

Annual Audit and Inspection Letter

March 2007



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Islington London Borough Council

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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.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

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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.

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- any third party.

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Our overall summary

- 1 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, from the Corporate Assessment and 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.
- 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's main messages are:
 - the Council is improving well and has been assessed as a three star authority under the CPA framework;
 - the Council received an unqualified opinion on its 2005/06 financial statements; and
 - the Council received an unqualified opinion on its arrangements for securing value for money during 2005/06.

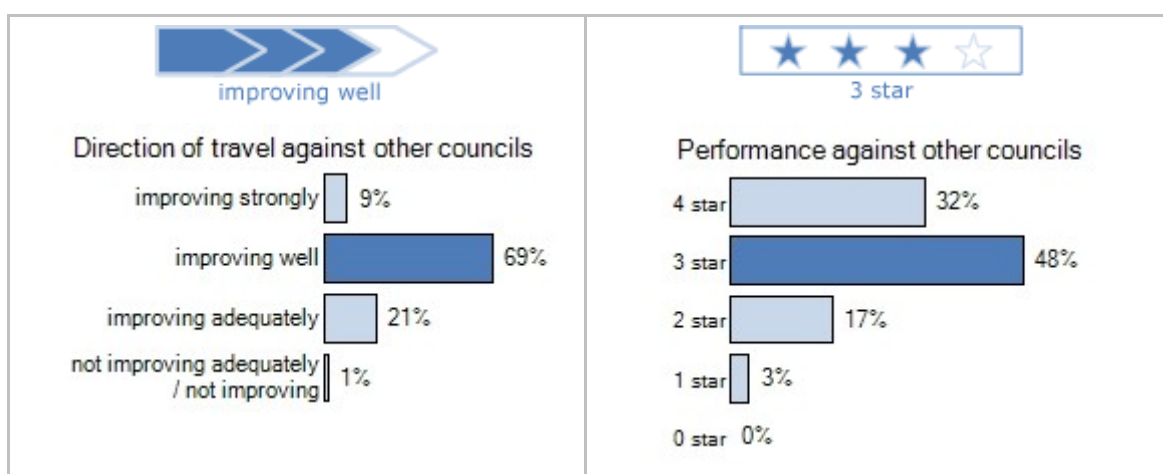
Action needed by the Council

- 4 The Council now needs to:
 - develop further its arrangements for securing value for money across the Council's services;
 - improve its performance management processes so as to fully support the Council's ambitious agenda;
 - implement its records and information governance strategy and develop clearer linkages with the performance management framework particularly in respect of data quality; and
 - strengthen the medium term financial strategy by more clearly identifying the cost implications of significant strategies such as workforce, commissioning and ICT strategies.

How is Islington Council performing?

- 5 The Audit Commission's overall judgement is that Islington Council is improving well and we have classified Islington Council 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.

Table 1 CPA performance summary



Source: Audit Commission

- 6 The detailed assessment for Islington Council is as follows.

Our overall assessment - the CPA scorecard

Table 2 CPA scorecard

Element	Assessment 2005	Assessment 2006
Direction of Travel judgement	Improving well	Improving well
Overall	3 star	3 star
Current performance	(out of 4)	(out of 4)
Children and young people	3	3
Social care (adults)	3	3
Use of resources	2	2
Housing	3	3
Environment	2	3

Element	Assessment 2005	Assessment 2006
Culture	3	2
Benefits	3	4
Corporate assessment/capacity to improve (not reassessed in 2006)	3	3

(Note: 1=lowest, 4= highest)

The improvement since last year - our Direction of Travel report

- 7 Islington is improving in priority areas such as adults social care, environmental, housing and benefits services. Performance indicators show an above average level of improvement, with almost three quarters improving. The Council has invested in environmental and community safety initiatives resulting in significant improvements in recycling rates and reductions in overall crime rates.
- 8 Community benefits have been achieved through partnership working, for example through regeneration projects. The Council continues to improve access to services implementing 'Contact Islington', improving response times and introducing longer opening hours. It has listened to local people and implemented practical diversity initiatives, for example for hearing impaired customers and faith based projects with specific communities.
- 9 The Council has enhanced its focus on value for money and has significantly improved its approach. The Council has clear and detailed future plans and a good record of performance improvement but some high comparative service costs remain. It has increased its financial capacity and workforce planning is improving. The Council is well placed to continue to deliver improvements for local people.

Corporate assessment

- 10 We have recently completed an assessment of 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 [a corporate assessment]. Overall, we assessed the Council as performing well. The Council performed consistently above minimum requirements for ambition, prioritisation, capacity and achievement, although performance management was only assessed as adequate. Our assessment identified a number of strengths along with a few areas for improvement. A summary of these are detailed in Table 3.

Table 3 Corporate assessment key findings

Findings	Improvement areas
<ul style="list-style-type: none"> • The Council has a good understanding of its local context and has established a vision which reflects the local context of a wealth polarised community combined with a diverse and in part transient population – One Islington. • The Council’s priorities support the 'One Islington' vision of an inclusive borough. • The Council has demonstrated effective corporate and community leadership and a cohesion role which is recognised by partners and there is some strong partnership working. • There is a strong focus on users, diversity and equality and effective mechanisms in support. • The Council is making progress in many key areas and contributing to quality of life improvement for residents. • Performance is improving and there is a strong record of achievement across a range of priorities. 	<ul style="list-style-type: none"> • Whilst generally improving, performance in some areas is still not good. • Performance management is adequate but needs to improve to fully support the Council's ambitious agenda and the developing Sustainable Communities strategy. • The Members role in performance needs to develop and be more focused. • Developing corporate regeneration and health strategies would support a more focused approach to these key areas. • A corporate approach to assets needs to be developed.

- 11 Our report was published on 13 March and can be found on the Audit Commission’s website at www.audit-commission.gov.uk. The assessment will be incorporated into the next CPA publication.

Service inspections

- 12 We undertook a Housing Inspection, published in June 2006, and assessed Islington Council as providing a ‘good’, two-star service that has excellent prospects for improvement.

- 13 Our inspection identified a number of strengths in the Council’s performance along with a few areas for further improvement, the more significant of these being set out in Table 4 below.

Table 4 Housing inspection findings

Strengths	Improvement areas
<p>Particular strengths noted included:</p> <ul style="list-style-type: none"> • a well developed and wide ranging involvement with stakeholders which has informed a series of interconnected strategies and contributed to the high level of satisfaction with public protection services; • a well developed approach to equalities and diversity based on good information which has influenced the delivery of services such as specialist housing for deaf people; • good quality information is available in the private sector which is regularly updated and supplemented with a rolling programme of street surveys identifying licensable HMO, the extent of non-decent homes occupied by vulnerable people and empty properties; • a good approach to value for money through cost comparisons with a number of benchmarking arrangements which show the services are cost effective; and • a proactive approach is taken in seeking out poor housing conditions and delivering additional housing. 	<p>Improvement areas noted included:</p> <ul style="list-style-type: none"> • developing a consistent approach to translation information on leaflets which could disadvantage people with communication difficulties; • developing service standards that cover aspects of most use or importance to service users; • improving housing advice services approach to preventing homelessness by easing information flow on housing benefit; and • updating the fuel poverty strategy which was out of date and there were no plans to update it.

- 14 We have also been undertaking a supporting people inspection. The inspection report is currently being finalised and is expected to be published in the near future and it will then be available on the Audit Commission’s website.

Financial management and value for money

- 15** As your appointed auditor we have reported our findings on the audit of the 2005/06 financial statements in the annual governance report that was presented to the Corporate Services Committee on 28 September 2006. The report summarised the key issues arising from both the audit of the financial statements and the assessment of the Council's arrangements for securing value for money. The key issues raised in our report concerned the need for the Council to:
- further improve year end and qualitative processes for producing the financial statements to ensure the accounts presented for approval are free from significant errors and supported by a robust set of working papers;
 - undertake a robust assessment of the collectability and legal status of the penalty charge notices to ensure the completeness of the financial statements;
 - make improvements to control account reconciliations; and
 - implement the records and information governance strategy and develop clear linkages with the performance management framework in respect of data quality issues.
- 16** Following the presentation of the report we issued an unqualified opinion on the financial statements and an unqualified conclusion on the arrangements for securing value for money on 29 September 2006.
- 17** As a result of an objection on previous year's financial statements we could not certify completion of the 2005/06 audit. The audits for 2003/04 and 2004/05 also remain open. The objection on the 2003/04 financial statements relates to budget virements. The matter is currently under consideration.

Use of resources assessment

- 18 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 five areas, as set out in Table 5 below.

Table 5 Use of resources assessment

Element	Assessment (out of 4) 2005	Assessment (out of 4) 2006
Financial Reporting (including the preparation of the accounts of the Council and the way these are presented to the public)	2	2
Financial management (including how the financial management is integrated with strategy to support council priorities)	2	2
Financial Standing (including the strength of the Council's financial position)	2	3
Internal Control (including how effectively the Council maintains proper stewardship and control of its finances)	2	3
Value for money (including an assessment of how well the Council balances the costs and quality of its services)	2	2
Overall assessment	2	2

(Note: 1=lowest, 4=highest)

- 19 The key issues arising from this work are highlighted in our Use of Resources report. Although the Council's overall assessment remained the same as in the previous year we did note improvements in the Council's arrangements, in particular in respect of financial standing and risk management arrangements and this was reflected in the individual scores noted in Table 5 above. Our report highlighted some areas for the Council to consider for further improvements, as set out in Table 6.

Table 6 Use of resources improvement opportunities

Element	Improvement opportunities
Financial reporting	Enhance quality assurance procedures to further reduce the number of errors in the financial statements.
Financial management	Strengthen the medium term financial strategy by developing clear linkages between the cost implications of significant strategies such as workforce, commissioning and ICT strategies. Develop and regularly monitor indicators in relation to asset use and corporate objectives.
Financial standing	Ensure Members monitor key financial health indicators and set challenging targets.
Internal control	Members and officers should support and promote a strong counter fraud culture. Raise awareness of the anti-fraud strategy and whistleblowing policy through training, poster campaigns and staff newsletters.
Value for money	Embed the arrangements to support value for money such as the quantification of external factors eg deprivation, social and economic inequalities on high cost services.

Use of Resources report

Financial standing

- 20 The Council remained successful at managing expenditure within available resources in 2005/06. The Council is currently projecting a small surplus on the General Fund of £0.4 million on its approved net 2006/07 budget of £218.43 million, and a surplus of £0.6 million on the housing revenue account. The favourable position on the general fund has resulted in part from additional interest on investments. Pressures remain within service departments particularly children's services (£0.26 million), and residential and nursing care placements (£0.45 million) and there is an estimated funding shortfall of £1.2 million in respect of asylum seekers and people without access to funds.

- 21 However, there remain challenges in the short and longer term. Looking to 2007/08, the financial settlement of £146.7 million, representing a 2.7 per cent increase, is below the London average of 3.4 per cent. Further challenges are likely to arise from the government's Comprehensive Spending Review 2007. Efficiency savings of 2.5 per cent have been built into the 2007/08 budget; this is set to increase to 3 per cent in future years. More specific risks exist around the affordability gap on the building schools for the future programme, high costs of residential care, and cuts in housing benefit subsidy for temporary accommodation that adversely impact on the Council's financial position. Continued vigilance will be required to contain expenditure in line with the strategy without drawing on balances.

Other use of resources work

- 22 Our work on the Council's Ethical Governance arrangements was reported to the Standards Committee in March 2006. There were no significant issues to report to Members from our work undertaken on partnerships. Reports were also issued on the Council's arrangements for the capital programme, and on a review of commissioning. The main findings from these reports are set out in Table 7 below.

Table 7 Key issues from other use of resources work

Area of work	Key issues
Capital programme	<p>The Council has improved the way it manages its capital programme. A review of arrangements has been undertaken and an action plan formulated. The successful implementation of the Council's capital programme action plan will enable the Council to establish stronger arrangements to enhance its performance. The Council now needs to:</p> <ul style="list-style-type: none">• adopt, on a Council wide basis, revised profile and objectives monitoring arrangements; and• initiate a schedule of quarterly random project reviews against the project health check.

Area of work	Key issues
Review of commissioning	<p>The Council has refined its arrangements for the commissioning, procurement and contract monitoring of adult social services. In order to maintain and accelerate the momentum, the Council now needs to:</p> <ul style="list-style-type: none"> • strengthen the working relationship between providers and commissioners by engaging in earlier discussions with providers about future commissioning plans and changes to services; • review the priorities within the commissioning strategies clearly identifying which are short, medium and long term; and • ensure all commissioning plans are costed and resourced and develop and implement action plans for delivery of the commissioning plans.

Best Value

- 23 We issued an unqualified report on the 2006/07 Best Value Performance Plan. The Council's management arrangements for data quality meet minimum requirements. The Council has effective arrangements for the governance, monitoring and review of data quality, although these are not formalised in an overarching data quality strategy. We reviewed eight performance indicators, three best value performance indicators BVPIs and five non-BVPIs, in detail. One non-BVPI indicator was reserved and two were materially amended from the figures originally submitted.

Grant claims

- 24 The Council has improved the timeliness of submission of grant claims and returns with 100 per cent of grants being submitted by the deadline (63 per cent in 2004/05). However this has impacted on the quality of the returns with 33 per cent requiring amendment compared to 8 per cent in 2004/05. There is a risk that if corrective action is not taken to improve the quality and accuracy of claims and returns submitted for certification, the Council will continue to face a higher certification fee than would otherwise be required.

Conclusion

- 25 This letter has been discussed and agreed with the Chief Executive and Leader. A copy of the letter will be presented at the Corporate Service Committee on 20 March 2007.
- 26 Further detailed findings, conclusions and recommendations on the areas covered by our work are included in the reports issued to the Council during the year. Table 8 highlights the reports issued since our last annual audit and inspection letter, issued in January 2006.

Table 8 Reports issued during the year

Report	Date of issue
Audit and inspection plan 2006/07	May 2006
Setting High Ethical Standards	April 2006
Partnership working (Business Jobs and Training Partnership)	April 2006
Housing inspection report	June 2006
Annual governance report 2005/06	September 2006
Independent auditors report on the financial statements 2005/06	September 2006
Value for money conclusion 2005/06	September 2006
Review of commissioning	October 2006
Final accounts memorandum 2005/06	October 2006
VFM follow up	October 2006
Use of resources auditor judgements 2006	December 2006
Auditors report on the best value performance plan	December 2006
Use of resources report	January 2007
Capital programme	January 2007
Data Quality review	January 2007
Grant claims report	January 2007 (draft)
Direction of travel assessment	February 2007
CPA scorecard	February 2007
Corporate assessment	March 2007

- 27 The outturn fee for the year is set out in Table 9. This shows a total audit and inspection fee for 2005/06 of £520,000 in line with the planned fee. This compares to a total fee of £529,000 in 2004/05.

Table 9 Audit and inspection fee update

Fee estimate	Plan 2005/06 £	Actual 2005/06 £
Accounts	320,000	320,000
Use of resources	160,000	160,000
Total audit fees	480,000	480,000
Inspection	40,000	40,000
Total audit and inspection fee	520,000	520,000
Grant claim certification*	210,000	213,000
Voluntary improvement work		
• 2005/06**	4,000	4,000

* work is ongoing in this area

** for 2005/06 this work covered review of ethical standards

- 28 The Council has taken a positive and constructive approach to our audit and inspection. We would like to take this opportunity to express our appreciation for the council's assistance and co-operation.

Availability of this letter

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

Les Kidner
Relationship Manager
16 March 2007