;
- the barriers to reintegration to mainstream schools need to be addressed; and
- more detailed guidance to schools is needed on the SEN code of practice.

An action plan to address these issues has been agreed with officers.

Youth services

Managing youth and community services encompasses a wide range of responsibilities and is a key role for the Council.

The Council has made a clear and public commitment to developing services for young people in accordance with the national transforming youth services agenda.

However risks which impede the Council's aspirations for youth services are mainly of a corporate nature, and include:

- the absence of a comprehensive assessment of young people's needs;
- a lack of engagement with some key partners, particularly relating to planning and sharing priorities;
- difficulties with recruiting and retaining staff with the required skills and experience; and
- ineffective monitoring and reporting to management and councillors on the service's progress in implementing improvements and meeting national targets.

A detailed report was presented and agreed with officers.

Working with other inspectorates and regulators

An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance in order to share information and provide 'joined-up' regulation to the Council. We have continued to work with those regulators relevant to Hillingdon and the 2004/05 agreed planned work can be found on the Audit Commission's website.

Accounts and governance

The accounts

We gave an unqualified opinion on the Council's main accounts and pension fund on 30 November 2004.

The accounts met the earlier national timescale, but more weaknesses were evident in the quality of supporting documentation and audit trails than in previous years, mainly in housing accounts. The need to produce good quality and timely accounts and supporting documentation will be even more important for 2004/05 as the national deadlines for the production of the accounts and the audit opinion will advance by a further month (to 31 July and 31 October respectively).

Matters arising from the final accounts audit

The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the Council's annual accounts on 22 July 2004.

The accounts were produced to the earlier national timescales, but more weaknesses were evident in the quality of the supporting documentation provided, mainly in housing. As the deadline for providing an audit opinion for the 2004/05 financial statements advances by one month to 31 October 2005, this is an issue that the Council needs to address. We are working with officers to improve closedown processes for next year and have issued a detailed report to support improvements.

Report to those with responsibility for governance in the Council

We are required by professional standards to report to those charged with governance (in this case full Council) certain matters before we give an opinion on the financial statements. Our report this year drew attention to two matters:

- £2 million of income relating to expenditure on Asylum Seekers was included in the accounts despite the fact that the Government had not confirmed that they would reimburse this sum. The latest indications are that the Council will receive around £1.7 million; and
- clear supporting documentation to substantiate a number of entries in the housing accounts was not readily available, an issue we have reported on in the past.

The Council has noted the issues raised and officers have undertaken to clarify procedures and requirements regarding working papers and timeliness for next year.

Financial standing

The Council has continued to strengthen its financial management and net expenditure is projected to be contained within budget again in 2004/05, as has been the case for the last two years.

Although balances remain relatively low for a council of Hillingdon's size, medium-term financial forecasts provide for further contributions to balances over the next three years assuming efficiency targets are met. Members will need to keep the financial position under close review.

Meanwhile sound fund management and improving equity values have contributed to the pension fund deficit reducing significantly, but the implications of the imminent triennial revaluation are likely to require a substantial increase in the Council's contributions in the forthcoming years.

Review of 2003/04

The financial outturn for 2003/04 produced a surplus of £2.4 million, but the impact on the overall general fund useable balance was countered by the abolition of the insurance reserve (now correctly accounted for as a provision), such that the balance remains at £6.5 million.

Key contributory factors to the favourable budgetary outturn were:

- sound and improving financial monitoring arrangements, including prudent use of the budgeted contingency provision;
- a successful challenge to the Council's own business rate liabilities; and
- achieving savings which countered demand led pressures.

Exhibit 3 shows the current position for the Council's main balances.

EXHIBIT 3

Recent trends in the Council's main funds

Fund/Account	As at 31 March 2003 £million	As at 31 March 2004 £million	Projected 31 March 2005 £million
General Fund:			
'Useable' balance *including former insurance reserve of £2.9 million	6.5*	6.5	7.4
Other ring-fenced funds (BAA, Parking and Breakspear Crematorium)	1.5	1.2	1.6
Schools balances (ring fenced)	4.3	5.3	3.9
Housing Revenue Account:			
Main balance	10.3	6.2	6.6
Uncommitted	1.5	8.2	4.8
Total	11.8	14.4	11.4

2004/05 and the medium-term

The budget for 2004/05 amounts to a 5.9 per cent increase on 2003/04. Sound management and prudent use of the contingency budget has enabled the Council to limit potential overspends in social services and environment. Officers are confident other risks and winter pressures can be contained within budget, permitting a transfer to balances at year end. Other favourable trends have improved the outlook such that the latest financial report projects a general fund working balance of £7.4 million at year end, over £1.5 million better than originally budgeted for.

The position needs to continue to be carefully managed, but the current outlook reaffirms the strength of the Council's financial monitoring arrangements, and provides reassurance that the recovery in the Council's overall financial position is being maintained.

Medium-term plans provide for contributions to reserves of £2.5 million for 2005/06 and 2006/07. Crucial to these projections are the achievement of planned efficiencies, which the Council will need to manage carefully.

Aside from service pressures, the medium-term forecasts will also need to accommodate rising contributions to the pension fund.

A deficit of £3 million is planned for the Housing Revenue Account (HRA) leaving a projected year end balance of £11.4 million. The Council is utilising the HRA to fund capital developments in order to meet the decent homes standard.

Capital programme

Management of the capital programme is a concern. The budget for 2003/04 was originally £51.1 million, but projects amounting to £11 million (or 21.1 per cent) have been rephased. Although there are reasons for the slippage, the lack of progress means that improvements to services are not being delivered as quickly as planned. The Council has created a project support office and increased training and guidance to improve project management. The Council needs to ensure that the capital budget is realistic and there is adequate capacity to deliver its plans.

Pension fund

In recent years the decline in investment values has reduced the value of many pension funds. In 2003/04 there has been a recovery, and the pension fund value has increased by 27 per cent to £393 million. The pension fund's returns continue to outperform the industry benchmarks, and in 2003/04 achieved an excellent third out of one hundred local authority schemes.

Measured in accordance with the requirements of Financial Reporting Standard 17 for the first time, the fund's future liabilities exceed assets by £84 million. The Council has increased the present employer contribution rate to ten per cent in 2004/05, and is presently considering further staged increases to 14.85 per cent (or around £10.8 million at present prices) over three years.

The triennial valuation, on which the final decisions will be made, is currently awaited, and it is expected that the contribution rate is likely to be substantially higher than that of previous years. Members should continue to monitor the outcome of the actuarial valuation and its impact on the medium term financial strategy.

Prudential code

The Council had undertaken appropriate preparations for the inception of the new capital financing framework in April 2004, particularly in respect of training and arrangements for monitoring and reporting performance.

Our recommendations for enhancing the Council's approach included updating the scheme of delegation to reflect the new code, introducing an affordability model to assess the financial consequences of individual capital projects and subjecting capital bids to risk assessment and sensitivity analysis as appropriate.

Officers are managing the implementation of these recommendations via an action plan and progress has been reported to Members.

Asset management

We have followed up our 2001 report on asset management and found that good progress has been made on the issues we had highlighted in the past.

The Council acknowledges that the present asset portfolio is unsustainable given the financial position, with a backlog of repairs of around £45 million. Resources have been targeted where most needed and hard decisions taken to free up assets for disposal to generate receipts. In time this approach should enable the asset portfolio to become fit for purpose.

We recommended that the prioritisation for works to comply with the Disability Discrimination Act should be reviewed to mitigate the risk of challenge by the Disability Rights Commission.

Systems of internal financial control

Overall the systems of internal financial control are adequate. Risk management arrangements have improved although opportunities for further strengthening exist, and the Council is seeking to ensure that internal audit retains the skills and resources to provide adequate coverage in future through a re-organisation of the internal audit section. The role of the Statement of Internal Control needs to be developed within the Council overall.

It is the Council's responsibility to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness.

Our judgement is that overall the Council has adequate arrangements in place to meet its responsibilities, but needs to ensure that key control account reconciliations are performed and monitored regularly

Internal audit

Although internal audit were not able to deliver their entire plan for 2003/04, we were able to place reliance on the work undertaken.

The Council is currently restructuring the internal audit service to ensure that capacity is sufficient to maintain adequate audit coverage.

Statement of Internal Control

The Statement of Internal Control (SIC) is a disclosure which senior management and those charged with governance should look to as an important medium by which control weaknesses are addressed.

The disclosure has been compiled principally by reference to the outcome of the work of internal audit and by placing reliance on the Council's existing procedures for managing internal control. The disclosures within the SIC are not inconsistent with our knowledge of the Council, however, the Council should formalise the methodology that underpins the preparation of the statement, as envisaged in guidance prepared by CIPFA.

In practice this requires ensuring the assessment is broadened across all corporate areas, is not restricted only to financial considerations and is subject to periodic review by senior management.

Risk management

Overall, the Council's risk management processes have developed significantly since our last review, through the appointment of a dedicated lead officer and the production, evaluation and review of risk registers which has become an integral part of risk management throughout the Council rather than a stand alone corporate project.

However, these developments need to be viewed within the context of a system which is still maturing and embedding within the Council's culture. Further improvements can be made including evaluating the risks of meeting the strategic objectives of the Council and being mindful of the risks associated with partnership working.

Officers are currently considering their response to our most recent report.

Standards of financial conduct and the prevention and detection of fraud and corruption

We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.

Significant emphasis is placed on the need for a strong anti-fraud culture within public bodies. It is the Council's responsibility to ensure that its affairs are managed in accordance with proper standards of financial conduct and to prevent and detect fraud and corruption.

Overall, we assessed the Council's arrangements as adequate, and improved since last year, although more needs to be done to embed processes throughout corporate and service departments. Areas where further improvements can be made include:

- establishing a corporate anti-fraud team;
- revising and embedding the fraud and corruption policy; and
- reinforcing the importance of ensuring a culture of compliance exists.

One suggestion is that the Council invests the role of 'those charged with governance' in a more manageable forum than full Council. A smaller meeting will permit more detailed debate, enable officers' views to be sought, than the present arrangement.

National Fraud Initiative

The Council took part in the Audit Commission's National Fraud Initiative (NFI) 2002/03. The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector.

Total savings nationally from the 2002/03 exercise exceeded £83 million.

The Council has established procedures to review the range of data matches provided, and initiate more detailed investigations if appropriate. The Council currently estimates that it will recover of the order of £54,000 from this round of NFI, with further potential savings of around £21,000.

Legality of transactions

We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions.

Outstanding objections have been concluded and all audits are now closed.

Our work is designed to assess the adequacy of the Council's arrangements for ensuring the legality of transactions that might have a financial consequence. Primary responsibility, however, rests with management, which should act within the law, taking independent legal advice where appropriate. The latter is most important when confronted with new developments and assessing appropriate actions in response to new legal requirements.

Our work in this area involves forming judgements on the following key areas:

- roles and responsibilities;
- the legality of financial transactions; and
- new legislation.

We regard the Council's arrangements as good.

Correspondence to the auditor

We receive questions and correspondence on a variety of issues from third parties. The issues have included:

- the reporting of performance within the planning department; and
- contract management.

Where appropriate, we have made investigations and discussed issues with officers, and no instances of unlawful expenditure have been identified.

Previous years' accounts

We have concluded our work on one outstanding objection and issued our statement of reasons. The objection was not upheld, but our investigation highlighted failures to comply with standing orders on which we will be reporting separately shortly.

The completion of the objection enabled us to certify and close the audits for 2000/01 to 2003/04; the first time in many years that all audits have been closed.

Other work

Grant claims

The quality of grant claim submissions is generally good, and opportunities to improve processes and reduce costs have been reported to officers. Late submissions were a problem earlier in the year but matters have improved with the exception of education claims.

Over recent years the number of claims requiring audit certification has grown and audit fees have risen in line with this growth.

In accordance with Strategic Regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims. With effect from 2003/04 the smaller claims either have not been subject to audit or have received a lighter touch. The approach to larger claims has been determined by risk and the adequacy of the Council's control environment.

The comments below reflect the audit of grant claims for the 2002/03 financial year, which was substantially completed in March 2004.

The Council's arrangements for managing and quality assuring grant claims submitted for audit has improved in recent years. For 2002/03 claims presented for audit were generally well prepared and supported by good quality working papers, and as a result the majority of claims have been subject to minimal audit adjustments and any audit qualification has been on minor issues only.

Our report on the 2002/03 claims audit identified areas where further improvement could be made, particularly in respect of providing better papers to support claims, especially for those from the education and social services directorates.

The 2003/04 audit is in progress, and to date the majority of claims have met the submission deadlines, with the exception of those for education services.

Looking forward

Future audit and inspection work

We have an agreed plan for 2004/05 and we have reported in this Letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2004/05 accounts, will be reported in next year's Annual Letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.

We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2005/06. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2005. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

Revision to the Code of Audit Practice

The Audit Commission has consulted on a revised Code of Audit Practice for application to the audit of the 2005/06 accounts. The new Code, which will be laid before Parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focussing on bodies' corporate performance and financial management arrangements (rather than individual services and functions); and
- better and clearer reporting of the results of audits.

Further details will be provided in the Audit and Inspection Plan 2005/06.

CPA 2005 and beyond

The Audit Commission has also consulted on a new framework for CPA in 2005 and beyond. The main changes proposed are as follows:

- rationalisation of service blocks;
- the 'achievement' assessment element of Corporate Assessment to be driven by review of Community Plan and shared priority themes;
- a move away from a rigid numerical model, to one based on rules;
- corporate Assessments to be undertaken as a rolling programme, integrated with Joint Area Reviews of children and young people;
- a stronger focus on service delivery for users and customers; and
- a more robust and explicit view of value for money and cost-effectiveness.

Closing remarks

This Letter has been discussed and agreed with senior officers and the Leader. A copy of the Letter will be presented at the cabinet on 31 March 2005.

The Council has taken a positive and constructive approach to our audit and inspection. I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Availability of this Letter

This Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.



Les Kidner
Relationship Manager and District Auditor

Date 31 January 2005

Status of our reports to the Council

Our annual audit and inspection letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual audit and inspection letters are prepared by relationship managers and appointed auditors and addressed to members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any member or officer in their individual capacity, or to any third party.

Reports issued during 2003/04

Reports	Date
Audit plan	March 2004
Changing the Culture/HIP	March 2004
Housing Inspection: Hillingdon Homes	March 2004
Review of 2002/03 Grant Claims	April 2004
Special Educational Needs	June 2004
Housing Inspection: Choice-based Lettings	June 2004
Asset Management	July 2004
Prudential Code	July 2004
Statement of Reasons on 2000/01 Objection	August 2004
Youth Services	October 2004
Inspection of Waste Management Services	October 2004
SAS 610 Report	November 2004
Opinion on 2003/04 accounts	November 2004
Probity in Partnerships	November 2004
Risk Management – Follow-up	December 2004 (Draft)
Report on Auditor Scored Judgements	December 2004 (Draft)
Opinion on 2004/05 BVPIs	December 2004
Opinion on 2004/05 BVPP	December 2004
Performance Management (PADA)	December 2004
Matters Arising from Accounts and Core Process Review Audits	December 2004 (Draft)
Matters Arising from Review of BVPP and BVPIs	January 2005 (Draft)

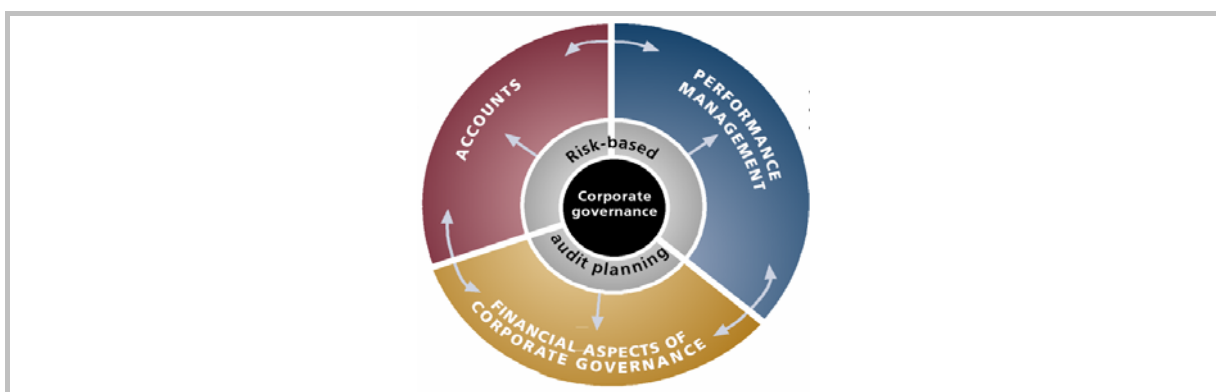
Scope of audit and inspection

Audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Exhibit 4.

EXHIBIT 4 THE THREE MAIN ELEMENTS OF OUR AUDIT OBJECTIVES



Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan.

Inspection

Inspection work is based around Section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the Council and the public to judge whether best value is being delivered;
- enable the Council to assess how well it is doing;
- enable the Government to assess how well its policies are being implemented; and
- identify failing services where remedial action may be necessary.

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

Audit and Inspection fee

Audit fee update

Audit area	Plan 2003/04 £000	Actual 2003/04 £000
Accounts	103	120
Financial aspects of corporate governance	131	124
Performance	175	165
TOTAL CODE OF AUDIT PRACTICE FEE	409	409
Grant Claim certification	250	Audit in progress

Inspection fee update

The full year inspection fee was £153k. The work reported in this audit and inspection letter has been funded by an element of the fee covering 2003/04 and by an element of the fee covering 2004/05. In both years the actual fee will be in line with that planned.