

London Borough of Hammersmith and Fulham Audit Progress Report and Sector Update

March 2024



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at March 2024

Financial Statements Audit 2021/22 update

On the 22 February 2024 we have signed our auditor's reports on the 2021/22 Council and Pension Fund financial statements.

We have previously communicated in our updates and our Audit Findings Report that we were considering our final fee for the audit. The proposed fee was £212,742 for the Council and £38,000 for the Pension Fund audit. There have been significant delays during the audit as follows:

- consecutive running of the 21/22 audit with the prior year audit requiring additional management time to catch up progress on the audit;
- additional testing of assumptions and data inputs for the pension liability due to the triennial valuation requiring adjustment in the 21/22 statements;
- pension administration and system changes in the pension fund requiring us to carry out additional work around the transfer of data and the IT general controls to gain sufficient assurance over the system transfer and operations on 2 different systems during the year;
- change of pension administration service provider meaning there were significant delays in responses to our audit samples and queries on member data changes, benefits and contributions, significantly adding to the time taken to close testing on the Pension Fund;
- delays in obtaining responses on debtors and creditor sample queries particularly relating to the collection fund systems, and delays in responses on our provisions audit queries;
- the audit continues to have a relatively high level of differences, discrepancies and control issues which add to management time in closing and reporting the audit;
- a delay in signing the audit due to internal processes.

As a result of these issued our final fees for the audits are £239,398 for the Council and £49,500 for the Pension Fund audit.

Financial Statements Audit 2022/23

The Council and Pension Fund audits for 2022/23 are substantially completed and we have reported our Audit Findings Report to this meeting. We are aiming to complete and sign these audits by the end March 2024. We have set out the deliverables for this audit, and their status, on the next page.

Value for Money 2022/23

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which was presented to the November Audit Committee meeting.

Financial Statements Audit and Value for Money 2023/24

We will present our plan and risk assessment for the audit and value for money work to the Audit Committee meeting on 17 June 2024 with fieldwork planned for July 2024 onwards.

Other areas

Meetings

We meet regularly with your Senior Finance Officers. We continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers will be invited to attend our next Accounts Workshop in early 2024.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Deliverables

2022/23 Deliverables	Planned Date	Status
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council and Pension Fund 2022-23 financial statements and to issue a commentary on the Authority's value for money arrangements in the Auditor's Annual Report.</p>	September 2023	Completed
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the Audit Committee.</p>	March 2024	Completed
<p>Auditors Report</p> <p>This includes the opinion on your financial statements.</p>	March 2024	Planned to sign after the Audit Committee meeting on 11 March 2024
<p>Auditor's Annual Report</p> <p>This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.</p>	November 2023	Completed

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font, centered within the button.

Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

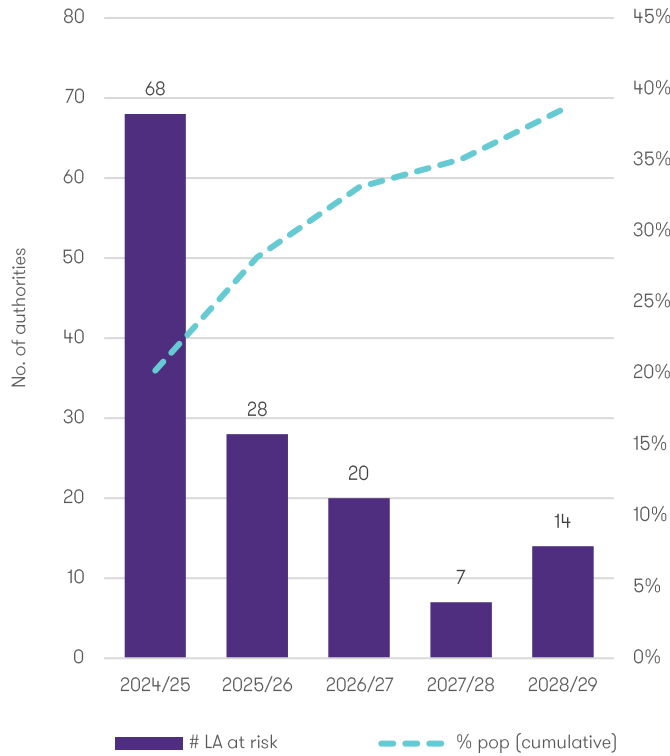
Local
government

The financial trajectory of the sector

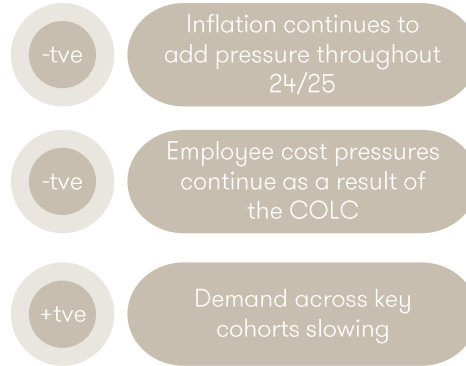
This is taken from the Grant Thornton/CIPFA Financial Foresight model, which provides long-term forecasts (revenue income and expenditure) for all councils in England. These forecasts are based on multiple assumptions relating to financial, demographic and economic factors. Councils at risk are defined by the level of usable reserves being less than 5% of net revenue expenditure.

The year at risk graph on the left represents the most recent update of the assumptions including the impact of the Autumn Statement and draft 2024/25 finance settlement. The graph on the right provides the position before this most recent update. This highlights that the year at risk for many councils has moved forward to 2024/25. The graph at the bottom of the page highlights the forecast depletion of reserves nationally, as councils manage ongoing financial pressures.

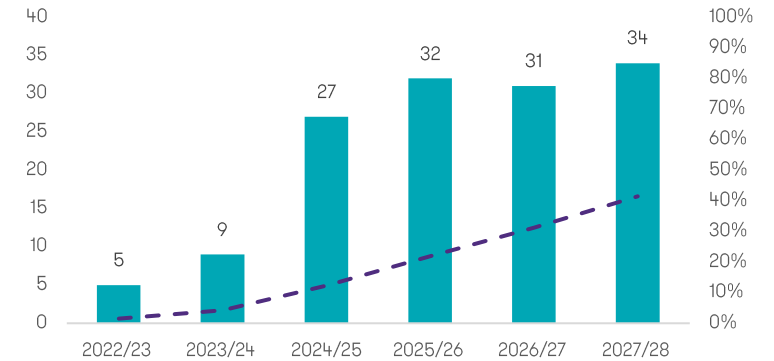
Year at risk (based on Jan 2024 forecast)



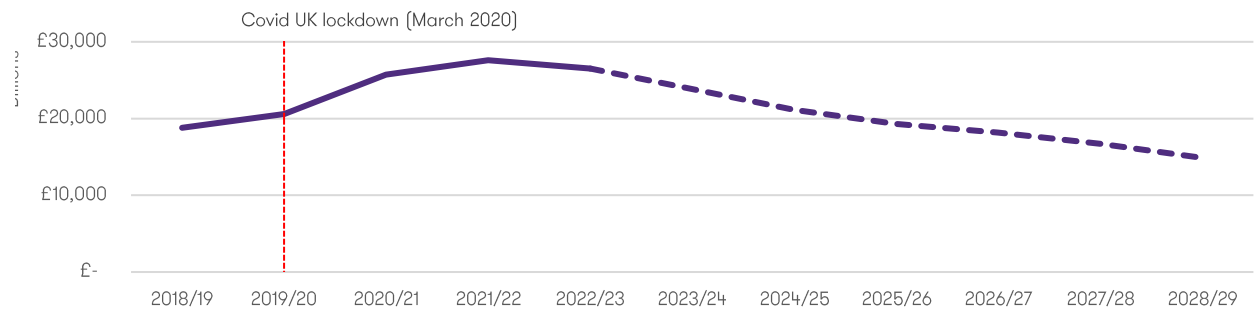
Assumptions



Year at risk (Historic Position)



Level of reserves



Source: Financial Foresight (Grant Thornton and CIPFA)

Addressing the delay in local audit

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see *About time?* (grantthornton.co.uk). Further details can be found in the 'Sector update' section of this report on Pages 16 to 19. Since 2019 Grant Thornton have increased our public sector audit team from 340 people to circa 470 which reflects both the additional work required by new accounting and auditing standards as well as the NAO Code of Practice requirements on value for money.

On 8th February 2024, DLUHC and the NAO both issued consultations on measures to address the delay in local audit. Consultations are open until 7th March 2024 and relate to:

- DLUHC - changes to the Accounts and Audit Regulations 2015 to introduce a backstop date of 30 September 2024 for the publication of audited accounts up to and including 2022/23, and a series of future backstop dates covering the remainder of the PSAA appointment period; and

- NAO - changes to the Code of Audit Practice to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements.

The FRC, as shadow system leader, is facilitating the consultations. CIPFA/LASAAC are expected to go live on their proposals for time limited changes to the Financial Reporting Code for English bodies shortly.

To have your say, navigate to the consultations here:

The DLUHC landing page is here - [Addressing the local audit backlog in England: Consultation - GOV.UK \(www.gov.uk\)](#)

The NAO landing page is here - [Code of Audit Practice Consultation - National Audit Office \(NAO\)](#)



Grant Thornton report: preventing failure in local government

Grant Thornton's December 2023 report Preventing Failure in Local Government offers prescriptions for remedies to support better health across the local government sector. The report looks at the opportunities that councils and their key internal and external players have to prevent failure, noting that the chain (of good governance) is only as strong as its weakest link.

The Audit Committee is listed as one of the key internal bodies with a role to play in preventing failure, along with the Executive, the Overview and Scrutiny Committee and the golden triangle of Chief Executive Officer; Finance Director; and Monitoring Officer. **Opportunities for the Audit Committee to make a difference surround:**

- focusing on risk management alone (not having multiple roles);
- independence (having an independent chair and at least one independent member);
- specialist training and support for members of the committee;
- direction over internal audit (setting the standard for strategic risk focus and timeliness); and
- curiosity and asking the right questions.

Sharing the Auditor's Annual Report with full council is also listed as important. The challenge for Audit Committees will be not only to maximise their own opportunities to prevent failure, but knowing the right questions to ask about whether the Executive and other committees and the three key statutory officers are making the most of their opportunities as well.

For insight into effective questions to ask, read the full report from Grant Thornton here: [How can further local authority failures be prevented? \[grantthornton.co.uk\]](https://www.grantthornton.co.uk)



Mitigating financial distress in Local Authorities

On 29th January 2024, a report by the Levelling Up, Housing and Communities Committee highlighted that in the last six years, eight local authorities have issued a section 114 notice, whereas none had done so in the eighteen years before that.

Income related issues were highlighted in the report around the below-inflation cap on increasing council tax rates (referendum thresholds) and formulaic weaknesses with the business rates retention scheme. Council tax especially was singled-out as regressive, long overdue for reform, and contributing to a disproportionately negative impact on funding levels in the most deprived areas of the country.

Expenditure related issues were listed in the report as surrounding social care; special educational needs and disabilities; and homelessness. The report highlighted that for children's social care, even the Competition and Markets Authority has recognised that the level of competition in the market is "not working as well as it should be" at maintaining prices at reasonable levels for local authority purchasers.

The report shows that nearly one in five Leaders and Chief Executives of other local authorities who have not already issued a s114 notice do assess themselves as being at "tipping point" due to lack of funding.

Whilst most of the recommendations in the report are aimed at Government, there are some **key takeaways for local authorities while they wait for any change that may come:**

- have we set Council Tax at the highest level possible without a referendum? Future changes could see referendum thresholds increased or removed. Are Councils doing all they can now to maximise this source of income?
- are we collaborating as effectively as we can with other local authorities to influence market prices for the services we buy in?

For insight into effective questions that Audit Committees can ask, read the full report here [*Financial distress in local authorities \(parliament.uk\)](https://www.parliament.uk/publications/2024/1/financial-distress-in-local-authorities)



Learning from the Office for Local Government

On 15th February 2024, the Secretary of State for Levelling up, Housing and Communities set out, in an open letter to the Chief Executive of Oflog, the strategic remit for Oflog for the financial years 2024 to 2027, and the Office's priorities for the financial year 2024/25. The priorities are to:

- inform;
- warn;
- support; and
- engage.

Using the new Local Authority data explorer tool (launched in July 2023), the Office can currently use metrics on waste management, planning, adult social care, roads, adult skills and corporate/ finance to compare any one authority with the English median, CIPFA nearest neighbours and trends over time. The Office is expected to develop a new early warning system to identify local authorities that are at risk of serious failure (but have not raised the alarm themselves) and to conduct 'early warning conversations' with local authorities at risk. It will be also be offering a programme of webinars to share best practice between local authorities, and to help improve performance, productivity and value for money.

Local Authorities and their members can familiarise themselves now with the data explorer metrics already publicly available. **Challenge questions for Audit Committees to ask include:**

- are the metrics consistent with our own benchmarking?
- are we showing early warning signs?
- what arrangements will we be making to make best use of the learning that will be on offer?



For a full copy of the remit letter and for access to data explorer metrics for your Local Authority see here:

[Remit letter from DLUHC Secretary of State to the Oflog Chief Executive - GOV.UK](#)

[\[www.gov.uk\]](https://www.gov.uk)

[About - Local Authority Data Explorer](#)

New workbook to support councillors in their work on community leadership

On 8th February 2024, the Local Government Association published a new workbook for Councillors, covering community leadership.

Effective community leadership matters because communities that are engaged tend to have happier, healthier people and lower levels of crime and anti-social behaviour. Declining voting and increased social detachments from local areas are also a concern. Councillors are in the unique position of being able to interface between citizens and the council and demonstrate directly what they have achieved for the people they represent.

The workbook shows that for effective community leadership, councillors need to:

- listen to and involve their local communities;
- build vision and direction;
- work effectively with partners;
- make things happen;
- stand up for communities;
- empower communities;
- be accountable; and
- use resources effectively.

With challenge questions; case studies; guidance, hints and tips; and a dedicated section for the opposition, the workbook makes for interesting reading for any councillor – new or already established.

[A councillor's workbook on community leadership | Local Government Association](#)



Making the most of levelling-up funds to local government

In November 2023, the National Audit Office published its report on whether the Department for Levelling Up, Housing and Communities' levelling up funds are likely to deliver value for money. The three significant funds are the Towns Fund (Town Deals and Future High Streets Fund programmes); the Levelling Up Fund (local priorities with a visible impact); and the UK Shared Prosperity Fund (to increase life chances and build pride in place). Between them, these funds are worth up to £10.6 billion and aim to allocate £9.5 billion to local places to be spent by 31 March 2026. However, less than half of the monies given to local places across the three schemes by 31 March 2023 had been spent. Because under current arrangements the funds are time limited, there is a risk that some projects may never be started and others, in the haste to complete, may include sub-optimal decisions.

Many of the delay factors are beyond Local Authorities' control: Rising costs, skills shortages and supply issues in the construction industry. However, the report does highlight that there are things Local Authorities can do to help with unblocking.

Key questions that Audit Committees can ask are:

- do we know which of our projects are on track and which are at risk?
- have all projects got their main contractor in place?
- has full advantage been taken of the ability to move money between sub-projects within individual bids?
- is advantage being taken of the ability to make changes to the scope and scale of projects without seeking approval if the changes do not exceed a 30% threshold?
- are projects being prioritized? So that those that can complete to time, do complete to time?

For the full report and an insight into wider recommendations for the Department, see [*Levelling up funding to local government \(nao.org.uk\)](https://www.nao.org.uk/reports/levelling-up-funding-to-local-government/)

£10.6bn	total amount announced through the Towns Fund, Levelling up Fund and UK Shared Prosperity Fund, to support the government's levelling-up agenda across the United Kingdom between 2020–21 and 2025–26
£9.5bn	the amount the Department for Levelling Up, Housing & Communities (DLUHC) has allocated to local places to be spent by 31 March 2026
£2.0bn	the amount DLUHC has given to local places so far across the three funds at 31 March 2023
£0.9bn	the amount spent by local places at 31 March 2023

Helping to avoid the “doom loop” for adult social care

In October 2023, the annual Institute for Government / Chartered Institute of Public Finance and Accountancy (CIPFA) public services stocktake revealed that adult social care services are likely to be performing worse in 2027/28 than they were on the eve of the Covid-19 pandemic, and much worse than they were in 2009/10. The report describes the impact across nine different public services of successive governments’ short-term policy making; under-investment in capital; and workforce crisis. For adult social care, it highlights that under current funding arrangements, a return to pre-pandemic levels of performance seems unlikely. The report describes a “doom loop” for adult social care, resting on:

- staffing problems and capacity being worse than they were before the pandemic: Vacancy rates in 2022/23 sat at 9.9%. They were 6.7% in 2019/20;
- growing demand: Since 2015/16, the number of requests for adult social care support from new clients has increased by 22.1% for 18–64-year-olds;
- erosion of cash settlements: Settlements announced in 2021 and 2022 have been eroded over time, due to higher than anticipated pay awards and national inflation; and
- sector-specific inflation: Unit costs of adult social care packages are now much higher than they were before the pandemic. According to a survey of directors of adult social services, this has been driven by increasing complexity of care needs, staffing costs and wider inflationary pressures.

There has been no immediate sign of relief from central government. The Autumn Statement in November 2023 made no new funding available for public services, and spending increases beyond April 2025 of less than 1% in real terms are expected.

Audit Committees can help by asking the right questions. What steps do their entities take to make sure staff costs are managed effectively – with as high a ratio as possible being on substantive staff, for stronger consistency and continuity? What assumptions about future funding are their entities making in their budgets? What are the procurement and brokerage arrangements for purchasing care packages in what is, at present, a supplier’s market?

Service	Performance on the eve of pandemic v 2009/10	Performance now v on the eve of pandemic	Funding adequate to	
			Return to pre-pandemic performance levels by the end of 2024/25	Maintain performance levels between the end of 2024/25 and 2027/28
Adult social care	↓ Much worse	↘ Worse	No	Maybe

For the full report and a sense of how other public services are faring as well, see [Performance Tracker 2023 | Institute for Government](#)



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