

Annual Audit and Inspection Letter

March 2008



# Annual Audit and Inspection Letter

**London Borough of Hackney**

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, 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**

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:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- 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.

### **Copies of this report**

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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## Key messages

- 1 In 2007 the Council outlined its vision for improving service delivery and efficiency under the banner 'Getting better faster'. Its focus has remained: safer, cleaner streets, decent homes, better schools and improved customer services. In addition, the Council has recognised that the 2012 Olympic and Paralympic Games, the extension to the East London Line, and improvements to the North London Line provide opportunities for local people and businesses.
- 2 This letter provides an overall summary of the Audit Commission's assessment of the Council and shows that the Council is making measurable improvements to the way it is run and the quality of services it provides. It draws on the findings and conclusions from the audit of the Council, from the inspections that have been undertaken in the last year 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.
- 3 The letter is addressed to the Council, in particular it has been written for Members, but is available as a public document for stakeholders, including the community served by the Council.
- 4 The key messages for the Council included in this letter are:
  - the Council has moved to three-star status under the CPA framework and is improving strongly;
  - we issued an unqualified opinion on the 2006/07 accounts and an unqualified value for money conclusion. However, the opinion was issued two weeks later than planned due to weaknesses in the Council's arrangements for providing prompt and good quality responses to auditor queries;
  - our inspections of the Council's cultural services and Hackney Homes (the ALMO) concluded that they are both providing a one star service with promising prospects for improvement; and
  - there has been improvement in the quality and robustness of performance information.

## **Action needed by the Council**

**5** The Council should:

- improve arrangements for providing prompt and good quality responses to auditor queries on the accounts;
- implement the recommendations included in the culture inspection report;
- work in partnership with the ALMO to secure improvements arising from the recent inspection report;
- continue to strengthen arrangements for the effective use of resources; and
- continue to target investment to poorer performing services.

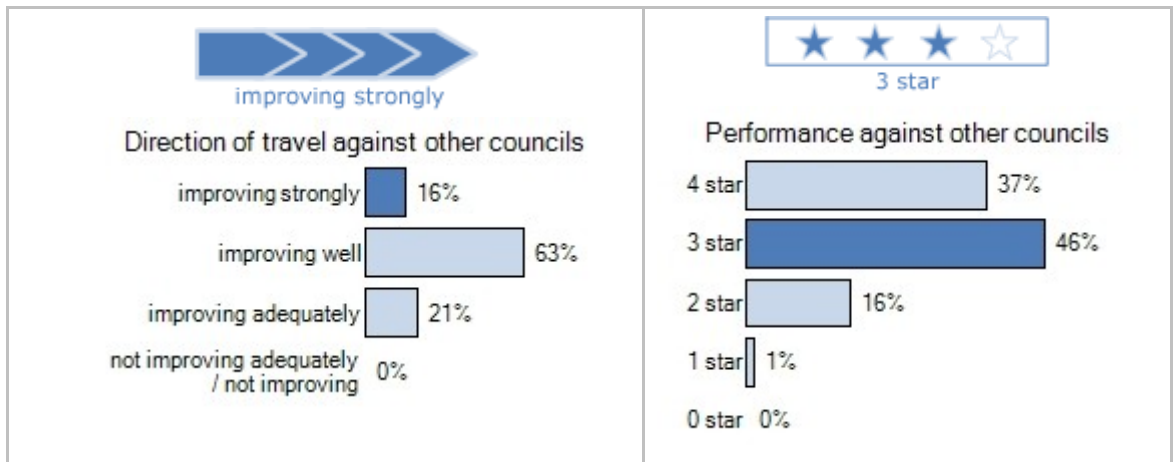
## Purpose, responsibilities and scope

- 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 where relevant.
- 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](http://www.audit-commission.gov.uk). In addition the Council is planning to publish it on its website.
- 8 As your appointed auditor I am 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, I review and report 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 Hackney Council performing?

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



Source: Audit Commission

*Councils with a CPA star rating under review or with a direction of travel judgement that is subject to review are excluded from this analysis*

12 The detailed assessment for Hackney Council is as follows.

### Our overall assessment - The CPA scorecard

**Table 1 CPA scorecard**

Element	Assessment
Direction of Travel judgement	Improving strongly
<b>Overall</b>	<b>3 star</b>
Corporate assessment/capacity to improve	2 out of 4
Current performance	
Children and young people*	3 out of 4
Social care (adults)*	3 out of 4
Use of resources*	3 out of 4
Housing	3 out of 4
Environment	2 out of 4
Culture	2 out of 4
Benefits	3 out of 4

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

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

### Score 4 - Hackney is improving strongly

13 Hackney Council is improving strongly. Hackney has a record of improvement in its priority areas and in contributing effectively to wider community outcomes. Performance indicators for the last year show one of the highest rates of service improvement in London and a top quartile improvement rate nationally. The Council still has some indicators within the lower quartiles, for example, satisfaction with sports and leisure facilities.

- 14 The Council has improved its housing services, recycling rates and the time to process benefit claims. Hackney has also scored well in recent assessments of children's' services and adult social care and has improved its overall resident satisfaction ratings. The way the Council uses its resources has improved in the last year. Hackney has strong and effective management and provides good community leadership which is continuing to improve civic pride.
- 15 Hackney has the capacity to deliver its robust plans for further improvement. It has a good understanding of where it needs to improve further and the appropriate actions required. There are no weaknesses or failures in corporate governance that would prevent improvement being sustained.

## Service inspections

- 16 Since the last Annual Audit and Inspection Letter we have completed two service inspections.

## Cultural services

- 17 Hackney provides fair (one-star) cultural services which have 'promising' prospects for improvement. The inspection found that cultural services in Hackney are improving and contributing to local priorities. There is strong political leadership evident from the focus on securing positive legacy benefits from the 2012 Olympics and Paralympic Games and leadership of five host boroughs on the Cultural Olympiad.
- 18 Over the last three years the Council has made significant investment in raising the standards and quality of what had been some poor services in leisure centres, parks and open spaces and libraries, in order to increase access, drive increased participation/usage and improve user satisfaction. Improvements in quality have also been recognised through external quality accreditations for some parks and leisure facilities including the re-opened London Fields Lido.
- 19 Hackney residents now have access to a range of generally well managed, accessible cultural facilities and user satisfaction with the experience is increasing. Management and monitoring of value for money (VFM) within cultural services is developing. Partnership arrangements, particularly with the interim leisure partner, are working well and delivering positive benefits for local people. However, the Council is not yet in a position to demonstrate improved VFM over time compared to other councils.

- 20 The Council has a number of opportunities for improving cultural services. We recommend that now it needs to:
- develop and publicise to local people clear and meaningful service standards for cultural related services;
  - identify the barriers to access and prioritise investment and actions effectively to target those in greatest need; and
  - effectively co-ordinate the Council's own and partners' activity to maximise the contribution that culture can make to deliver the challenging community priorities.

### **Hackney Homes (ALMO)**

- 21 Hackney Homes was assessed as providing a fair (one-star) service with promising prospects for improvement. Since it was established on 1 April 2006, the ALMO has delivered tangible improvements to key housing services such as capital improvements to meet the decent homes standard, leaseholder services, gas servicing, estate management and anti-social behaviour.
- 22 Access and customer care is an area of strength for the organisation. Diversity is also starting to be addressed more effectively after the introduction of a new equality and diversity (E&D) strategy. However, there are some areas requiring further improvements. A significant weakness is the low level of customer profiling for some strands of the E&D strategy such as disability. There is also a lack of integrated information on internal property and the standard of responsive maintenance service offered is low.
- 23 The prospects for improvement are promising because recommendations made in the previous inspections have been mostly delivered and a track record in delivering improvement is evident, with a positive trend in key performance indicators. However, performance management is weakened by service planning, there is no documented medium/long-term vision after decent homes work and there are weak performance management arrangements at an operational level, with a lack of monitoring and evaluation and inadequate consideration of risk.
- 24 When the standards of the ALMO meet Government criteria, the Council will be allowed to seek up to a total of £225.3 million additional supported borrowing. Until then, there is a significant risk that the Council will need to fund planned investment in housing from other sources.

## Other inspectorates and regulators

- 25 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.

### Benefit Fraud Inspectorate (BFI)

- 26 The Council has received an improved assessment of good (a CPA score of 3) reflecting the progress it has made in a number of areas. In particular, the Council has more than halved the average time taken for processing new claims, reducing it from 55 days in 2005/06, to 26 in 2006/07. Similarly, the average time taken for processing changes of circumstances has reduced from 34 days to 15, over the same period.
- 27 The Council has also improved its performance on security. Although it did not meet the interventions target set by the Department of Workforce and Pensions, it exceeded the visiting target and there has been an improved performance in resolving the number of data-matches within two months.

### Ofsted - Education and children's social care services

- 28 The Council has maintained its level 3 (out of 4) assessment (CPA score of 3).
- 29 Ofsted have found that the Council and the Learning Trust consistently deliver services for children and young people at a good level. There is a clear and coherent vision for the future of children's services in Hackney. Managers have responded effectively to the recommendations raised in the 2006 joint area review and good progress has been made.
- 30 The contribution the Council and the Learning Trust make towards improving outcomes for being healthy, enjoying and achieving, and making a positive contribution remains good. Although children and young people now make good progress, this is from a historically low base, particularly in primary schools.
- 31 The Council's contribution to improving outcomes with regard to staying safe and achieving economic well-being remains adequate. Most groups of children and young people in Hackney now have access to forums through which they can make their views known. Prevention services aimed at preventing younger children entering the justice system are being developed but relapse rates are above average. Strong 16-19 partnerships are developing and exploring ways of extending the range of education and training available in the borough. Effective action has been taken to reduce the number of 16 to 19 year olds not in employment, education or training, although figures are still relatively high.

### **Commission for Social Care Inspection (CSCI) - Adult social care**

- 32** CSCI's Annual Performance Assessment found that the Council was delivering good outcomes and showed promising capacity for improvement (CPA score of 3).
- 33** The assessment found that the Council makes a good contribution to improving people's health and sense of well being with steady progress made towards modernised health and social care services with a range of joint, enabling services reflecting the robustness of partnership and joint working. However, the Council needs to develop a more explicit model of hospital admission avoidance to maximise preventative outcomes and reduce transfers of care delays.
- 34** The Council continues to move the shift in the balance of care towards a community-based service emphasising independence and choice and has increased the levels of use of direct payments. The profile of activity showed that the Council had mainstreamed this service option. The Council's focus on a client led service is supported by a range of relevant initiatives to engage people who use services.
- 35** Both corporate and senior management leadership continue to be strong and support the commitment to modernise adult social care. The completion of a commissioning plan is a key factor in implementing Hackney's ambitious strategic goals (eg prevention through telecare and extra care; rapid expansion of individual budgets; shifting the balance of care).

## The audit of the accounts and value for money

**36** As your appointed auditor, I have reported separately to the Audit Sub-Committee on the issues arising from our 2006/07 audit and have issued:

- an unqualified opinion on your accounts and on the Pension Fund on 12 October 2007;
- an unqualified conclusion on your vfm arrangements on 12 October 2007; and
- my report on the Best Value Performance Plan confirming that it has been audited and the content complies with statutory requirements.

### The key issues arising from the audit of the accounts

**37** I issued my Annual Governance report to the Audit Sub-Committee in September 2007. My report highlighted:

- weaknesses in the Council's arrangements for dealing with audit queries, resulting in a two week delay to issuing my opinion and necessitating an additional audit fee; and
- amendments made to the Housing Revenue Account (HRA), resulting in a £1.066 million increase to the HRA surplus.

**38** The Council have responded positively to my report and are working closely with the audit team to put in place improvements for 2007/08.

### Use of Resources

**39** 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); and
- value for money (including an assessment of how well the Council balances the costs and quality of its services).

**40** For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

**Table 2 Use of resources judgement 2007**

<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	2 out of 4
<b>Overall assessment of the Audit Commission</b>	<b>3 out of 4</b>

*(Note: 1 = lowest and 4 = highest)*

41 The 2007 key lines of enquiry raised the standard required for level 2 and level 3 assessments. Our review found that the Council had responded well to these new requirements. At the same time, the Council has consolidated and continued to embed the arrangements put in place in 2006 and is now in a stronger position than last year. Further improvements have been implemented during 2006/07, most notably the Council has:

- published an Annual Report for 2006/07 - following consultation with stakeholders, the Council's two-part document highlights achievements against key priorities;
- improved asset management planning through the development of a strategic asset management plan;
- developed a clear, well communicated, policy for reserves and balances, including an explanation to Members of the opportunity cost of holding reserves;
- improved the effectiveness of the Audit Sub-Committee and invested in providing risk management to managers; and
- demonstrated an improvement in the way it manages and improves value for money.

42 The Council recognises that it needs to continue to manage and measure the impact and outcomes of all of these actions. Moving forward, key areas for the Council to focus on include:

- delivering the planned improvements to the accounts query management system and reducing the number of errors in the financial statements presented for audit;
- actively using local performance indicators to enable Members to make decisions on how best to use Council assets to achieve corporate objectives;
- reducing slippage on the capital programme;

- evaluating the impact and effectiveness of risk management training, whistleblowing arrangements and fraud awareness training;
- ensuring that the process of preparing the Governance Statement (replacing the Statement on Internal Control for 2007/08) involves Officers outside of finance;
- continuing to develop a clear understanding of the relationship between unit costs and service quality and how they compare to other councils; and
- delivering service improvements in areas where performance indicators and user surveys highlight performance issues.

### **Data quality**

- 43** The Council responded well to our 2006/07 report. In April 2007 it implemented a corporate data quality policy, complimented by a Performance Indicator guide providing operational level support. As a result, we assessed the Council's management arrangements for data quality as performing well.
- 44** We performed a spot check on eight performance indicators published by the Council. Seven indicators were fairly stated and one required minor amendment. We also followed up four indicators where we identified weaknesses in 2006/07. We found that one was fairly stated, two had minor errors and one indicator relating to staff sickness absence continued to demonstrate system weaknesses. The Council has agreed to review and revise its arrangements for 2008.

### **National Fraud Initiative (NFI)**

- 45** The NFI is a computerised data matching exercise designed to identify overpayments to suppliers and to detect fraud perpetrated on public bodies. The referrals from the current exercise were released to participating bodies in January 2007. The Council has been proactive in reviewing the output from NFI and the Fraud Investigation Team has been effective in following up matches. As at the end of December 2007, the Council had identified over £720,000 of potential savings arising from the exercise.

### **Grants**

- 46** Our audit of the 2006/07 claims and returns is not yet complete and we are therefore not in a position to report the total number of claims subject to amendment or qualification. However, in September 2007 we reported to the Audit Sub-Committee that the Council's arrangements for managing and quality assuring grant claims submitted for audit needed to improve. In particular the Council needs to focus on the quality and timeliness of supporting information provided by partner organisations.

## Looking ahead

- 47 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.
- 48 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.
- 49 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.

## Closing remarks

- 50 This letter has been discussed and agreed with Chief Executive. A copy of the letter will be presented at Cabinet on 31 March 2008 and the Audit Sub Committee on 8 April 2008. Copies need to be provided to all Council members.
- 51 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**

<b>Report</b>	<b>Date of issue</b>
Audit and inspection plan 2006/07	April 2006
ALMO inspection	August 2007
Annual governance report	September 2007
Grant claims report	September 2007
Opinion on financial statements	October 2007
Value for money conclusion	October 2007
Culture inspection	December 2007
Use of resources judgement 2007	January 2008
Data quality review 2007/08	January 2008
Final accounts memorandum	January 2008
Annual audit and inspection letter	February 2008

- 52 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

- 53 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.

**Jon Hayes**  
**Relationship Manager and District Auditor**

March 2008