

Annual Audit and Inspection Letter

February 2008



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London Borough of Harrow

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

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

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

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

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

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

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Key messages

- 1 The main messages for the Council included in this report are as follows.
 - The Council's appointed auditor provided an unqualified opinion on the 2006/07 accounts and the Use of Resources score remained a two which indicates that it is 'at only minimum requirements – adequate performance'.
 - Financial standing remains a key concern with the level of the Council's reserves significantly lower than the Council's reserves policy requires, despite cost savings delivered over the last 12 months.
 - Performance in children and young people's services and housing benefits has improved, but the rate of performance improvement in some other priority services is below other Councils. Most notably street cleaning, housing services performance has declined and adult social care services have retained a one-star rating.
 - Through clear leadership the Council has clarified its vision and priorities for the area and it is implementing a comprehensive improvement programme to support cultural change and develop the capacity of councillors and senior officers.

Action needed by the Council

- 2 Harrow's general fund reserves were very low at 31 March 2007, declining by a further £0.5 million from the prior year to £1.3 million at the year-end. This was despite a significant and largely successful cost savings programme implemented in August 2006. The Council's revised reserves policy states that 'The Council intends to add £1 million to reserves and provisions each year until such time as general balances exceed £5 million.' This remains the biggest challenge in both the short and medium term and should therefore be given the utmost priority at all levels of the Council.
- 3 Harrow needs to increase the pace of improvement in key service areas, such as adult social care, housing, and street cleaning to bring it in line with better performing Councils and to deliver improved outcomes for local people.
- 4 Having clarified its vision and priorities for the area the Council now needs to further strengthen the capacity of the organisation to support improvement across all services, through effectively implementing its corporate improvement programme.

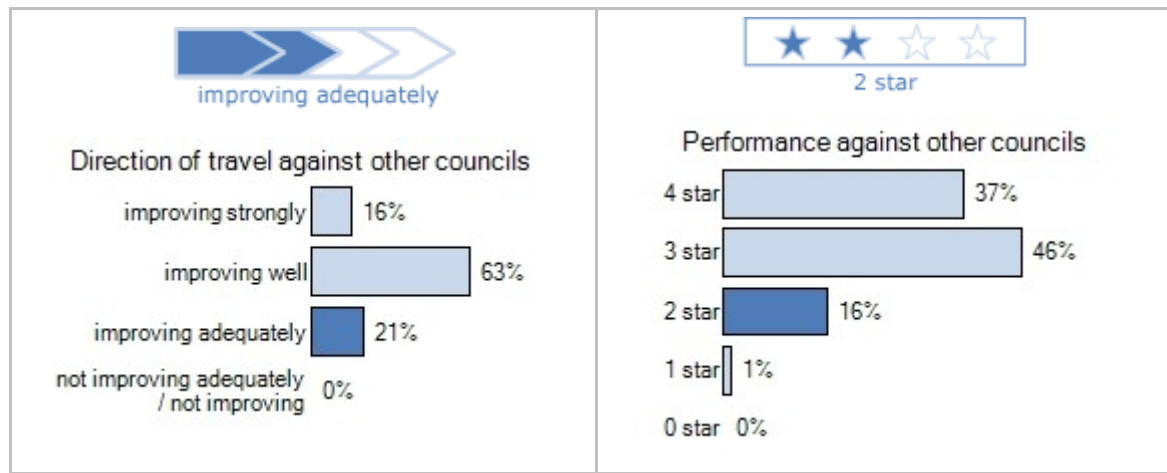
Purpose, responsibilities and scope

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

How is Harrow Council performing?

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

Figure 1



The above charts are correct at time of publication, but may be subject to change.

Source: Audit Commission

- 12 The detailed assessment for Harrow Council is as follows.
Our overall assessment - the CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving adequately
Overall	2

Corporate assessment/capacity to improve	2 out of 4
Current performance	
Children and young people*	3 out of 4
Social care (adults)*	2 out of 4
Use of resources*	2 out of 4
Housing	2 out of 4
Environment	2 out of 4
Culture	2 out of 4
Benefits	4 out of 4

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

The improvement since last year - our Direction of Travel report

- 13 Harrow has delivered improvements in some priority areas, most notably housing benefits and children and young people's services, with good health outcomes achieved. However, the rate of improvement in key performance indicators is below the national average. Housing services performance has declined and the pace of improvement in adult social care services and street cleaning is slow.
- 14 The Council, through the LAA, works well with partners to deliver wider community outcomes, for example, in regeneration and community safety. It works with the police in helping to maintain the borough's low crime rates. Tackling teenage pregnancies and delivery of affordable housing remain as challenges.
- 15 The Council has clarified its vision and priorities for the area. This is supported by clear leadership and a comprehensive improvement programme to continue to strengthen the capacity of the organisation. The Council's financial standing remains a significant challenge. As well as continuing to rebuild its finances effectively, the Council needs to increase the pace of service improvement. This will be essential for the delivery of local priorities and improving the quality of services for local people.

Service inspections

- 16 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. Relationship Managers share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates.
- 17 The contribution of services to improving outcomes for children and young people is good. The Council has responded positively to the recommendations raised in the JAR report 2006 and has made significant progress since that time. In particular, outcomes for being healthy have improved and the Council's contribution to improving outcomes in this aspect is now good. The Council's capacity to improve its services for children and young people is good, and its management of these services is good. The main areas for improvement are continuing the development of a joint workforce strategy and joint commissioning. Overall the Council demonstrates good capacity to maintain and improve further its services for children and young people.
- 18 The Commission for Social Care Inspection (CSCI) assessed the Council's adult services as 'delivering adequate outcomes' with 'uncertain capacity for improvement' in November 2007. This is a rating of one star overall. The Council makes a good contribution to improving adults' health and sense of well-being; for example, domiciliary and intermediate care schemes prevent hospital admission and assist timely hospital discharge. However the Council makes only an adequate contribution to improving adults' quality of life and received a similar rating of adequate for all other themes. Key areas for improvement include:
- the number people helped to live at home, including:
 - older people;
 - adults with learning disabilities; and
 - younger physically disabled people;
 - intensive homecare, including that purchased via direct payments;
 - further improvement needed for waiting times for assessments;
 - work with partners to reduce the number of continuing care disputes; and
 - increase the numbers of completed adult protection referrals and improve safeguarding adults training to independent sector staff.
- 19 CSCI acknowledges that the Council has taken some step to enhance its leadership, commissioning and use of resources, but highlights the need to increase the pace of improvement, and further develop its capacity and governance of partnerships.

- 20 OFSTED gave an overall rating of 'good' for the effectiveness of the Council's provision for adult and community learning, following an inspection in November 2007. All areas inspected, including achievement and standards; the quality of provision; leadership and management; family learning and community development were assessed as good. The Council also demonstrated good capacity to improve its adult and community learning services.
- 21 The Council has maintained its strong performance in housing benefits retaining a score of four overall and within each theme. The Council's most recent self-assessment showed that it achieved a rating of excellent against 12 of the 13 performance measures scored by the Department of Work and Pensions. While the Council maintained the same overall score of four out of four, its performance in the Claims administration, Security and User focus themes improved during 2006/07. In particular, the average time to process new claims and changes of circumstances had reduced.

The audit of the accounts and value for money

- 22 Your appointed auditor has reported separately to the Audit Committee on the issues arising from the 2006/07 audit and has issued:
- an audit report, providing an unqualified opinion on your accounts by the 30 September deadline;
 - a conclusion on your arrangements for use of resources to say that these arrangements are adequate, except that the Council did not put in place arrangements to ensure that its spending matched its available resources;
 - a report on the 2007/08 best value performance plan confirming that the plan had been audited, prepared and published in accordance with requirements; and
 - audit opinions on a number of grant claims and returns applicable to the year under review.
- Use of Resources
- 23 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support Council priorities).
 - Financial standing (including the strength of the Council's financial position).
 - Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for money (including an assessment of how well the Council balances the costs and quality of its services).

- 24 For the purposes of the CPA your auditor has assessed the Council's arrangements for use of resources in these five areas as follows.

Table 2

Element	Assessment
Financial reporting	2 out of 4
Financial management	2 out of 4
Financial standing	1 out of 4
Internal control	3 out of 4
Value for money	2 out of 4
Overall assessment of the Audit Commission	2 out of 4

(Note: 1 = lowest, 4 = highest)

The key issues arising from the audit

- 25 The key issues arising from the audit, as reflected in the above judgements where appropriate, are set out in the following paragraphs.
- 26 The Council remains in a weak financial position due to deficits recorded in the last three years. In recognition of the need to redress this, the Council introduced a new reserves policy in February 2007, agreed by members, stating that it intended to add £1 million to reserves and provisions during the year. The Council failed to comply with this revised policy in 2006/07, actually depleting reserves in the year by £0.5 million. This eroded reserves to £1.3 million as at 31 March 2007. However, it is recognised that this was after the largely successful implementation of a significant cost savings programme instituted in August 2006. Restoring the Council's financial balances to a more satisfactory level through general reserve surpluses needs to be a key priority going forward.
- 27 Since the 2006/07 financial statements were approved, further information on certain balance sheet uncertainties (including estimates in respect of self insured claims liabilities and single status claims) has become available and the Council is currently assessing what impact these may have on the level of provisions and reserves in the current financial year. We understand the Council has been successful in its application for a capitalisation direction which will assist considerably in mitigating the potential impact of such items. The Council is encouraged to consider all of these developments to determine its latest approach to improving its reserves position in the medium-term.

- 28 Although the Council obtained two out of four for financial reporting, for the third consecutive year the Council only achieved one out of four in one of the subsections, balanced by a three in the other subsection. Although the Council dealt well with the system change in the year, the one was as a result of the following factors.
- Generally the work papers that were received at the start of the audit were of a decent standard, though there were specific exceptions to this, in particular the bank reconciliations were not easy to interpret and the pension scheme work papers were not of a good standard.
 - The Council's draft submission to contribute to the 'Whole of Government Accounts' consolidation process was also found to include many errors for the second year.
 - The cash flow statement and pension scheme accounts were not included in the accounts initially approved by members in June 2007 and therefore members were unable to provide robust scrutiny of these at that stage. The statements were also not available at the start of the audit.
 - The pension scheme accounts were not fairly stated at the start of the audit as there was a material error which had to be adjusted. There were a number of other non-trifling errors.
- 29 We note that the Council's use of resources self assessment pointed to a higher level of performance than that set out above. Council officers discussed with us, in the course of our work, the improvement steps that have been taken in recent months. However, as the 2006/07 assessment criteria reflect both a 'harder test' than in the previous year and as the Council has to demonstrate that recently implemented arrangements are not only in place but 'embedded' and producing positive outcomes at year end, these improvement steps have not yet been reflected in improved scores.
- 30 Nevertheless it should be recognised that the efforts made in 2006/07 to prevent a larger deficit on income and expenditure largely proved successful and there is clear evidence that the 2007/08 budget has been designed to comply with the priority to improve reserves by at least £1 million. There remain severe pressures on the Council's finances and delivery of this financial objective is likely to require stringent controls over income and expenditure for both the short and medium term.

Looking ahead

CAA

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

IFRS

- 34 The government has announced the intention of preparing their accounts using International Financial Reporting Standards (IFRS) with effect from 2008/09. This will require the 2007/08 figures to be prepared on the same basis so that they are comparable.
- 35 Although CIPFA may decide that full IFRS implementation for local authorities may not be required so soon, the Council may nevertheless have to prepare its 'Whole of Government Accounts' returns for 2008/09 with comparative figures for 2007/08 using IFRS principles. This may require the Council to ensure it has trained relevant finance staff and put in place arrangements to be able to prepare IFRS-based financial information as required. The Council is urged to prepare early by undertaking an impact assessment of IFRS on its accounts and systems.

Closing remarks

- 36 This letter has been discussed and agreed with the Chief Executive and Director of Resources. A copy of the letter will be presented at the Executive. Copies need to be provided all Council members.
- 37 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 3 Reports issued

Report	Date of issue
Audit and inspection plan	March 2007
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Annual audit and inspection letter	February 2008

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

Availability of this letter

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

Jackie Barry-Purssell
Relationship Manager

February 2008