

# External Audit Progress Report

London Borough of Hammersmith & Fulham

Audit 2010/11

**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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# Progress Report

**1** My principal objective as your appointed auditor is to carry out an audit that meets the Audit Commission's Code of Audit Practice (the Code). The purpose of this report is to provide you with an update on progress in delivering the 2010/11 audit plan and in planning the 2011/12 audit. It also highlights key national emerging issues and developments which may be of interest to members of the Committee. If you require any additional information regarding the issues included within this report, please contact me using the contact details at the end of this update.

## 2010/11 audit

**2** My initial plans were set out in the 2010/11 fee letter sent to the Chief Executive and the Director of Finance and Corporate Services in April 2010. I provided detailed audit plans for the Council and Pension Fund audits at the Audit Committee in February 2011.

**3** I set out below progress on work undertaken to date. A summary of the intended outputs for the audit is included at Appendix 1.

### Interim work

**4** A part of my interim audit I document and walkthrough the financial systems material to the production of the accounts. I also test the controls of selected systems to enable me to reduce testing at year end. Wherever possible I seek to place reliance on the work of internal audit to reduce the requirement for officers' time.

**5** As a result of this work I made some recommendations which officers have accepted and responded to. Appendix 2 details the agreed action plan.

### Financial statements audit

**6** The draft Pension Fund accounts were provided to me on the 8 June 2011 and I have commenced the audit. The draft Council accounts are due to be provided to me by the end of June 2011.

**7** As 2010/11 will be the first year in which the accounts are to be prepared using International Financial Reporting Standards, I conducted early work where possible to audit the re-stated 2009/10 comparators. Work has been completed on:

- accounting policies
- group accounts boundary; and
- segmental reporting.

**8** Other areas of the IFRS restatement remain outstanding and so will be completed as part of the year-end audit.

## Value for money

**9** I am implementing a phased approach to my audit consideration of the developing arrangements across the three boroughs (the tri-borough arrangements) in the context of the value for money conclusion responsibilities - initially, for 2010/11, but with the main focus for 2011/12. To date, this has comprised a 'watching brief'. I am discussing with officers at the three boroughs the need to develop this ongoing work as arrangements themselves develop, with likely specific risk-based work to be progressed. I will continue to liaise with the Chief Executive and Director of Finance and Corporate Services as part of my work.

## 2011/12 audit

**10** My initial plans for the 2011/12 audits of the Council and its pension fund were set out in my letters to the Chief Executive and Director of Finance and Corporate Services in March 2011. These are included as a separate item on this Audit Committee's agenda.

**11** The Audit Commission consulted on the proposed work programme and scales of fees for local government for 2011/12. The final agreed programme and scale resulted in a significant reduction in audit fees to reflect the new approach to local VFM audit work. For 2011/12, the Audit Commission has also specified the scale audit fee for each individual body. This is intended to increase transparency and ensure planned reductions are delivered on the ground.

## Future of the Audit Commission

**12** The Department for Communities and Local Government (DCLG) announced in August 2010 plans to abolish the Audit Commission and put in place new arrangements for auditing England's local public bodies. DCLG is currently consulting on its proposals for the new audit regime and plans to publish a draft Bill for further scrutiny and comment later in the year. The new regime will see the end of the Commission's responsibilities for overseeing and commissioning local audit and its other statutory functions, including those relating to studies into financial management and value for money.

**13** The Commission is working with DCLG to consider ways of transferring its existing in-house audit practice into the private sector. In April 2011, DCLG appointed FTI as financial consultants to give it advice on the best approach to externalising the audit practice and its valuation under different options. Pending approval from the government, the Commission's preferred option would be for the audit practice to become an employee-owned, or mutual, organisation.

## Recent publications

14 The Audit Commission publishes independent reports which highlight risks and good practice to improve the quality of financial management in the health service and encourage continual improvement in public services including in the field of public health and health inequalities. Some of the recent reports are summarised in Appendix 3 and are also available on the Audit Commission web-site at:

<http://www.audit-commission.gov.uk/nationalstudies/localgov/pages/default.aspx>

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## Appendix 1 Planned outputs

Planned output	Indicative date	Actual date
Initial fee letter	April 2010	April 2010
Opinion audit plan	January 2011	February 2011
Annual Governance Report	September 2011	
Opinion on the financial statements and value for money conclusion	September 2011	
Final accounts memorandum	October 2011	
Annual audit letter	November 2011	

## Appendix 2 Interim Audit Recommendations

### Recommendations

#### Recommendation 1

Strengthen record keeping in respect of new starters, leavers and staff with change of circumstances. Original supporting documentation should be retained to include:

- starters, leavers or change of circumstances forms;
- offers of employment letters and signed copies of the contracts for new starters; and
- resignation letters and confirmation of leavers letter.

<b>Responsibility</b>	AD HR and DDF
<b>Priority</b>	High
<b>Date</b>	By 1 June 2011
<b>Comments</b>	We accept that improvements need to be made in the retention of supporting documentation for payroll changes and we will be meeting together mid May to formalise our policy going forward with a view to implementation by 1st June 2011.

#### Recommendation 2

Reconciliation variances should be investigated and cleared. A formal process of completing reconciliations and clearing variances in a timely manner should be introduced. Management should review and sign-off reconciliations.

<b>Responsibility</b>	DDF
<b>Priority</b>	High
<b>Date</b>	By 30 June 2011
<b>Comments</b>	We have started to evidence our review and sign off of reconciliations - eg. LBHF pension membership and housing benefits (rent allowances and rent rebates). It is intended that this will be rolled out across all our key reconciliations by the beginning of July 2011 as part of the WCFM implementation.

#### Recommendation 3

Establish a formal policy for the clearance of suspense accounts, detailing:

- the frequency of suspense account clearance;
- the time a transaction remains in the suspense account; and
- introduce formal review and sign-off procedures.

<b>Responsibility</b>	DDF
<b>Priority</b>	High
<b>Date</b>	By 31 May 2011



## Recommendations

**Comments** We will review all our suspense accounts as part of the 2010/11 closing process with a view to formalising a policy for clearance. By 31st May we will produce a policy covering the issues highlighted above.

### Recommendation 4

All requests for invoices should be supported with a signed and authorised formal request.

**Responsibility** DDF and Departments

**Priority** High

**Date** Ongoing

**Comments** We have already reminded relevant staff of this requirement. In addition we are investigating the possibility of centralising electronic storage of supporting documentation with a view to allow for monitoring of compliance with our practice.

## Appendix 3 Recent Publications

### **Improving value for money in social care (2 June 2011)**

'Improving value for money in adult social care' is the first in a series of briefings that will look at value for money in health and social care.

This briefing finds that, as demographic change and financial pressures combine to create tough times for adult social care, councils have looked at many aspects of the service in order to provide better, more efficient services.

Better procurement, improved back office arrangements, and a preference for community-based rather than residential care where possible, are just some of the changes that local authorities have implemented to help them meet the challenges they face.

But the briefing also finds that the pace and scale of change need to increase if councils want to release material savings, as well as improve care for people.

### **Going the distance - achieving better value for money in road maintenance (26 May 2011)**

The report looks at the challenges faced by the country's 152 council highways authorities. England's 236,000 miles of local roads - used by 30 million drivers every day - are under attack from increasing traffic, severe winters, higher repair costs, and dwindling highways funding.

The report highlights how councils can get more for their money, including cost-saving collaborations with neighbours, asset management to show when road maintenance will be most effective, new ways of keeping residents informed, and weighing short-term repairs against long-term resilience.

It includes a series of case studies which demonstrate how some councils have developed strategies that balance growing service demands with reducing resources.

### **Better value for money in schools (10 May 2011)**

The Audit Commission's equality impact assessment (EIA) of the Better Value for Money in Schools study led to an approach which included whether any changes in school resourcing designed to achieve greater efficiency would have a differential impact on particular groups within the school population.

The study looked at the ways that maintained schools could deploy their workforce more efficiently. It focused on four areas of classroom deployment; curriculum breadth; staff absence and cover; and the wider school's workforce.

By making schools workforce more efficient schools can free up resources that either allow them to deliver the same quality of education while budgets are contracting, or better education with the same budget.

School budget cuts are likely in the future, which has the potential to impact particularly on students from a disadvantaged background and pupils with special educational needs.

The summary document sets out the findings from the EIA, showing how equality and diversity issues were embedded in the study.

### **Services for young people: Value for money self-assessment pack (19 April 2011)**

This is a free self-assessment pack resulting from collaboration between the Audit Commission and the Confederation of Heads of Young People's Services (CHYPS). It aims to help make sure money spent on services for young people is well used and has the right impact.

Already piloted in six areas, it has been credited with:

- helping statutory and voluntary providers to begin longer-term reviews of provision, staffing and costs;
- increasing self-awareness among managers and staff about council youth services;
- stimulating discussion between partner organisations on improvement and how to achieve better value for money;
- identifying some 'quick wins'- for example, doing more to celebrate young people's achievements; and
- generally raising the profile of youth services.

The pack is organised into five modules which take users through a structured assessment of their services, drawing on their own and comparative data about spending and outcomes. It then helps them prepare an action plan to provide the best value for money services for young people, specifically tailored to their area and its resources.

Services for Young People: Value for Money Self-Assessment Pack is a voluntary, online, self-assessment tool aimed at elected members and senior staff with an interest in services for young people. It is relevant to all councils, fire and rescue authorities, the police, voluntary and private sectors - indeed anyone who is involved in commissioning or delivering services locally for young people.

In 2009 the Audit Commission report Tired of Hanging Around showed how sport and leisure activities could prevent young people being drawn into anti-social behaviour. It found that a young person caught up in the criminal justice system costs the taxpayer £200,000 by the age of 16, but one needing support to stay out of it costs less than £50,000. The report identified a need for councils and their partners to improve resources for young people. This new resource is designed to complement it.

## **Better value for money in schools (31 March 2011)**

These four briefings are designed to help schools make the best use of their workforce - whether teachers, teaching assistants, or administration and finance staff - at a time when they have to find savings.

England's maintained schools spent £35 billion in 2009/10. School staff account for over three-quarters of this total and form one of the country's largest public sector workforces.

These briefings, under the heading Better Value for Money in Schools, examine patterns in spending in maintained schools in England. They aim to help school heads, governing bodies and councils control costs without compromising educational attainment.

They look at four areas where schools have scope to improve efficiency:

- the deployment of classroom staff, including class sizes and allocation of teachers and teaching assistants;
- the breadth and focus of schools' curriculum offer;
- approaches to covering for staff absence, including supply teachers; and
- the size, cost and composition of the wider (non-teaching) school workforce.

In addition we published a summary paper, An overview of school workforce spending, which is targeted at chairs of governing bodies and lead members on children's services.

For more information about the briefings you can email [schoolsworkforce@audit-commission.gov.uk](mailto:schoolsworkforce@audit-commission.gov.uk)

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