

Annual Audit and Inspection Letter

London Borough of Hillingdon

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As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

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.

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- 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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Our overall summary

Introduction

- 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 and inspections that have been undertaken in the last year. It forms a wider analysis of the Council's performance and its improvement over the last year, as measured through the Comprehensive Performance Assessment (CPA) framework.
- 2 The report is addressed to the Council and its members and is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The Letter is in shorter format than in previous years because its focus is on our inspection role. The main issues from our audit work were reported in our Annual Governance report and presented to the Corporate Services and Partnerships Policy Overview Committee in September 2006. This Letter contains only brief details of the issues from that report and the most important messages from our more recent audit work.

Summary of main findings

- 4 We have assessed the Council's 'direction of travel' as improving well and rated the Council's current level of performance under CPA as 2 star.
- 5 The Council is continuing to build its corporate and management capacity and is seeking to improve its focus on customers through its modernisation programme. The Council is well placed to continue to deliver improvements for local people.
- 6 Financial resources are well managed and the Council is performing consistently above minimum requirements. It is delivering significant efficiency savings to address a shortfall in expected funding. Key areas under development are a more strategic approach to achieving value for money and ensuring it is adopted throughout the organisation.
- 7 We gave unqualified opinions on the Council's statements of accounts and pension fund for the year ended 31 March 2006. Our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources was also unqualified.
- 8 Our review of the integration of children's services found there is clear leadership for the change programme but there was no overarching project plan. The review identified slow progress in ensuring that all the risks to the partner organisations have been systematically identified and are being managed. We will be undertaking the second part of our review in April and will comment on progress being made to address this issue.

Action needed by the Council

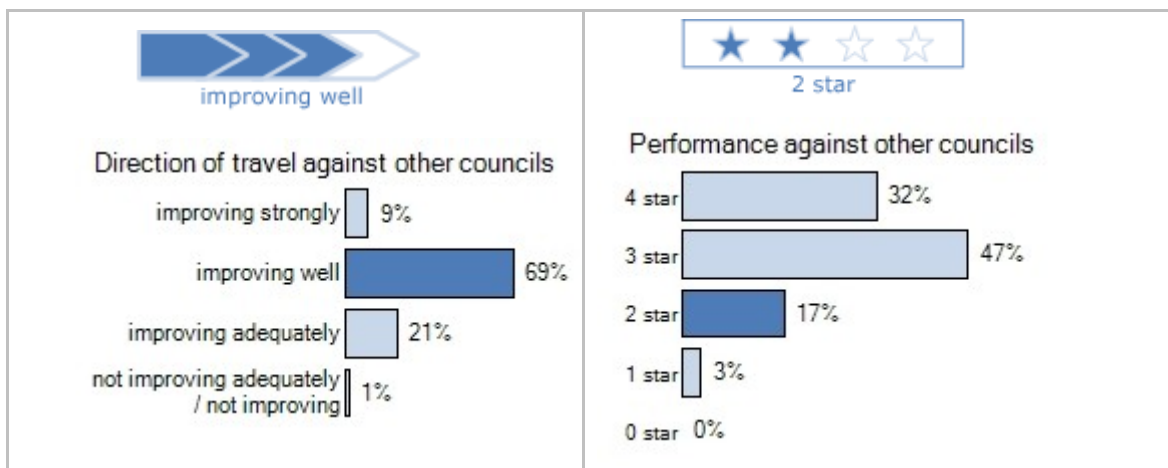
9 Members should:

- continue to monitor the delivery of the budget and ensure the ambitious savings contained within it are achieved to restore balances by 31 March 2008;
- ensure the new strategic approach to value for money is embraced by all areas of the Council; and
- strengthen arrangements to manage risks in relation to the integration of children services and ensure that mitigating actions are monitored.

How well is the Council performing?

- 10 The Council is assessed as a two-star authority under the criteria of the Audit Commission's Comprehensive Performance Assessment. The direction of travel is assessed as 'improving well'. These assessments have been completed at all single tier and county councils with the following results.

Table 1



Source: Audit Commission

Our overall assessment - the CPA scorecard

Table 2 CPA scorecard

Element	2005	2006
Direction of Travel judgement	Improving well	Improving well
Overall	2 star	2 star
<ul style="list-style-type: none"> Children and young people Social care (adults) Use of resources Housing Environment Culture Benefits 	2 3 3 3 2 2 4	2 3 3 4 3 2 4
<ul style="list-style-type: none"> Corporate assessment/capacity to improve 	2	2

Note: 1=lowest, 4= highest,

Improvement since last year - direction of travel assessment

- 11 The Council has improved performance in its priority areas of environment and housing. Three quarters of key performance indicators have improved which is above the national average. In particular progress has been made with the decent homes standard, satisfaction with street scene and customer access improvements.
- 12 The Council and its partners continue to face challenges in tackling crime, with a significant increase in robberies, but reductions in other crimes. There are good social care outcomes for children and young people and educational attainment has improved. Older people's independence is actively promoted through home support but delayed transfers of care were high and there are concerns about the future of services provided jointly with health and staffing capacity in social care services.
- 13 The Council manages its resources well. It has delivered significant efficiency savings and been effective in minimizing the impact of a significant shortfall in expected funding. A cultural change programme is in place to modernize and restructure the Council, build corporate and management capacity and improve customer focus. The Council is well placed to continue to deliver improvements for local people.

Corporate assessment

- 14 The Corporate Assessment Report published in February 2006 concluded that the London Borough of Hillingdon is performing adequately. The report is available from the Audit Commissions website www.audit-commission.gov.uk

Service inspections

Hillingdon Homes

- 15 In 2006 we re-inspected Hillingdon Homes, the Council's arms length management organisation (ALMO). The outcome of the inspection is subject to review. The final report is expected to be available on the Audit Commission's web site by mid May. We will comment on the findings and conclusions in our next annual audit and inspection letter.

Children and young people

- 16 An inspection (Joint Area Review) of local services for children and young people was undertaken in 2005 by a multidisciplinary team from different inspection bodies. The report setting out the findings can be found on the Council's website at www.hillingdon.gov.uk.

Governance and use of resources

Governance report

- 17 We presented our Annual Governance report to the Council's Corporate Services and Partnerships Policy Overview Committee in September 2006. The report can be found on the Council's web site at www.hillingdon.gov.uk . It includes our:
- unqualified opinion on your accounts and those of the pension fund for the year ended 31 March 2006; and
 - unqualified conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2006.
- 18 We made two recommendations to improve the quality of the Council's financial reporting, to:
- improve robust scrutiny of the annual accounts by members with supporting qualitative processes; and
 - review and improve the arrangements for the recovery of business rates whilst ensuring the bad debt provision is adequate.
- 19 We also made recommendations to improve the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. These are to:
- strengthen the governance arrangements over the Learning Disabilities pooled budget with the Hillingdon Primary Care Trust (PCT) as part of its role as host body;
 - maintain financial and information systems documentation sufficient to support the Head of Internal Audit's annual statement of assurance on the Council's internal control environment; and
 - ensure the budget is subject to robust monitoring, and take prompt corrective action to address variances and so ensure a positive outturn at the year end.
- 20 We have monitored the Council's financial position during the year. As at February 2007, the revenue projections for 2006/07 show a forecast underspend of £1.5 million. This is despite the inclusion of savings totalling some £14 million. £10 million of savings relate to proving for the unexpected shortfall in funding for unaccompanied asylum seeking children. This was revealed by DFES in circulars in October 2005 and January 2006 in respect of 2004/05 and 2005/06 awards. The Council obtained a judicial review of this decision but learnt in March 2007 that the case had not been successful.

- 21 The general fund balance which provides a contingency for unexpected financial pressures, such as the shortfall in funding for unaccompanied asylum seeking children, is currently below the minimum target level set by the Council. The Council plans to restore the balance to its minimum level of £8 million by 31 March 2008.
- 22 The budget for 2007/08 has been set by the Council. It reflects a number of pressures and incorporates further savings amounting to £13.3 million. It necessitates an increase of 3.75 per cent to Hillingdon's share of the council tax (the expected overall increase taking into account the precept by the Greater London authority is 4.08 per cent).

Use of resources assessment

- 23 The findings of the auditor are an important component of the CPA framework. In particular the use of resources score is derived from assessments made by the auditor in respect of the five themes which Table 3 refers.
- 24 For the purposes of the CPA, judgements are made using a scale which has been standardised by the Commission across inspection and performance assessment frameworks.
- 25 We assessed the Council as performing consistently above minimum requirements, scoring 3 out of 4 for the second consecutive year. This strong performance has been maintained by the council in the context of facing significant challenges to its financial position.
- 26 A report covering findings and opportunities for improvement in more detail was discussed with the Acting Chief Executive in November. The key issues are summarised in Table 3.

Table 3 Use of resources summary findings

Theme	Score	Summary findings and improvement areas
Financial reporting – including preparation of the accounts and the way these are presented to the public	3 (3)	The Council maintained its score of 3 and met the earlier statutory deadline for approving the 2005/06 accounts. There was some deterioration in quality of the accounts submitted for approval with an increase in the number of errors requiring amendment. The arrangements for member scrutiny suffered due to the council elections and the time taken to set up the new audit committee.

Theme	Score	Summary findings and improvement areas
Financial management – including how this supports the Council deliver its priorities	3 (3)	Arrangements for compiling the medium term financial strategy and annual budget are embedded but may be improved by making links between the budget and indicators of activity. Budget monitoring is sound. The Council has good arrangements for managing its asset base, but it needs to ensure that the significant backlog in asset maintenance of £24m is addressed.
Financial standing - the strength of the Council's financial position	3 (3)	The Council manages its spending within available resources and was on track to achieving its minimum target for its general fund reserve by 31 March 2006. An unexpected shortfall in unaccompanied asylum seeker children funding prevented this. The Council has implemented a recovery programme and plans to restore balances to its minimum level by 31 March 2008.
Internal control - including risk management, internal checks, and prevention and detection of fraud	2 (2)	The Council meets minimum requirements and has made progress in embedding its arrangements for risk management. It needs to be more proactive in its approach to countering fraud. The audit committee was not in place at the time of the assessment to oversee the system of internal control.
Value for money - how well the Council balances the costs and quality of its services	2 (2)	There is a mixed picture in terms of the relationship between costs and the range, level and quality of services provided. The Council needs to ensure the take up of its approach to value for money throughout the organisation to achieve a more consistent performance.

*1=lowest, 4=highest; brackets refer to 2005 scores.

Other audit work

- 27 The main messages from the rest of our audit programme are summarised in Table 4

Table 4 Other audit work

Audit	Main issues arising
Best Value Performance Plan	We certified that the Council's Best Value Performance Plan complies with relevant legislation and we have no matters to report.
Certification of grant claims for 2005/06	There continues to be scope for improving the quality and timeliness of grant claims. Some 38 per cent of claims were submitted late for certification and of the 20 that have been certified, 10 required amendment and 9 have been qualified. We will shortly be issuing a detailed report which sets out the actions needed to improve the preparation of claims.
Data quality	We assessed the Council's arrangements for ensuring the quality of its data as meeting minimum requirements. Data quality systems and processes are robust but are not yet being applied consistently to all aspects of performance information. There are effective arrangements for the governance, monitoring and review of data quality, although these are not formalised in an overarching data quality policy and strategy. We have issued a detailed report setting out actions needed to improve arrangements.
Human resources and payroll	We reviewed the Council's implementation of the new HR and payroll system to ensure that the risk of any financial misstatement is minimised. The review found that the Council needs to strengthen its sign off arrangements for the new system and ensure a cost benefit analysis is undertaken to ensure the anticipated benefits are realised.

Audit	Main issues arising
Children's services	<p>In November 2006 we completed a review of progress with integrating children's services. We found there is clear leadership for the change programme through the Children and Young People's Partnership Board (CYPSPB) and a good understanding of the risks involved in meeting the requirements of the Children Act. There is slow progress however in ensuring that the risks identified to the partner organisations have been systematically identified and are being managed. There is also no overarching project plan for the change process setting out when and how the changes will be implemented.</p> <p>The findings of this review were reported to the CYPSPB in February 2007.</p>
Legality	<p>We receive correspondence from third parties on a variety of issues. Where appropriate, we have made investigations and discussed issues with officers. There are no matters of unlawful expenditure or otherwise to report to members.</p>

Conclusion

- 28 This letter has been discussed and agreed with the Acting Chief Executive. A copy of the letter will be presented at the audit committee on 7 June 2007.

Reporting

- 29 Further detailed findings, conclusions and recommendations on the subjects covered by this year's work are included in the reports issued to the Council during the year. The table below highlights the reports issued since my last annual audit and inspection letter in January 2006.

Table 5 Reporting

Report	Date of issue
Corporate assessment	February 2006
Audit and inspection plan 2006/07	May 2006
Interim audit report 2005/06	August 2006
Annual governance report 2005/06	September 2006
Opinion on financial statements 2005/06	September 2006
Value for money conclusion 2005/06	September 2006
Best Value Performance Plan report 2006/07	December 2006
Use of resources auditor judgements 2006	December 2006
Data quality arrangements and performance indicators 2006/07	January 2007
Integration of children's' services	February 2007
Final accounts memorandum 2005/06	February 2007
Direction of travel assessment 2006	February 2007
CPA scorecard 2006	February 2007
Human resources and payroll implementation (2 parts)	September 2006 and March 2007
Value for money arrangements	March 2007
Hillingdon Homes inspection	Under Review - March 2007.
Annual Audit and Inspection Letter 2005/06	March 2007

Fees

- 30 The outturn fees for the year are set out in the table below.

Table 6 Fee update for 2005/06

Area	Planned £000	Actual £000
Accounts	236	236
Use of resources	112	112
Total audit fee	348	348
Inspection	117	117
Total audit and inspection fee	465	465
Grant claim certification	-	170*

* *estimated outturn*

- 31 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

- 32 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