

# Annual Audit and Inspection Letter

London Borough of Tower Hamlets

Audit 2007/08

March 2009



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## 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 is a four star authority and is improving well.
  - The Council was adjudged to be performing strongly in its corporate assessment.
  - Your auditor issued an unqualified opinion on the Council's 2007/08 accounts. Although he was pleased with the improved quality of the working papers supporting the financial statements, he was concerned that there were still a number of significant errors.
  - The Council maintained its overall score of 3 (out of 4) in its use of resources.

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## Action needed by the Council

- 2 The Council should:
  - ensure that the financial statements are subjected to a detailed quality review before they are submitted to audit and the Audit Committee;
  - build further on recent improvements in the levels of waste recycling and the quality of waste management; and
  - maintain efforts to achieve the Decent Homes standard.

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# 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 Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2007/08 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 4 I 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. I have made recommendations to assist the Council in meeting its responsibilities.
- 5 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](http://www.audit-commission.gov.uk). In addition the Council is planning to publish it on its website.
- 6 As your appointed auditor, Jon Hayes was 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, he reviewed and reported 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.
- 7 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.
- 8 I have listed the reports issued to the Council relating to 2007/08 audit and inspection work at the end of this letter.

# How is Tower Hamlets Council performing?

- 9 The Audit Commission’s overall judgement is that Tower Hamlets Council is improving well and we have classified Tower Hamlets Council as four-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 Overall performance of councils in CPA**



Source: Audit Commission (percentage figures may not add up to 100 per cent due to rounding)

### Our overall assessment - the CPA scorecard

**Table 1 CPA scorecard**

Element	Assessment
Direction of Travel judgement	Improving well
<b>Overall</b>	<b>Four star</b>
Corporate assessment	4 out of 4
Current performance	
Children and young people*	4 out of 4
Social care (adults)*	4 out of 4
Use of resources*	3 out of 4
Housing	3 out of 4
Environment	3 out of 4
Culture	3 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

- 10 Tower Hamlets Council is improving well. On a broad basket of indicators, performance is improving at a similar rate to national averages, with higher results in most priority areas. Children's services, adult social care and housing benefit administration have maintained excellent performance ratings.
- 11 Highly effective partnership working continues to significantly reduce crime and the fear of crime, support local businesses, and improve local employment and access to health services. Investment in leisure centres, parks and open spaces has helped to increase residents' satisfaction. More people from a wider range of backgrounds are now enjoying the facilities.
- 12 Performance in recycling and cleanliness has compared unfavourably until quite recently, but efforts are starting to have an impact. Despite improvements in the majority of housing indicators, achievement of the decent homes standard remains a significant challenge. Progress is being made, and there are good plans to improve further in the future.

## How is Tower Hamlets Council performing?

- 13 Value for money remains good, and slightly more residents are now recognising this from their perspective. Good planning and monitoring processes ensure a strong focus on sustained improvement.
- 14 A corporate assessment of Tower Hamlets Council was carried out in 2008. Corporate assessments are carried out by the Audit Commission as part its duty under section 99 of the Local Government Act 2003 to make an assessment and report on the performance of local authorities. The purpose of the corporate assessment is to assess how well the Council engages with and leads its communities, delivers community priorities in partnership with others, and ensures continuous improvement across the range of Council activities.
- 15 Overall, Tower Hamlets Council was assessed as performing strongly (the highest possible score). The Council was assessed as having challenging ambitions for its diverse communities, a sustained focus on service delivery and exceptional partnership working. As a result of this, it achieved significant and continuous improvements in performance. Ambition, prioritisation and performance management were all assessed in the report as level 4 (out of 4).
- 16 The Council was found to have a clear ambition of what it wants to achieve for local people, and is strongly focused on improving their quality of life. It has a detailed knowledge of the needs of the borough's diverse communities, and its view of diversity is broad and comprehensive. The Council's ambitions are based on a strong desire to reduce social and economic inequalities, which are stark within the borough.
- 17 Partnership working was found to be one of the borough's greatest strengths and this works formally through the Tower Hamlets Partnership and informally through strong relationships with all stakeholders.
- 18 The Council was found to be well led both by councillors and senior officers, and performance is good in most service areas including children's services, adult social care and community safety. However, the Council accepts that until recently, it has not given sufficient attention to recycling and waste management, and that it has not done enough to promote environmental sustainability though efforts are now starting to have an impact.

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## Other Inspectorates and Regulators

- 19 An important aspect of the role of the Comprehensive Area Assessment Lead (CAALs) is to work with other inspectorates and regulators who also review and report on the Council's performance. CAALs 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.

### Ofsted

- 20 Ofsted has assessed the Council's services for children and young people as level 4 (out of 4). This means that the Council consistently delivers outstanding services for children and young people. Ofsted found that the Council has continued to improve upon its performance in most areas of its work, and that very good progress has been made in addressing the recommendations made in the previous year's assessment.

## How is Tower Hamlets Council performing?

- 21** Among many others, key strengths include very effective promotion of healthy lifestyles across a diverse community, an excellent multi-agency approach keeping children safe, including pioneering work in faith and ethnic communities, and a very successful school improvement service which has resulted in a high proportion of schools judged good or better in inspections. The one key area in which improvement is required is in the proportion of students achieving five good GCSE passes including English and Mathematics, which is below the national average. However, the rate of improvement in GCSE passes is now amongst the best in the country and the gap between Tower Hamlets and the national average is closing fast.

### Commission for Social Care Inspection

- 22** The Council's services for adult social care have been given a rating of three stars (out of 3) by CSCI. The services have been assessed as delivering excellent outcomes with equally excellent capacity to improve. In terms of delivering outcomes, the Council was assessed as excellent on all bar one of the seven areas for judgement.
- 23** Key strengths include strong senior management leadership and political support, a stable workforce with low staff turnover, vacancies and sickness absence, and effective partnership working with the PCT.

# The audit of the accounts and value for money

- 24** Your appointed auditor has reported separately to the Audit Committee on the issues arising from our 2007/08 audit and has issued:
- the audit report, providing an unqualified opinion on your financial statements and the pension fund on 30 September 2008;
  - a conclusion on your vfm arrangements to say that these arrangements are adequate on 30 September 2008; and
  - a report on the 2007/08 Best Value Performance Plan confirming that the Plan has been audited.

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## Use of Resources

- 25** 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).
- 26** For the purposes of the CPA the Council's arrangements for use of resources in these five areas were assessed as follows.

**Table 2 Use of Resources assessments**

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

Note: 1 = lowest, 4 = highest

### The key issues arising from the audit

#### Accounts

- 27 The Council produced a complete set of draft financial statements within the deadline. While overall the quality of the working papers supporting the financial statements had improved, a number of significant errors were identified relating to the cash flow statement, internal debtors and estimates for service charges which the Council adjusted.

#### Value for money

- 28 The Council's arrangements for securing economy, efficiency and effectiveness in its use of resources were reviewed against 12 criteria specified by the Audit Commission. The Council was assessed as having adequate arrangements in place for all 12 areas.

#### Use of resources

- 29 This year's assessment introduced challenging new criteria, most notably in reporting to the public, asset management and probity and propriety. The Council responded positively to these new criteria and continued to develop and embed its existing arrangements and the Council maintained its overall assessment of level 3. While the theme score for financial standing fell to a 3 as a result of there being no specific notable practice in this area this year (a requirement for a score of 4), other areas improved, although the overall theme scores remained the same. Key areas strengthened included financial reporting, where the value of errors identified in the draft financial statements decreased, financial management, with the introduction of the rolling three year budget and asset management, with progress made on the implementation of the asset database which will include data on asset values, efficiency and running costs.

## The audit of the accounts and value for money

30 Key areas for the Council to focus on in the future include:

- strengthening the processes for preparing the financial statements to allow sufficient time for a detailed quality review prior to them being submitted to audit and the Audit Committee; and
- obtaining assurance, on a risk basis, of the viability of its significant contractors' and partners' business continuity plans.

### Data quality

- 31 The Council's overall management arrangements for ensuring data quality were reviewed and found to be consistently above the minimum requirements. Responsibility for data quality is clearly defined at all levels and the Data Quality Policy has been refreshed during 2008. Arrangements are in place to review the effectiveness of controls over data quality and these are undertaken regularly, although the monitoring of data from partnerships could be strengthened.
- 32 Detailed spot checks were performed on four performance indicators published by the Council. One of the indicators selected required amendment to ensure that it was fairly stated and on the two relating to housing benefit we found some minor data inputting errors, although this did not affect the overall figures published.

### Review of procurement -stage 1

- 33 As part of the local Use of Resources work, a high level overview of the Council's corporate procurement arrangements was undertaken. The findings showed that the Council is working to improve the effectiveness of procurement although it is acknowledged that the plans are ambitious and challenging and that a great deal of work will be needed to implement and embed them. Officers have a good understanding of what they need to do to achieve this and are aware of the main risks.

### National Fraud Initiative

- 34 The Audit Commission's National Fraud Initiative (NFI) is a data matching exercise that has been run every two years since 1996 and, to date, has been used to identify fraud and overpayments totalling nearly £450 million. The Council has been proactive in reviewing the output from NFI with internal audit co-ordinating the follow-up of matches and has identified a number of frauds over the years. The Council has complied with the timetable for submitting data for the 2008/09 exercise and is due to receive the data shortly.

### Grants

- 35 This year, the Council had 11 grant claims and returns that required certification, compared to 13 in 2006/07. The estimated audit fee for this work is £106,000, compared to £94,000 in 2006/07. There were no significant issues identified.

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# Looking ahead

- 36** The public service inspectorates have developed 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.
- 37** CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate area assessment and reporting performance on the new national indicator set, together with an organisational assessment which will combine the external auditor's assessment of value for money in the use of resources with a joint inspectorate assessment of service performance.
- 38** 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 National Indicator Set and key aspects of each area's Local Area Agreement.

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# Closing remarks

- 39 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 Audit Committee on 31 March 2009. The Council will need to provide copies of the letter to all Council members.
- 40 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.

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**Table 3      Reports issued**

<b>Report</b>	<b>Date of issue</b>
Audit and inspection plan for 2008/09	April 2008
Corporate Assessment	July 2008
Annual Governance Report	September 2008
Opinion on financial statements	September 2008
Value for money conclusion	September 2008
Certificate on the WGA consolidation pack	September 2008
Opinion memorandum	December 2008
Use of resources report	December 2008
Review of procurement - stage 1.	December 2008
Data quality report	January 2009
Grant report	February 2009
Annual audit and inspection letter	March 2009

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- 41 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 year.

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**Availability of this letter**

- 42 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the Council's website.

**Adewale Kadiri**  
**Comprehensive Area Assessment Lead**

27 March 2009

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# The Audit Commission

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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## Copies of this report

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