

Annual Audit and Inspection Letter

March 2007



# Annual Audit and Inspection Letter

London Borough of Tower Hamlets

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As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

### **Status of our reports**

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

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- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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## Our overall summary

### Introduction

- 1 This Letter 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 and from a wider analysis of the Council's performance and its improvement over the last year, as measured through the Comprehensive Performance Assessment (CPA) framework.
- 2 The Letter is addressed to the Council, in particular it has been written for Councillors, but is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The Letter is in a shorter format than in previous years because its focus is on our inspection role. The main issues from our audit work were reported in our Annual Governance Report (AGR), and presented to the Audit Committee in September 2006. This Letter contains brief details of the main issues from the AGR, and the most important messages from our more recent audit work.

### Summary of main findings

- 4 The Audit Commission's overall judgement is that the Council is improving strongly and we have classified the Council as three stars (out of four) in its current level of performance under the Comprehensive Performance Assessment (CPA) Framework. Most service areas are improving in line Council priorities, in particular children and adult services which are excellent. Arrangements to continue to improve other services, including environmental services, are in place but given that a number of senior officer positions are being held on an interim basis, the Council will need to monitor this closely.
- 5 The Council achieved the earlier deadline of 30 June 2006 for preparation of its financial statements. The audit identified two material errors and the Council adjusted their financial statements for these. We were able to issue an unqualified audit opinion on them on the 29 September 2006.
- 6 The Council's overall financial arrangements are sound. Expenditure in the year was carefully monitored and the revenue and capital budgets for 2005/06 were delivered.
- 7 Our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources was also unqualified.
- 8 Two major grant claims were increased by some £9.5m during their audit. Arrangements need to be strengthened to ensure grant claims are prepared more accurately.

- 9 The Council has a number of major challenges to address over the next few years. Meeting the Decent Homes standard by 2010, through Housing Choice and possible Arms Length Management Organisations (ALMOs), and improving recycling rates remain areas the Council needs to continue to focus on. These will require robust project management arrangements and, to deliver the Decent Homes standard, effective engagement with Council tenants and service users.

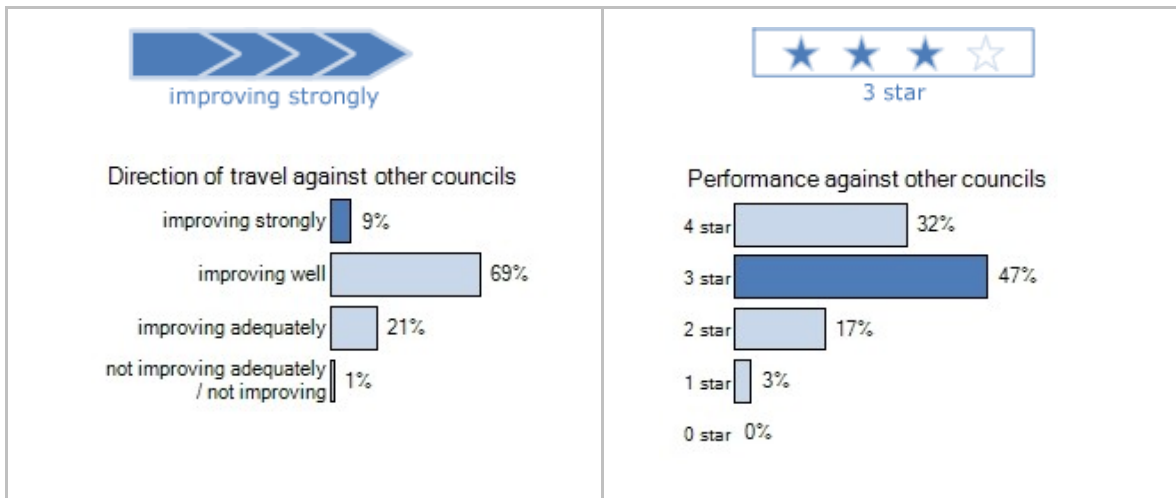
## **Action needed by the Council**

- 10 The key actions needed by the Council to address issues arising from the audit are:
  - continue to improve environmental services;
  - continue to monitor the progress made to meet the Decent Homes Standard;
  - improve the consistency of the quality of working papers supporting the Council's financial statements;
  - strengthen the arrangements for preparing and reviewing grant claims; and
  - continue to implement individual recommendations arising from audit and inspection reports issued.

## How is the Council performing?

- 11 The Audit Commission’s overall judgement is that the Council is improving strongly and we have classified the Council as three stars 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.

**Table 1 Tower Hamlets is a three-star authority and improving strongly**



Source: Audit Commission

- 12 The detailed overall assessment for the Council is as follows.

**Table 2 CPA scorecard**

Element	Assessment 2005	Assessment 2006
Direction of Travel judgement	Improving well	Improving strongly
Overall	3 star	3 star
Current performance		
Children and young people (OFSTED and CSCI)*	4	4
Social care (adults) (CSCI)*	4	4
Use of resources	3	3
Housing	3	3
Environment	2	2
Culture	2	3
Benefits (BFI)*	3	3
Corporate assessment/capacity to improve (not reassessed in 2006)	3	3

\* These assessments are based on the work of other inspectorates viz. OFSTED, Commission for Social Care and the Benefits Fraud Inspectorate.

(Note: 1 = lowest, 4 = highest)

## The improvement since last year - our Direction of Travel report

- 13 Tower Hamlets Council is improving strongly. Only six councils in London achieved this rating in 2006.
- 14 The Council has high performing services with over two thirds of service indicators showing improvement. Both Children and Adult services are excellent and culture services have improved. The Council has achieved the top level of the equality standard, one of only two councils in the Country. Safer neighbourhood teams have led to a reduction in the overall crime rate and success in tackling anti-social behaviour. Excellent partnership working has led to one of the lowest rates of delayed discharges and highest rates of reduction in teenage conception in London. Resident satisfaction has improved and strong customer focus is demonstrated by charter mark awards for the parents' advice centre, homelessness services, and transport.

## 8 Annual Audit and Inspection Letter | How is the Council performing?

- 15 The Council continues to develop a rigorous approach to value for money. The Council has strong plans for improvement and highly effective multi agency monitoring of both its children's plan and local area agreement. The Council has a robust financial strategy and has strengthened its financial position. The new Leadership and Management development programme should increase significantly management and leadership capacity, which will contribute to continued service improvement.



## Governance and Use of Resources

### Governance report on the 2005/06 financial statements

- 16 As your appointed auditors we presented our Annual Governance Report to the Council's Audit Panel in September 2006. The Committee is considered to fulfil the role of those charged with governance. Our report included:
- unqualified opinions on your accounts and those of the pension fund for the year ended 31 March 2006; and
  - an unqualified conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2006.
- 17 The Council achieved the earlier deadline of 30 June 2006 for the preparation of its draft financial statements for the financial year ending 31 March 2006. The audit identified two material errors and, following their correction, we were able to issue an unqualified audit opinion on the financial statements and pension fund accounts on the 29 September 2006.
- 18 The key issues arising from the audit, which were reported to the Audit Panel and a detailed report to officers, were:
- housing stock was overvalued by £790m due to errors in interpreting ODPM guidance;
  - two operating leases were capitalised as finance leases leading to fixed assets and deferred credits being overstated by £49m; and
  - the need for a detailed review of the adequacy of the car parking bad debt provision.
- 19 The Council has completed an action plan to address our recommendations and is taking measures to improve the overall quality of the financial statements and associated working papers for the 2006/07 financial year. We will monitor the action taken on our recommendations during the coming year.
- 20 The Council was also required to submit a Whole of Government Accounts consolidation pack for audit for the first time in 2006. The Council presented the pack for audit in a timely manner and the audited deadline for submission to the Department of Communities and Local Government of 6 October 2006 was met.

- 21 We have yet to issue our certificate on the Council's accounts for 2005/06. This is because matters raised by a local government elector at audit have still to be resolved. However, since our opinion on the accounts in September 2006, the audit of two major housing government grant claims have identified errors which have a material effect on the estimates included within the Housing Revenue Account. Your officers are currently amending this account and we will reissue our opinion alongside our audit certificate when the local elector query is finally resolved.

## Value for money conclusion

- 22 This year, for the first time, we were required to issue a conclusion on whether we are satisfied that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This conclusion is arrived at after assessing 12 criteria. The Council achieved all the criteria and we concluded that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Best value performance plan

- 23 The Council prepared its best value performance plan in line with the statutory deadline of 30 June 2005. We completed our review of the information included within the plan and issued our report on 31 October 2005. There were no issues or recommendations which we were required to report in connection with the plan.

## Data quality and performance indicators (PI)

- 24 We reviewed the Council's overall data quality arrangements and found them to be operating satisfactorily. As part of our work for CPA, we audited ten performance indicators and, following amendments to the PIs where necessary, we were able to report on the PIs reviewed without any reservations.

## Use of Resources judgements

- 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 we have assessed the Council's arrangements for use of resources in these five areas as follows.

**Table 3 Use of Resources Assessment**

Element	Assessment 2005	Assessment 2006
Financial reporting	2	2
Financial management	3	3
Financial standing	3	3
Internal control	3	3
Value for money	2	2
Overall assessment of the Audit Commission	3	3

(Note: 1 = lowest, 4 = highest)

- 27 The key issues arising from the above judgements were:
- public reporting is well established but working papers that support the financial statements require further improvement;
  - the Council's financial management arrangements are sound and supported by medium financial strategies and effective budgetary control systems;
  - the Council's financial standing remains sound. However, reporting of outstanding arrears could be improved;
  - the Council needs to ensure that risk registers are maintained across all departments in line with corporate guidelines; and
  - areas of high cost where services perform at an average or below average level should continue to be kept under review.

## Other Use of Resources work

### Freedom of Information Act

- 28 The Freedom of Information Act 2000 came into full effect on 1 January 2005. Our review of the Council's arrangements for complying with the Act found good practice in implementing the Act including updating of the Publication Scheme, publicity on the internet and initiatives to improve the quality of data held. Development areas identified included formalising information sharing arrangements with partners as to what information is jointly held, held by the Council or held by the partner and strengthening integration across information systems.

### Performance management

- 29 A good performance management system is essential to maintaining and improving services. While the Council's performance management system has in the past delivered its objectives and helped to improve services, we undertook a review to assess whether the system was continuing to operate in line with best practice.
- 30 Our review found that the Council's arrangements were fit for purpose with particular strengths in the way diversity was incorporated into the system, for example, equality reports appear alongside other performance information for the Overview and Scrutiny Committee to consider. Opportunities identified included putting in place more robust performance management arrangements across the Local Strategic Partnership and using information from staff grievances and disciplinary cases, as well as external complaints, in a systematic way to help inform performance management.

### Risk management

- 31 Risk management is widely regarded as being an agent for change as well as an enabler to modern decision making. We reviewed the Council's risk management arrangements by focusing on the support provided corporately, compliance and how risk management principles were being embedded into standard working practices.
- 32 We found that the Council had adequate systems and procedures in place. The use of risk management principles and tools were clearly evident with clear guidance and support from risk champions that staff found helpful. Training had been provided to all managers although training requirements for other staff had not been formally evaluated. At the time of our review, the training needs for Members were under review. We also found that although key processes were in place, full compliance with the Council's guidance was not being achieved in some areas. The Council is now looking to put in place arrangements via the risk champions to ensure full compliance is achieved.

## Grant claims

- 33 The Council submitted 23 government grant claims and returns that required auditing for 2005/06. The overall standard of the working papers improved from the previous year which resulted in less audit work being required. However, major adjustments totalling £9.5m were made to housing benefit and housing subsidy claims. The Council has investigated the circumstances around how this occurred and is putting in place an action plan to address the findings of the investigation.

## Conclusion

- 34 This letter has been discussed and agreed with the interim Chief Executive and Interim Director of Resources. A copy of the letter will be presented at the Audit Panel on 21 March 2007 and then to Cabinet on 4 April 2007.
- 35 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the council's assistance and co-operation.

## Availability of this letter

- 36 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.

Kash Pandya  
Relationship Manager

March 2007