

Annual Audit and Inspection Letter

March 2008



Annual Audit and Inspection Letter

Haringey London Borough Council

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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Contents

| | |
|--|-----------|
| Key messages | 4 |
| Action needed by the Council | 4 |
| Purpose, responsibilities and scope | 5 |
| How is the Council performing? | 6 |
| The improvement since last year - our direction of travel report | 8 |
| Service inspections | 8 |
| The audit of the accounts and value for money | 10 |
| Looking ahead | 14 |
| Closing remarks | 15 |

Key messages

- 1 The letter's main messages are:
 - the Council is improving well and has been assessed as a three-star authority under the Comprehensive Performance Assessment (CPA) framework;
 - the Council received an unqualified opinion on its 2006/07 accounts; and
 - the Council received an unqualified conclusion on its arrangements for securing value for money during 2006/07.

Action needed by the Council

- 2 The Council needs to:
 - improve adult social care and accelerate the pace of improvement in housing;
 - develop its arrangements for the production of the annual accounts;
 - continue to enhance risk management across the Council and its partnerships; and
 - maintain focus on improving its understanding of costs and their relationship with its priorities and, in particular, on ensuring that costs are commensurate with performance levels.

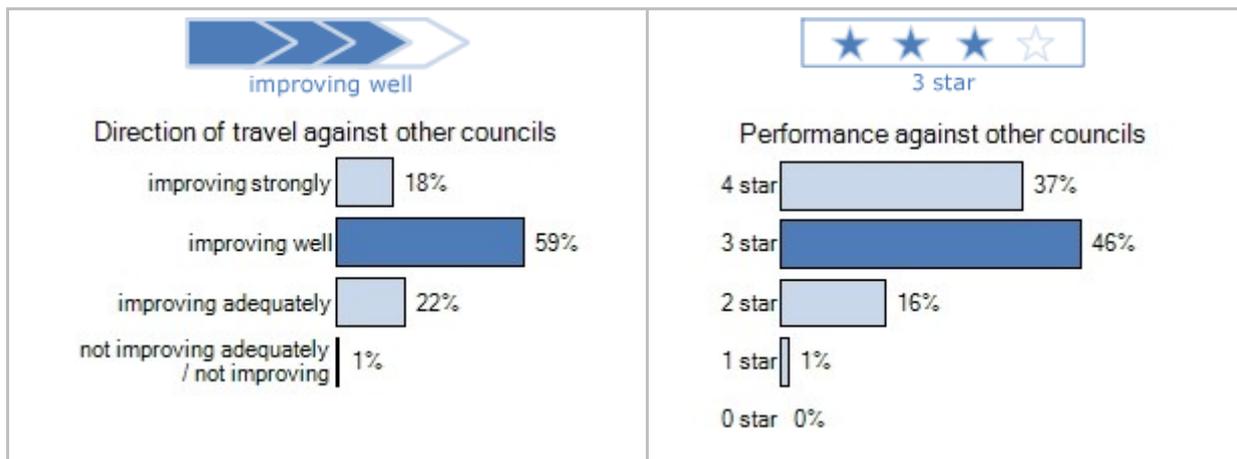
Purpose, responsibilities and scope

- 3 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent CPA, the findings and conclusions from the audit of the Council for 2006/07 and from any inspections reported since the last annual audit and inspection letter.
- 4 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.
- 5 This letter also communicates the significant issues arising from our work to key external stakeholders, including members of the public. We will publish the letter on the Audit Commission website at www.audit-commission.gov.uk. In addition, the Council will publish it on its website.
- 6 Your appointed auditor - Grant Thornton from 2007/08 - 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 (the 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.
- 7 This letter includes the latest assessment of 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. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 8 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 the Council performing?

- 9 The Audit Commission's overall judgement is that the Council is improving well and is three star in terms of its current level of performance under the CPA framework. These assessments have been completed in all single tier and county councils with the following results.

Figure 1 CPA results for single tier and county councils



Source: Audit Commission

- 10 The detailed assessment for the Council is as follows.

Our overall assessment - the CPA scorecard

Table 1 CPA scorecard

| Element | Assessment 2006 | Assessment 2007 | Change |
|--|-----------------|-----------------|--------|
| Direction of travel judgement | Improving well | Improving well | - |
| Overall | 3 star | 3 star | - |
| Corporate assessment/capacity to improve | 3 | 3 | - |
| Current performance | (out of 4) | (out of 4) | |
| Children and young people* | 3 | 3 | - |
| Social care (adults)* | 2 | 2 | - |
| Use of resources* | 3 | 3 | - |
| Housing | 3 | 3 | - |
| Environment | 3 | 3 | - |
| Culture | 3 | 3 | - |
| Benefits | 3 | 3 | - |

*(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

- 11 The Council is improving well. The Council has made good progress in priority areas such as children and young people, environmental services and safer and stronger communities. Just under three-fifths of performance indicators have shown improvement in 2006/07. Key achievements include significant improvements in GCSE attainment and recycling rates, although these are coming from a low base and improvement in some areas, for example in housing, remains below average. The Council works well with its partners and has achieved clear benefits for the community. New approaches to tackling worklessness, such as the Haringey Guarantee Programme, have been successful in securing employment. Initiatives to improve community safety are leading to fewer crimes and a new drug service has been established, helping to increase the number of drug-using offenders entering treatment. The neighbourhood management service is responsive to local needs and allows residents to influence how services are delivered. The Council continues to make good use of its resources and to focus on value for money. Clear improvement plans are in place and the Achieving Excellence Programme supports the Council's capacity to deliver further efficiencies and improvements.

Service inspections

- 12 Two service inspection reports have been published since the last annual audit inspection letter.

Homes for Haringey

- 13 The Audit Commission reported the findings of the inspection of the new arms length management organisation (ALMO), Homes for Haringey (HfH), in August 2007. The service received a two-star assessment (out of a possible three stars), with promising prospects for improvement.
- 14 Services have improved substantially since the ALMO was established in April 2006 and also since a previous inspection of the Council's repairs and maintenance service, published in May 2005, when it was scored as 'fair', with 'promising' prospects for improvement. HfH has demonstrated the ability to deliver improvements in a number of key service areas. This has been achieved through close working with residents, including tenants and leaseholders, an effective board, the support of the Council and dedicated staff across the organisation.
- 15 The inspection made a number of recommendations to improve the service further, specifically with regard to the aids and adaptations service for physically disabled residents, access to services and standards of customer care, the performance of tenancy management and the management of the capital and repairs programme.

Benefits fraud

- 16 The Benefits Fraud Inspectorate carried out an inspection in May 2007, reviewing the measures in place to deal with benefits fraud. Its report, issued in October 2007, concluded that, overall, the Council had effective measures in place. A number of recommendations were made to address required improvements in the fraud investigation process and benefits' administration.

The audit of the accounts and value for money

- 17 We reported the findings of the 2006/07 audit in the annual governance report that was presented to the General Purposes Committee on 11 September 2007 and in a follow-up letter to the Chief Financial Officer that was copied to the Chairs of the General Purposes and Audit Committees. Following the finalisation of our work, we issued an unqualified opinion on the accounts and an unqualified conclusion on the arrangements for securing value for money on 16 October 2007.
- 18 Overall, we saw an improvement in the Council's processes for the production and audit of its accounts this year, although further improvements are still required in responding to audit queries. Our follow-up letter also highlighted a number of issues of ongoing application, including the need to obtain updated valuations where appropriate to support the accounting treatment of asset disposals, to improve the accounts' disclosures of subsidiaries and related parties (including HfH and Alexandra Park and Palace), and to review potential single status liabilities and the Council's processes for identifying and accounting for capital expenditure.
- 19 The 2007/08 audit is now in progress. As reported to the Audit Committee, two areas of potential risk are being monitored carefully as part of Grant Thornton's ongoing audit:
 - the Council has faced a challenging operational conflict between the delivery of the Building Schools for the Future Programme and the existing schools PFI scheme. The Council has evaluated the options to resolve this matter with central government and has opted to bring the facilities management function back in-house. Central government is currently considering its overall approach to addressing similar issues in other PFI schemes and there may be implications for the Council in due course. Grant Thornton is discussing this issue with Council management on an ongoing basis and is assessing the implications for its accounts and use of resources work for 2007/08; and
 - Alexandra Park and Palace: there are ongoing challenging operational and financial issues to be resolved in respect of the management of Alexandra Park and Palace by the Trust which is, for all practical purposes, financially underwritten by the Council. Grant Thornton will continue to review the Council's progress to oversee the resolution of these issues as part of its 2007/08 audit work.

Use of resources

- 20** 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 auditors in the following areas:
- financial reporting (including the preparation of the Council's accounts and the way these are presented to the public);
 - financial management (including how 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); and
 - value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 21** For the purposes of the CPA, we assessed the Council's arrangements for the use of resources in these five areas as follows.

Table 2 Use of resources assessment

| Element | Assessment 2006 (out of 4) | Assessment 2007 (out of 4) | Change |
|--|----------------------------------|----------------------------------|--------|
| Financial reporting | 3 | 2 | ↓ |
| Financial management | 3 | 3 | - |
| Financial standing | 3 | 3 | - |
| Internal control | 3 | 3 | - |
| Value for money | 3 | 3 | - |
| Overall Audit Commission assessment | 3 | 3 | - |

(Note: 1 = lowest, 4 = highest)

- 22** The detailed findings from our work are highlighted in the use of resources auditor judgements report. The Council continues to perform well. Our report highlights a number of key areas for the Council's consideration, as set out in table 3 below.

Table 3 Use of resources' improvement opportunities

| Element | Improvement opportunities |
|----------------------|--|
| Financial reporting | Refresh the annual report consultation processes introduced in 2005/06, ensuring that all significant external partners are included. Continue to develop the arrangements for the production of the annual accounts. |
| Financial management | Enhance the Medium Term Financial Strategy by developing further the consideration of wider financial effects of future developments and significant emerging pressures and proactively managing these. |
| Internal control | Ensure that arrangements to identify and manage risks relating to significant partnerships are operating and are embedded. Ensure that all significant partnerships have been identified, together with the associated risks, and that governance arrangements are in place to cover these. |
| Value for money | Maintain focus on improving the Council's understanding of its costs and their relationship with the Council's priorities and service performance, and in particular on ensuring that costs are commensurate with performance levels. |

Financial standing

- 23 The Chief Financial Officer reports monthly on financial monitoring. The report to the February 2008 Cabinet for the period ended 31 December 2007 forecast a net revenue underspend of £0.2m for 2007/08. Pressures are, however, continuing into the medium to longer-term. The Council should therefore continue to maintain tight budgetary control to deliver financial balance for 2007/08 and the medium to longer-term.

Data quality arrangements

- 24 We tested the Council's arrangements to secure quality performance information to support our value for money conclusion. The Council's overall management arrangements for ensuring data quality are satisfactory. All six performance indicators selected for detailed testing were found to be fairly stated.

Best value performance plan

- 25 Grant Thornton issued its audit report on the Council's 2007/08 best value performance plan on 18 December 2007. There are no matters to draw to members' attention.

Grant claims

- 26** The certification of grant claims submitted by the Council is undertaken in accordance with instructions from government departments. The largest of these is the housing benefit claim, with a value of some £240m. The Council has improved its arrangements for the production of grant claims in 2007, but needs to ensure that this improvement is maintained going forward.

Certification

- 27** The audits for 2004/05 and 2005/06 were certified as complete on 7 November 2007 following the issue of our decision on an objection to the Council's 2004/05 accounts with regard to expenditure incurred in reimbursing the costs of the Coroner's service. The objection was not upheld, although a number of necessary improvements to systems for the authorisation and payment of Coroner expenditure were identified. Progress to date in addressing these has been inconsistent and requires management follow up.
- 28** Although the 2006/07 opinion and conclusion have been issued (see paragraph 17 above), the audit for that year remains uncertified as an objection to the accounts has been received in relation to Council expenditure on Alexandra Park and Palace. Our consideration of that objection is currently in progress.

Looking ahead

- 29 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.
- 30 CAA will result in reduced levels of inspection and better coordination 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.
- 31 The first results of the 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.

Closing remarks

- 32 This letter has been discussed and agreed with the Leader and Chief Executive. The letter will be presented to Cabinet on 22 April 2008.
- 33 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council since the last annual audit and inspection letter.

Table 4 Reports issued

| Report | Date of issue |
|-------------------------------------|---|
| Audit and inspection plan 2007/08 | June 2007 (issued jointly by the Audit Commission and Grant Thornton) |
| Homes for Haringey | August 2007 |
| Annual governance report | September 2007 |
| Opinion | October 2007 |
| Value for money conclusion | October 2007 |
| Certificate 2004/05 | November 2007 |
| Certificate 2005/06 | November 2007 |
| Best value performance plan 2007/08 | December 2007 (issued by Grant Thornton) |
| Opinion summary report | January 2008 |
| Data quality | January 2008 |
| Use of resources auditor judgements | February 2008 |
| Benefits grant report | February 2008 |
| Direction of travel assessment | February 2008 |
| CPA scorecard | February 2008 |
| Grants report | March 2008 |

- 34 The outturn fee is set out in table 5. This shows a total audit and inspection fee for 2006/07 of £637,750.

Table 5 Fee update

| Audit area | Plan 2006/07 £ | Actual 2006/07 £ |
|--|---------------------------|-----------------------------|
| Accounts* | 345,000 | 348,750 |
| Use of resources | 142,000 | 142,000 |
| Total audit fee | 487,000 | 490,750 |
| Inspection | 147,000 | 147,000 |
| Total audit and inspection fee | 634,000 | 637,750 |
| Grant claim certification** (estimated outturn) | 115,000 | 150,000 |
| Objection to the 2004/05 accounts | - | 14,710 |
| Objection to the 2006/07 accounts | - | Too early to assess |

* Reflects additional work on the audit of the Council's Whole of Government Accounts return.

** Costs compare to £152,000 (2004/05) and £158,500 (2005/06). The estimate for 2006/07 was based on a greater reduction in the number of claims than was actually experienced and more time spent on those submitted than expected.

- 35 The Council has taken a positive and constructive approach to audit and inspection work during 2007. Jacqui Barry-Purssell becomes your CAA Lead from 1 April 2008. I would therefore like to thank officers and members for their support and cooperation during the year and over the course of my tenure as your Relationship Manager.

Michael Haworth-Maden
Relationship Manager

March 2008