



AGENDA AUDIT PANEL

Date: WEDNESDAY, 19 SEPTEMBER 2012 at 7.00 pm

**Committee Room 4
Civic Suite
Lewisham Town Hall
London SE6 4RU**

**Enquiries to: Olga Cole
Telephone: 0208 314 8577 (direct line)**

COUNCILLORS

Councillor Michael Harris (Chair)
Councillor Philip Peake (Vice-
Chair)
Councillor Jenni Clutten
Councillor Ami Ibitson
Councillor Dan Whittle
Councillor Jim Mallory

Independent Members

Paul Dale
Richard King
Mike Robinson
David Webb

Members are summoned to attend this meeting

**Barry Quirk
Chief Executive
Lewisham Town Hall
Catford
London SE6 4RU
Date: 11 September 2012**



INVESTOR IN PEOPLE

The public are welcome to attend our committee meetings, however occasionally committees may have to consider some business in private. Copies of reports can be made available in additional formats on request.

ORDER OF BUSINESS – PART 1 AGENDA

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Agenda Item 1

AUDIT PANEL		
Report Title	MINUTES	
Key Decision		Item No. 1
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 19 SEPTEMBER 2012

Recommendation

It is recommended that the Minutes of the meeting of the Audit Panel, which was open to the press and public, held on 20 June 2012 be confirmed and signed.

Agenda Item 2

AUDIT PANEL		
Report Title	DECLARATIONS OF INTEREST	
Key Decision		Item No. 2
Ward		
Contributors	Chief Executive	
Class	Part 1	Date: 19 SEPTEMBER 2012

Members are asked to declare any personal interest they have in any item on the agenda.

1 Personal interests

There are three types of personal interest referred to in the Council's Member Code of Conduct :-

- (1) Disclosable pecuniary interests
- (2) Other registerable interests
- (3) Non-registerable interests

2 Disclosable pecuniary interests are defined by regulation as:-

- (a) Employment, trade, profession or vocation of a relevant person* for profit or gain
- (b) Sponsorship –payment or provision of any other financial benefit (other than by the Council) within the 12 months prior to giving notice for inclusion in the register in respect of expenses incurred by you in carrying out duties as a member or towards your election expenses (including payment or financial benefit from a Trade Union).
- (c) Undischarged contracts between a relevant person* (or a firm in which they are a partner or a body corporate in which they are a director, or in the securities of which they have a beneficial interest) and the Council for goods, services or works.
- (d) Beneficial interests in land in the borough.
- (e) Licence to occupy land in the borough for one month or more.
- (f) Corporate tenancies – any tenancy, where to the member's knowledge, the Council is landlord and the tenant is a firm in which the relevant person* is a

partner, a body corporate in which they are a director, or in the securities of which they have a beneficial interest.

- (g) Beneficial interest in securities of a body where:-
- (a) that body to the member's knowledge has a place of business or land in the borough; and
 - (b) either
 - (i) the total nominal value of the securities exceeds £25,000 or 1/100 of the total issued share capital of that body; or
 - (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person* has a beneficial interest exceeds 1/100 of the total issued share capital of that class.

*A relevant person is the member, their spouse or civil partner, or a person with whom they live as spouse or civil partner.

(3) Other registerable interests

The Lewisham Member Code of Conduct requires members also to register the following interests:-

- (a) Membership or position of control or management in a body to which you were appointed or nominated by the Council
- (b) Any body exercising functions of a public nature or directed to charitable purposes , or whose principal purposes include the influence of public opinion or policy, including any political party
- (c) Any person from whom you have received a gift or hospitality with an estimated value of at least £25

(4) Non registerable interests

Occasions may arise when a matter under consideration would or would be likely to affect the wellbeing of a member, their family, friend or close associate more than it would affect the wellbeing of those in the local area generally, but which is not required to be registered in the Register of Members' Interests (for example a matter concerning the closure of a school at which a Member's child attends).

(5) Declaration and Impact of interest on member's participation

- (a) Where a member has any registerable interest in a matter and they are present at a meeting at which that matter is to be discussed, they must declare the nature of the interest at the earliest opportunity and in any

event before the matter is considered. The declaration will be recorded in the minutes of the meeting. If the matter is a disclosable pecuniary interest the member must take no part in consideration of the matter and withdraw from the room before it is considered. They must not seek improperly to influence the decision in any way. **Failure to declare such an interest which has not already been entered in the Register of Members' Interests, or participation where such an interest exists, is liable to prosecution and on conviction carries a fine of up to £5000**

- (b) Where a member has a registerable interest which falls short of a disclosable pecuniary interest they must still declare the nature of the interest to the meeting at the earliest opportunity and in any event before the matter is considered, but they may stay in the room, participate in consideration of the matter and vote on it unless paragraph (c) below applies.
- (c) Where a member has a registerable interest which falls short of a disclosable pecuniary interest, the member must consider whether a reasonable member of the public in possession of the facts would think that their interest is so significant that it would be likely to impair the member's judgement of the public interest. If so, the member must withdraw and take no part in consideration of the matter nor seek to influence the outcome improperly.
- (d) If a non-registerable interest arises which affects the wellbeing of a member, their, family, friend or close associate more than it would affect those in the local area generally, then the provisions relating to the declarations of interest and withdrawal apply as if it were a registerable interest.
- (e) Decisions relating to declarations of interests are for the member's personal judgement, though in cases of doubt they may wish to seek the advice of the Monitoring Officer.

(6) Sensitive information

There are special provisions relating to sensitive interests. These are interests the disclosure of which would be likely to expose the member to risk of violence or intimidation where the Monitoring Officer has agreed that such interest need not be registered. Members with such an interest are referred to the Code and advised to seek advice from the Monitoring Officer in advance.

(7) Exempt categories

There are exemptions to these provisions allowing members to participate in decisions notwithstanding interests that would otherwise prevent them doing so. These include:-

- (a) Housing – holding a tenancy or lease with the Council unless the matter relates to your particular tenancy or lease; (subject to arrears exception)
- (b) School meals, school transport and travelling expenses; if you are a parent or guardian of a child in full time education, or a school governor unless the matter relates particularly to the school your child attends or of which you are a governor;
- (c) Statutory sick pay; if you are in receipt
- (d) Allowances, payment or indemnity for members
- (e) Ceremonial honours for members
- (f) Setting Council Tax or precept (subject to arrears exception)

Agenda Item 3

AUDIT PANEL			
Report Title	DISTRICT AUDITOR'S AUDIT COMMISSION ANNUAL GOVERNANCE REPORTS ON THE 2011/12 ACCOUNTS		
Key Decision	No	Item No.	3
Ward	ALL		
Contributors	EXECUTIVE DIRECTOR FOR RESOURCES AND REGENERATION		
Class	Part 1	Date:	19 September 2012

1. PURPOSE

- 1.1 The purpose of this report is to present to the Audit Panel the Audit Commission's Annual Governance Reports (AGR's) on the external audit of the Council's 2011/12 Main Accounts and 2011/12 Pension Fund Accounts. The AGR's are attached to this report.

2. RECOMMENDATIONS

- 2.1 It is recommended that the Audit Panel note the Annual Governance Reports for the London Borough of Lewisham Main Accounts and the Lewisham Pension Fund Accounts.

APPENDICES

- 1 - Audit Commission Annual Governance Report (Main Accounts)
2 - Audit Commission Annual Governance Report (Pension Fund)

Annual governance report

London Borough of Lewisham

Audit 2011/12

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Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

As at 10 September 2012, my audit is currently in progress; in particular the significant areas that I am completing audit work is on:

- Bank reconciliations,
- Property plant and equipment,
- Income and expenditure sample testing,
- Group accounts.

Subject to completion of outstanding audit areas, and based upon the work to date, I plan to issue an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

For 2010/11, Local authorities for the first time prepared their accounts under International Financial Reporting Standards. Larger more complex authorities, such as LB Lewisham, found the transition to IFRS challenging because of the scale of activities they needed to undertake. The draft 2011/12 financial statements submitted to audit at the end of June 2012 and the working papers provided to support the entries in the accounts were a significant improvement from 2010/11, although there is still scope for improvement.

My audit testing identified errors, other than those of a clearly trivial nature, and I reported these to management. The adjusted amendments to the accounts are detailed in appendix 3.

Management has not adjusted the financial statements for the errors identified in appendix 2. I would therefore ask you to consider whether to adjust the financial statements for the errors. If you decide not to do so, please tell me why in the letter of representation, a draft of which is in appendix 4.

I identified the following significant weaknesses in internal control during the audit that are relevant to preparing the financial statements:

- The asset register did not contain all the transactions that had taken place during the financial year and did not agree with the property plant and equipment figures in the financial statements. The asset register reconciliation to the financial statements is based on net book value not gross book values.
- The Council was not able to provide complete and timely bank account reconciliations for some of its bank accounts and does not have in place an effective control to detect material bank errors or fraud.

My team are working with officers to complete all outstanding testing. Should any further matters arise in concluding the outstanding work that need to be reported, I will raise them with the Executive Director of Resources and Regeneration and the Chair of the Audit Panel.

I would like to thank the Finance team for their cooperation during the audit of this year's accounts and look forward to continuing to work with officers in 2012/13.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Certificate

No matters have been brought to my attention requiring me to consider exercising my formal statutory powers so I plan to issue an audit closure certificate with my audit opinion.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) – Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2010/12.

I ask the Audit Panel to:

- take note of the adjustments to the financial statements included in this report (appendices 2 and 3);
- approve the letter of representation (appendix 4), on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 6).

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

My audit is substantially complete and subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Uncorrected errors

As shown in appendix 2 I identified misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements. If you decide not to amend, please tell me why in the representation letter. These adjustments relate to the accounting treatment of the guarantee provided to Lewisham Homes regarding pension costs.

Corrected errors

Both the number and the size of errors are significantly reduced compared with 2010/11 and this was combined with an improvement in the quality and timeliness of working papers. At the 10 September 2012, management has agreed to adjust the financial statements for the errors identified in appendix 3. These adjustments include:

- the former Tidemill school site being transferred to surplus assets of £8.5m;
- two investments of £10.2m were incorrectly included in cash and cash equivalents; and
- payments made in March 2012 of £13.6m were incorrectly adjusted to treat as a 2012/13 transaction. This has occurred due to the significant weaknesses reported to you regarding bank reconciliations in table 2.

Other amendments were made by the Council. These did not have a significant impact upon the financial statements and are summarised on page 15: other matters

Significant risks and my findings

I reported to you in my June 2012 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In table 1 I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
<p>Heritage Assets</p> <p>The 2011/12 IFRS Code adopts the requirements of FRS 30 Heritage Assets for the first time. These are assets held by the council with the intention of preserving them for future generations because of their cultural, environmental or historical associations. Typical examples in local government include memorials, mayoral regalia and paintings. The standard requires that where information on cost or value is available, heritage assets must be reported on the Council's balance sheet and accounted for in accordance with the Code and its disclosure requirements. There is a risk that due to the difficulty in identifying and valuing heritage assets, this change in accounting policy may not be implemented correctly.</p>	<p>I evaluated the design and implementation of controls to identify and value material heritage assets. I have performed substantive procedures to satisfy myself that you have recognised, valued and disclosed material heritage assets in your financial statements. The Council made an amendment to disclose additional information. My testing has not identified any significant issues to bring to your attention</p>
<p>Valuation of property, plant and equipment (PPE)</p> <p>The Council is required to value PPE at fair value (with some exceptions). There is a risk that the valuation reported in the financial statements will be materially misstated due to the fact that the valuation is an estimate. As such, the figures are inherently subjective and the monetary values presented can mean that even relatively modest changes in the assumptions and variables informing the valuation can have a material impact on the financial statements.</p>	<p>I have carried out procedures to ensure the correct accounting of the revaluation of PPE assets and HRA dwellings. Specifically, I have:</p> <ul style="list-style-type: none"> ■ reviewed Management's controls when using the Borough valuer to carry out the valuations; ■ undertaken audit procedures for reliance on the work of the Borough valuer; ■ reviewed reconciliations between the asset register and valuation reports;

Risk

Housing Revenue Account – Revaluation of HRA Dwellings

The value of the housing stock is one of the most significant balances on the Balance Sheet. The Housing Revenue Account (Accounting Practices) Direction 2011 requires authorities to use the specific bases and methods of valuation set out in the Stock Valuation for Resource Accounting – Guidance for Valuers issued by CLG.

The value of the authority's housing stock may be materially misstated as a consequence of the Council failing to comply with the guidance when preparing HRA asset valuations. This particularly relevant to the Council as there are a number of Housing and regeneration schemes where properties within estates are being decanted and redeveloped which impacts on the valuation of properties on estates such as:

- Kender estate
- Heathside and Lethbridge estates
- Calford town centre (Milford towers estate)

Closure and transfer of Libraries

In May 2011 the Council ceased to operate the libraries at Blackheath, Sydenham, Crofton Park, Grove Park and New Cross libraries.

There may be a risk that the Council has incorrectly accounted or disclosed these libraries within the financial statements because the former council libraries are now being operated by third parties. Hence the Council needs to establish if the rights and obligations have transferred to the third party requiring the Council to derecognise the assets from the balance sheet.

Finding

- tested valuations calculations and associated depreciation calculations; and
 - reviewed the methodology used by the Borough Valuer for the Kender, Heathside, Lethbridge and Milford Towers estates.
- My testing has not identified any significant issues to bring to your attention except for the correct error shown in appendix 3 relating to the former Tidemill school. There were also material disclosure changes within the PPE note that did not impact on the balance sheet figures at the year-end.

The Council has kept the assets on the balance sheet. My testing has not identified any significant issues to bring to your attention.

Risk

Academy Schools

In most local authorities schools are managed through a variety of governance arrangements. The difference is those arrangements have implications for the accounting treatment. During the year the Council has had schools transferring to Academy status and require derecognising from the Councils balance sheet. There may be risk that the Council has incorrectly accounted for or wrongly disclosed new academy schools within the financial statements.

Building schools for the future (PFI)

The Council continues with the BSF programme and during the year schemes were approved or expenditure continued on the following schools:

- Deptford Green
- Addey and Stanhope
- Prendergast Vale College
- Bonus Pastor
- a new ASD school
- Prendergast Hillyfields

There is a risk that the financial statements may be materially misstated as a consequence of the Council failing to account for transactions relating to these schemes.

Street Lighting (New PFI scheme)

The Council has a joint PFI scheme with the London Borough of Croydon for the provision of street lighting for the two boroughs. The contract covers the replacement of existing street lights and the future maintenance. This could lead to material errors in the financial statements.

Finding

I have carried out procedures to ensure correct accounting of Academy schools. Specifically, I have :

- evaluated management controls.
- tested the disclosures in the financial statements;
- tested the value of assets and liabilities derecognised to the underlying records;

My testing has not identified any significant issues to bring to your attention.

As planned I carried out early work in this area which was completed before the draft financial statements were prepared at the end of June 2012.

I evaluated the design and implementation of controls and I performed procedures to test the:

- disclosures in the financial statements to ensure that they are consistent with the financial model;
- review any external financial advice on the PFI scheme
- value of assets and liabilities recognised to the underlying records; to satisfy myself that your financial statements are materially stated in respect of your disclosure of Building schools for the future.

My testing has not identified any significant issues to bring to your attention.

As above

My testing has not identified any significant issues to bring to your attention.

Risk

Implementation of new financial systems (Asset register and Payroll system)

There is a risk that financial information is not migrated completely or accurately from the new systems and that the new systems are not operating effectively. This could lead to material errors in the financial statements.

Finding

I evaluated the design and implementation of controls to

- review management oversight of checking of opening balances in the new system agree to closing balances in old system
- review management oversight of checking the operational effectiveness of the new systems

and I performed procedures to ensure the system has migrated completely and is operating effectively. to satisfy myself that your financial statements are materially stated in respect of your disclosure for payroll and property plant and equipment.

My testing has identified significant issues to bring to your attention:

- Property Plant and Equipment: the asset register did not reflect all the transactions that had taken place during the financial year and did not provide a clear and comprehensive audit trail to the financial statements. In particular it did not include:
 - £66.1m capital expenditure (additions)
 - £38.7m transfers
 - £21.3m Impairments
 - £6.2m disposals

Additionally my audit identified that there were a number of material disclosure changes required within the Property Plant and Equipment note.

- Payroll: records of the migration of financial information from the old payroll system to the new systems were not kept by the Council

The Council should consider having monthly returns from departments to confirm the staff establishment list to the payroll system.

I had to carry out additional procedures to obtain adequate audit evidence to satisfy myself that your financial statements are materially correct in respect of property plant and equipment and payroll.

Risk

Housing Revenue Account (HRA) reform

The government has reformed local authority housing finance by adopting a self-financing model from 1 April 2012. This was through a one-off settlement payment of £136m from central government in March 2012. This will change the HRA debt of the Authority. Payment from the government has been used to redeem an equal percentage of PWLB debt held by the Authority. Due to the complexity, magnitude and timing of the HRA reform there is risk that the financial statements will be materially misstated.

Finding

I carried out procedures to satisfy myself that the financial statements are materially stated in respect of the HRA reform. Specifically, I:

- reviewed management oversight of transactions required by the Council;
- agreed settlement payment from central government to the amount specified in the Settlement Payments Determination 2012;
- checked that the settlement transaction has been accounted for in line with the requirements of CIPFA guidance;
- agreed details of loan redemptions to supporting documentation
- Re-performed calculations supporting item 8 debit and item 8 credit to the HRA.

My testing has not identified any significant issues to bring to your attention.

My team held regular meetings to liaise with officers regarding the Council's closedown arrangements. There has been a significant improvement in the quality of the financial statements that were presented to me for audit and in supporting working papers. As a consequence the delays in carrying out my work and the number of errors that I have identified during the audit have fallen.

The financial statements were presented to me on time and there were very few arithmetic, consistency and referencing errors.

There was a significant improvement in this area. There were some delays in the provision of working papers for bank reconciliations, debtors and creditors,

This weakness has been addressed.

This weakness has been addressed.

Preparation of financial statements and working papers

In 2010/11 the audit opinion was delayed due to the volume of errors arising as a result of poor preparation of the financial statements and working papers. In particular.

- Our review of the financial statements highlighted significant numbers of arithmetic, consistency and referencing errors. Amendments were made to the most significant items.
- There were instances where the Council did not provide detailed working papers until the later stages of the financial audit. Examples of these were Non Current assets, Investments, PFI.
- The Council has had serious problems in previous years producing an accurate, timely Cash flow statement, supported by working papers.
- In previous years the Council has not been able to produce timely and accurate Whole of Government Accounts in order to achieve the deadline.

Risk

There is a risk to the opinion that the accounts will not be prepared to a good standard with comprehensive working papers for each area.

Finding

Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

The following weaknesses in internal control are only those I have identified during the audit that are relevant to preparing the financial statements.

Table 2: Internal control issues and my findings

Description of weakness

Asset register

The asset register did not reflect all the transactions that had taken place during the financial year and did not provide a clear and comprehensive audit trail to the financial statements. The asset register reconciliation to the financial statements is based on net book value not gross book values.

Potential impact

There may be material errors in the financial statements.

Management action

Fully implement the RAM system by transferring all manual records to it, and then testing the system to ensure it is capable of providing accurate and timely information to support the entries made in the financial statements.

Description of weakness	Potential impact	Management action
<p>Bank reconciliations</p> <p>My audit identified that the process for producing bank reconciliations is not timely with the Council unable to provide a full set of working papers when requested. In particular the income account bank account was not reconciled to the bank statement and no reconciliations had been completed on the account from June 2011. Bank reconciliations for some smaller accounts were also not completed at 31 March 2012.</p>	<p>The Council does not have in place an effective control to detect material bank errors or fraud.</p>	<p>Carry out a full review of the bank reconciliation process to ensure that there is a structured approach to completing this control in a timely manner.</p>
<p>Recommendations</p>		
<p>R1 Fully implement the RAM system and test it to ensure that it is capable of providing accurate and timely information to support the entries made in the financial statements.</p>		
<p>R2 Carry out a full review of the bank reconciliation process to ensure that there is a structured approach to completing this control in a timely manner.</p>		
<p>Other matters</p>		
<p>I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.</p>		
<ul style="list-style-type: none"> ■ Qualitative aspects of your accounting practices. I identified a significant number of improvements in the financial statements disclosures that I identified during the course of my audit and which the Council agreed to correct. These included correcting or additional disclosures for: <ul style="list-style-type: none"> – local government pension scheme, (note 40); – foreword; – grant and taxation income (note 31) misclassified between line headings £8.7m; – capital commitments disclosure note was not included in the financial statements; – material disclosure changes within the PPE note 9 which did not impact on the balance sheet at the year-end; 		

- financial instruments (note 12);
- capital adjustment account (note 22e);
- adjustments between accounting basis and funding basis under regulations (note 7);
- housing revenue account; and
- cash flow statement.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

Apart from the issues outlined above I have no matters I wish to report.

Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. As at 10 September 2012 I have not completed the procedures specified by the National Audit Office. I expect to complete my report during September 2012.

Letter of Representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains our draft letter of representation.

Value for money

I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. In my June 2012 Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in appendix 1.

Table 3: Value for money conclusion criteria and my findings

Criteria	Risk	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Local Government Finance Settlement reduced Central Government funding available to the Authority. In 2011/12 the Authority is targeting savings and the projected level of savings required will increase in future years.</p>	<p>As in previous years my review of the Council's arrangements to secure economy, efficiency and effectiveness did not identify any significant issues to prevent the issuing of an unqualified value for money conclusion. I am satisfied that the Council has robust systems and processes to manage effectively financial risks and opportunities and to secure a stable financial position.</p>

Criteria	Risk	Findings
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>		<p>The Council is now in year two of its four year efficiency strategy to deal with the economic climate. The Council has successfully continued to deliver savings in 2011/12 towards its target of over £88m costs from council expenditure. The savings encompass all the Council's services and directorates Savings are identified through a robust budget setting process which takes into account the potential impact of the proposed cutback during the decision making process.</p>
		<p>The Council has prioritised its resources within tighter budgets and has secured economy, efficiency and effectiveness, for example by achieving cost reductions and by improving efficiency and productivity.</p> <p>The Council challenges the way activities are delivered and explores new ways of delivering activities. The Council has good arrangements to monitor efficiency savings and the impact on service quality and provision.</p> <p>The Council has ten corporate priorities which are monitored by a 'dashboard summary' of 59 performance indicators. Each performance indicator is assigned to a named director. The Council has a challenge process in place to monitor performance and to agree an action plan to address any areas that are under performing.</p>

Fees

I reported my planned audit fee in the June 2012 Audit Plan.

I will complete the audit within the planned fee.

Table 4: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	425,074	425,074
Claims and returns (estimate)	105,000	105,000
Non-audit work	Nil	nil
Total		

The Audit Commission has paid a rebate of 34,000 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £391,074.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF LONDON BOROUGH OF LEWISHAM

Opinion on the financial statements

I have audited the financial statements of London Borough of Lewisham for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Reserves Statement and Collection Fund and the related notes. The financial reporting framework applied to their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Lewisham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Executive Director for Resources and Regeneration and auditor

As explained more fully in the Statement of the Executive Director for Resources and Regeneration Responsibilities, the Executive Director for Resources and Regeneration is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director for Resources and Regeneration and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of London Borough of Lewisham as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Lewisham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Executive Director for Resources and Regeneration and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Executive Director for Resources and Regeneration is responsible for the preparation of the Authority and Group's Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director for Resources and Regeneration; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, London Borough of Lewisham put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of London Borough of Lewisham and pension fund in accordance with the requirements of the Audit Commission Act 1998 and the code of Audit Practice issued by the Audit Commission.

Susan M Exton
District Auditor

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

September 2012

Appendix 2 – Uncorrected errors

I identified the following errors during the audit which management have not addressed in the revised financial statements.

Item of account	Nature of error	Statement of comprehensive income and expenditure		Balance sheet	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Pension fund liability	Lewisham Homes has accounted for a Pension fund liability differently from the Council. There are two unadjusted errors, both non-trivial. The Council has included the £3,570k post transfer liability as a contingent liability. It is our view that per FRS 12 Provision, this should be accounted for as a provision. In addition the group accounts still include a £3,570k Lewisham Homes pensions debtor that does not eliminate on consolidation				

Appendix 3 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

Item of account	Nature of error	Statement of comprehensive income and expenditure		Balance sheet	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Cash and cash equivalents	Payments made in March 2012 of £13.6m were incorrectly adjusted to treat as a 2012/13 transaction			Creditors £13,625	Cash £13,625
Balance sheet	The former Tidemill school should be classified as a surplus asset (Ex50)			PPE surplus assets 8,485	PPE land and buildings 8,485
Balance sheet	A review of cash and cash equivalents identified two investments incorrectly classified (Ex58)			investments 10,165	cash 10,165
Group Comprehensive Income and expenditure	Interest received was incorrectly classified (Ex53)	810	810		
Collection fund (NNDR)	A debt had been incorrectly written off to the General Fund (Ex61)		472	debtors 472	

Appendix 4 – Draft letter of management representation

London Borough of Lewisham – Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Directors of London Borough of Lewisham, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Other matters

I confirm that I have provided complete and accurate property, plant and equipment records and that these are recorded in the financial statements.

I confirm that cash and cash equivalents include all bank accounts and that there are no frauds or errors not disclosed
I confirm that all group entities are included in the Group Accounts.

Signed on behalf of London Borough of Lewisham

I confirm that this letter has been discussed and agreed by the Audit Panel on 19th September 2012.

Signed

Name

Position

Date

Appendix 5 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Audit Commission

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Panel.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 6 – Action plan

Recommendations

Recommendation 1

Fully implement the RAM system and test it to ensure that it is capable of providing accurate and timely information to support the entries made in the financial statements.

Responsibility Group Finance Manager Accounting and Capital

Priority Medium

Date 2012/13 Accounts

Comments We will set up a work stream to review and improve this area

Recommendation 2

Carry out a full review of the bank reconciliation process to ensure that there is a structured approach to completing this control in a timely manner.

Responsibility Head of Finance Shared Services

Priority High

Date October 2012

Comments We will urgently set up a work stream to review and improve this area

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0844 798 7070

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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.



Annual governance report

London Borough of Lewisham Pension Fund

Audit 2011/12



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Key messages

This report summarises the findings from my 2011/12 audit of the pension fund financial statements which is substantially complete.

Audit opinion

My work is now substantially complete. Subject to the remaining items detailed on page 5, and the completion of review procedures I plan to issue an audit report on the Council's financial statements that includes an unqualified opinion on the pension fund financial statements.

I am also required to issue an opinion on the financial statements included in the pension fund annual report and appendix 1 contains a copy of my draft audit report. I have not yet received the pension fund annual report but the Council has agreed that this will be provided by the 20 September so that I am able to complete my audit by 30 September 2012.

Financial statements

The Council provided a set of working papers at the beginning of the audit and the quality of the working papers had improved since the prior year. There are some areas where the quality of working papers can be further improved next year and I will agree my recommendations through my accounts report to management. The Council responded to queries and further requests for working papers promptly during the audit. I wish to thank the staff for their co-operation during the audit.

During the audit I found that the draft pension fund financial statements contained two material errors within the notes and a number of comparative notes were omitted from the original draft (refer to appendix 2 for details). There were also a number of non trivial and trivial errors in the draft financial statements. All of these items were amended during the audit. I will report any further findings to the Audit Panel before I issue my opinion.

Before I give my opinion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) – Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

I ask the Audit Panel to:

- take note of the adjustments to the financial statements included in this report before the Council approves the financial statements (Appendix 2);
- consider the matters raised in the report before approving the financial statements (pages 5 to 9); and
- consider the letter of representation before it is approved on behalf of the Council and before I issue my opinion and conclusion.

Financial statements

The Pension Fund financial statements are an important mechanism for the Council to account for its stewardship of public funds. As Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters below, I plan to issue an audit report including an unqualified opinion on the financial statements of the pension fund. Appendix 1 contains a copy of my draft report. My work on the financial statements is not yet complete. I have received some responses to queries raised, however I have not yet completed:

- my review of the pension fund annual report (not yet received);
- my testing of the lump sum payments;
- my review of the admitted and scheduled bodies contributions;
- investment income testing; and
- my final review of the revised set of accounts (including new notes provided by the Council).

Subject to the receipt and review of responses to outstanding queries and further internal reviews, my team may raise further audit queries.

Corrected errors

There were two amendments to the accounts that had an impact on the value of investments disclosed on the Net Assets Statement. The total impact of these amendments was an increase in the value of investments (£2 million) on the Net Assets Statement and a corresponding increase in the change market value in the fund account. The adjustments are set out below.

- Harbourvest private equity investments. Due to timing, the custodian report used by the Council in preparing the accounts was dated as at December 2011 instead of at 31 March 2012 and therefore I found a discrepancy between the accounts and the external fund manager confirmation I received of £2.224 million.

- M&G investments. Due to timing, the custodian report used by the Council in preparing the accounts was dated as at September 2011 instead of 31 March 2012 and therefore I found a discrepancy between the accounts and the external confirmation I received from the investment manager of £260,000.

There were two material amendments made to Note 5 in the accounts. These amendments did not affect the Net Assets Statement nor the Fund Account.

- The Council amended the financial instrument disclosure (Note 5) for both the current and the prior year to reflect the CODE guidance in 2012. The assets (£766 million) were re-categorised from being assets 'available for sale' to assets 'held through profit and loss'; and
- The Council included cash (£9.7 million) as a separate class of Financial Assets within Note 5, when they should be classified under 'Loans and Receivables'. Both the current and the prior year disclosures were updated to reflect the correct classification.

A number of notes were omitted from the first version of the accounts and these have been added to the financial statements. A number of non trivial amendments were also made to notes to the accounts but these amendments relate to the disclosure notes only and there was no impact on the Net Assets Statement nor the Fund Account.

Disclosure issue

The CODE requires the pension fund key management's post-employment benefits to be disclosed in the pension fund accounts. The Council has not disclosed the post employment benefits of the key management personnel (the Executive Director for Resources and Regeneration) within the note to the accounts.

Significant risks and my findings

I reported to you in my June Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In table 1, I report to you my findings against each of these risks. In addition, I report to you my findings on testing the fair value disclosure within the accounts.

Table 1: **Risks and findings**

Risk	Finding
<p>Pension fund bank account regulations</p> <p>Local Government Pension Scheme Regulations 2009 require that from 1 April 2011 pension fund administering authorities should hold all pension fund monies in a separate bank account to the administering authority's funds. Inappropriate allocation of funds when establishing the separate pension fund bank account creates audit risks in respect of existence and completeness. There is a risk that the Council will contravene the requirements of the Regulations.</p>	<p>I reviewed the pension fund cash system and the related controls. I reviewed the opening bank balance at 1 April 2011 to confirm that it was equal to the closing notional balance (bank and cash figure in the 2010/11 Net Assets Statement) as at 31 March 2011. I found that the correct opening balance had been brought forward for use in the bank reconciliation and I found no issues with the cash book reconciliation nor the cash balance in the financial statements.</p> <p>However the Council has not been using the new bank account in line with the regulations that came into force from 1 April 2011.</p> <ul style="list-style-type: none"> ■ The pension fund bank account has been used partially during 2011/12 and only since January 2012. It has been used for a small number of transactions relating to foreign pensioner payments, payment of bills and the draw down of investment cash. ■ The Council has been using the its main bank account for all other pension related payments and receipts and it subsequently made transfers from the pension fund bank account during the last quarter in the financial year. ■ At year end the pension fund owed Lewisham Council £1.4 million that is disclosed as a creditor in the pension fund accounts. <p>I made a recommendation in both my Annual Governance Report and my Annual Audit Letter in 2010/11 that the Council should ensure that the pension fund bank account is used for all pension related transaction. The Council agreed to this recommendation however the Council has not yet implemented the response. I have repeated my recommendation within this report. The Council should act promptly in order to comply with the regulations.</p>

Risk	Finding
<p>Unquoted investments</p> <p>The valuation of unquoted investments is potentially a very complex area. The pension fund has a material amount of unquoted investments. There are risks around accurate valuation at year-end.</p>	<p>I reviewed the systems and controls in place to account for the investment transactions and I have no issues to report.</p> <p>I reviewed the unquoted investments disclosed in the accounts at year end. I found two issues that have been outlined on page 6 of this report. Both of these amendments have been made in the accounts so that the statements reflect the 31 March 2012 valuations. The overall impact of this adjustment was an increase in value of investments on the Net Assets Statement of £2 million (and corresponding increase in market value in the fund account).</p>
<p>New payroll system</p> <p>There was a new payroll system introduced by the Council in 2011/12. The payroll system is linked to the pension fund through the contributions and the benefits payments. There is an inherent risk with the introduction of any new system due to the transfer of date that payments could be inaccurate.</p>	<p>I reviewed the payroll system and controls in place surrounding contributions and benefits transactions. I also updated my testing strategy to select a sample of contributions and benefits for detailed testing. I have no issues to report from this testing.</p> <p>I reviewed the results of the new payroll system testing undertaken under the main audit and I found that records of the migration of financial information from the old payroll system to the new systems were not kept by the Council. I carried out additional procedures to obtain adequate audit evidence to satisfy myself that your financial statements are materially correct.</p>
<p>Pension fund accounts preparation arrangements</p> <p>There were several errors identified during the audit of the accounts in the prior year due to the change in staff preparing the accounts. A new team will be preparing the accounts in 2011/12 and there is an inherent risk that there are errors.</p>	<p>I reviewed the arrangements in place to prepare the accounts in 2011/12.</p> <p>The pension fund team worked hard to respond to audit queries promptly and to prepare working papers before the audit began. The accounts were submitted on time and there was a reduction in the length of the audit in 2011/12.</p> <p>I found a number of non trivial errors however the Council has corrected all of these in the final draft of the accounts.</p>
<p>Fair value disclosure of the investments</p> <p>There is an inherent risk that investments disclosed in the Net Assets Statement are not at disclosed fair value.</p>	<p>During the audit I obtain external fund manager confirmations for the value of investments disclosed in the Net Assets Statement. I have the following issues to report.</p> <p>I found that the investments disclosed were materially correct however I found three discrepancies between the Net Assets Statement and the external confirmation from the fund manager, or the external pricing source.</p>

Risk

Finding

- Harbourvest Equity: I compared the price of the asset used by the custodian to the London Stock Exchange. There was an overall difference of £125,000 when the price difference was applied to the total investment (the value of the investments in the accounts was lower).
 - Schroders investments: I found a difference of £218,000 between the Fund Manager Report and the Custodian Report (the value of the investments in the accounts was lower).
 - UBS- Bond Funds: I found a difference between the Fund Manager Report and the Accounts/Custodian Report (the value in the accounts was higher by £234,000).
- The Council confirmed that in some cases the prices differ slightly to the Investment manager valuation due to various factors including pricing sources and methods. I have added these three discrepancies to the letter of representation (appendix 3).

Recommendation

R1 Ensure that the pension fund bank account is used for all pension fund transactions in line with the regulations.

Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Pension Fund only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I reported my findings in my audit plan that was presented to you in June and I have not repeated them within this report.

During the audit I found that there was a control weakness regarding being able to ring-fence pension fund monies from those of the Council. The Council has been using the main bank account for the pension fund related transactions and although there are records to support the pension fund cash balance there remains a risk that the funds could potentially be co-mingled. I made a recommendation both in my Annual Governance Report and my Annual Audit Letter in the 2010/11 audit that the Council should use the pension fund bank account for all pension related transactions. These arrangements have not yet been fully implemented. I have therefore repeated my recommendation within this report. The Council should act promptly in order to comply with the regulations.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council Pension Fund's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

These are the issues I want to raise with you.

Accounting practices, policies, estimates and financial closures

Issue	Recommendation
<p>1. Agreement to the ledger</p> <p>The Statement of Accounts submitted for audit did not agree to the ledger. There was a discrepancy of £6.2million on the cash balance due to an issue that was brought forward from the prior year. The Council has now agreed to amend the ledger to agree to the accounts. A similar issue was also reported in the 2010/11 annual governance report. I do not expect to see the same issue arise next year.</p>	<p>R2 Ensure that the statement of accounts agrees to the ledger before submitting to the accounts for audit.</p>
<p>2. Accruing for contributions</p> <p>The Council identified during the audit that it had not processed the correct value of accruals relating to scheduled body contributions in the current nor the prior year.</p>	<p>R3 Ensure that all contributions are coded correctly and that all accruals are processed by year end.</p>

Issue

- The value of the omitted accruals/misclassified income in 2010/11 for the Employees' and the Employers' contributions was £245,000 and £498,000 respectively. No amendment has been made for these classification errors but the income that had not been accrued in 2010/11 (£256,000) has been accounted for in the current year.
- In 2011/12 the value of the error for the Employees' and the Employers' contributions that has not been adjusted is £54,000 (overstated in the accounts) and £65,000 (understated in the accounts) respectively and the accounts have not been adjusted for these errors.

These values are immaterial however the Council should ensure that processes are improved to identify and process accrued income going forward.

Pension Fund Annual Report

The Council has agreed to submit the pension fund annual report by 20 September 2012. I will issue a report on the financial statements included in the Annual Report (refer to the draft opinion within Appendix 1) and I will update you if there are any issues arising from this review.

Recommendation

Fees

I reported my planned audit fee in the June Audit Plan.

I will complete the audit within the planned fee.

Table 2: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	35,000	35,000
Non-audit work	0	0
Total	35,000	35,000

The Audit Commission committed to paying a rebate of 8 per cent (£2,800) during 2011/12 to reflecting attainment of internal efficiency savings, reducing the net amount payable to the Audit Commission to £32,200.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF LEWISHAM

Opinion on the pension fund accounting statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of the London Borough of Lewisham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Executive Director for Resources and Regeneration and auditor

As explained more fully in the Statement of the Responsibilities in the Statement of Accounts, the Executive Director for Resources and Regeneration is responsible for the preparation of the pension fund’s financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director for Resources and Regeneration and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I report to you if, in my opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I have nothing to report in this respect.

Susan M Exton
District Auditor

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

Appendix 2 – Corrected errors

I identified the following material errors during the audit which management have addressed in the revised financial statements.

Note and nature of error	Amendment
Note	£
<p>Note 5 – Financial instruments</p> <p>There were two material amendments to the Financial Instrument note and related disclosures.</p> <ul style="list-style-type: none"> ■ The Council amended the financial instrument disclosure for both the current and the prior year to reflect the CODE guidance in 2012. The assets (£766 million) were re-categorised from being assets 'available for sale' to assets 'through profit and loss'. ■ The Council included cash (£9.7 million) as a separate class of Financial Assets, when they should be classified under 'Loans and Receivables'. Both the current and the prior year disclosures were updated to reflect the correct classification. <p>I tested the asset values included in the various sensitivity analyses and a number of inconsistencies and other numerical issues were identified.</p>	<p>The reclassification amendments were made to Note 5 (£766 million and £9.7 million) - there was no impact on the Fund account nor the Net Assets Statement.</p> <p>The inconsistencies have been corrected in the final version of the statements and the note is consistent with the Net Assets Statement.</p>
<p>Net Assets Statement</p> <p>I reviewed the unquoted investments disclosed in the accounts. I found the following issues.</p> <ul style="list-style-type: none"> ■ Harbourvest private equity investments. Due to timing, the custodian report used by the Council in preparing the accounts was as at December 2011 instead of 31 March 2012 and therefore I found a discrepancy between the accounts and the external confirmation I received from the investment manager of £2.224 million. 	<p>Both of these amendments have been made in the accounts so that the statements reflect the 31 March 2012 valuations. The overall impact of this adjustment was an increase in value of investments on the Net Assets Statement of £2million (and corresponding increase in market value in the fund account).</p>

Note and nature of error	Amendment
<ul style="list-style-type: none"> M&G investments. Due to timing, the custodian report used by the Council in preparing the accounts was as at September 2011 instead of 31 March 2012 and therefore I found a discrepancy between the accounts and the external confirmation I received from the investment manager of £260,000. 	
<p>Total value - non trivial errors amended within the notes</p>	<p>The five amendments were made within notes and therefore there was no impact on the Net Assets Statement or the Fund Account.</p>
<p>Table 3: Other amendments</p>	
Statement or note	Amendment made to the text or statement
<p>Financial instruments (Note 5- Investment analysis)</p>	<ul style="list-style-type: none"> The Code requires financial instruments carried at fair value to be categorised across three levels, according to the quality and reliability of the information used to determine fair values. The Council had not made this disclosure. The CODE requires disclosure for gains/ losses on financial instruments. The Council had not made this disclosure. <p>Both of these notes were added to the final version of the accounts (Note 5- Investment analysis).</p>
<p>Investments exceeding 5 per cent (Note 5- Investment analysis)</p>	<p>The CODE requires details of any single investment exceeding either 5 per cent of the net assets available for benefits or 5 per cent of any class or type of security. No disclosure had been made within the notes to the accounts. This note was added to the final version of the accounts (Note 5- Investment analysis).</p>
<p>Comparative information</p>	<p>There was no comparative information disclosed for a number material notes to the accounts. This information was added to the final version of the accounts.</p>

Appendix 3 – Draft letter of management representation

London Borough of Lewisham Pension Fund– Audit for the year ended March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Members of the London Borough of Lewisham, the following representations given to you in connection with your audit of the Pension Fund's financial statements for the 2011/12 year ended March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Pension Fund, for the completeness of the information provided to you, and for making accurate representations to you.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those investments measured at fair value. I confirm that the unadjusted discrepancies summarised below are not material to the financial statements, either individually or in aggregate. These discrepancies have been discussed with those charged with governance and the reasons for not adjusting for them are as follows.

I found the following discrepancies:

Harbourvest Equity: I compared the price of the asset used by the custodian and in the accounts to the London Stock Exchange. When the difference in price was applied to the total investment held by Lewisham Pension Fund, the value in the accounts was lower by £125,000.

Schroders investments: I found a difference between the Fund Manager Report and the Accounts/Custodian Report (the value in the accounts was lower by £218,000)

UBS- Bond Funds. I found a difference between the Fund Manager Report and the Accounts/Custodian Report (the value in the accounts was higher by £234,000).

Supporting records

I have made available all relevant information and access to persons within the Pension Fund for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Pension Fund.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Pension Fund has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Pension Fund's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of the London Borough of Lewisham Pension Fund.

I confirm that this letter has been discussed and agreed by the Audit Panel on the 19th September 2012.

Signed

Name

Position

Date

Appendix 4 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Pension Fund after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Pension Fund is required to prepare, which report the financial performance and financial position of the Pension Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Internal control

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Pension Fund Annual Report

The annual report, including financial statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Significance

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority, the Pensions Investment Committee and the Audit Panel.

Appendix 5 – Action plan

Recommendations

Recommendation 1

Ensure that the pension fund bank account is used for all pension fund transactions in line with the regulations.

Responsibility Selwyn Thompson – Group Manager, Budget Strategy

Priority High

Date April 2013

Comments The new bank account has already been set up and is used to pay pension fund bills, foreign pensions, giro pensions, capital calls, and to effect cash draw-downs. The intention is to use the bank account for all pension fund transactions. This is currently being reviewed in line with the One Oracle implementation are we are intended to have a mechanism in place by the start of the new financial year.

Recommendation 2

Ensure that the statement of accounts agrees to the ledger before submitting to the accounts for audit.

Responsibility Selwyn Thompson – Group Manager, Budget Strategy

Priority High

Date May 2013

Comments This process of quality reviewing the statement of accounts before submission already exists. We will continue to strengthen this process and ensure that it's specifically addressed as part of the closing of accounts process for 2012/13.

Recommendation 3

Ensure that all contributions are coded correctly and that all accruals are processed by year end.

Responsibility	Carol Eldridge – Group Manager, Pensions
Priority	High
Date	December 2012
Comments	This process will be reviewed with the Group Manager, Budget Strategy to ensure that an agreed approach is in place by the end of December 2012.

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0844 798 7070

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- any director/member or officer in their individual capacity; or
- any third party.



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September 2012

AUDIT PANEL			
Report Title	EXTERNAL AUDITOR'S REPORTS ON THE 2011/12 ACCOUNTS		
Key Decision	No	Item No.	4
Ward	ALL		
Contributors	EXECUTIVE DIRECTOR FOR RESOURCES AND REGENERATION		
Class		Date:	19 September 2012

1 PURPOSE

- 1.1 The purpose of this report is to respond to the external auditor's Annual Governance Report (AGR), on the audit of the council's 2011/12 main accounts. The AGR is attached to the previous item on this agenda, and sets out:

"...the findings from the 2011/12 audit...the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources."

- 1.2 In other words, the AGR set out the matters arising from the audit that, in the opinion of the external auditor, are of sufficient significance to warrant discussion with Members.

2 EXECUTIVE SUMMARY

- 2.1 The Council has a statutory requirement to approve and publish its audited Statement of Accounts by 30th September each year. The pre-audit 2011/12 Accounts were considered and noted by the Audit Panel on 20th June 2012. Since then the Audit Commission have been carrying out their external audit, and the final audited 2011/12 Accounts will be submitted to Council for approval on 26th September 2012.

3 RECOMMENDATIONS

- 3.1 The Audit Panel is recommended to note the AGR and this covering officer report, to ask questions as appropriate and to agree the comments that they wish to be relayed to Council.

4 POLICY CONTEXT

- 4.1 Completing the audit of the council's accounts and receiving the auditor's report thereon contributes directly to the council's tenth corporate priority:
- **Inspiring efficiency, effectiveness and equity:** ensuring efficiency and equity in the delivery of excellent services to meet the needs of the community.

5 AUDIT OF ACCOUNTS

- 5.1 Since the pre-audit Accounts were completed at the end of June 2012, they have been subject to extensive external audit by the Audit Commission and a number of changes have been agreed. At the time this report was dispatched, the audit was substantially complete and the District Auditor anticipates that:

“...subject to completion of outstanding audit areas...I plan to issue an unqualified opinion on the financial statements...” and that

“ I plan to issue a conclusion that the council’s arrangements for securing economy, efficiency and effectiveness in the use of resources are adequate.

The Annual Governance Report on the Accounts is attached to the previous item on this agenda and a verbal update will be given at the meeting by the District Auditor. The Pension Fund AGR is also attached to that item.

- 5.2 The external auditor has raised a few matters for Members to consider and it is important to note that these mainly relate to detailed disclosure requirements.
- 5.3 The District Auditor and appropriate members of her team, and senior council officers, will attend the meeting to answer questions as appropriate.
- 5.4 The external auditor recommends that Members:
- *“Take note of the adjustments to the financial statements included in this report (appendices 2 and 3)*
 - *Approve the letter of representation (appendix 4), on behalf of the council before I issue my opinion and conclusion; and*
 - *Agree your response to the proposed action plan (appendix 6).”*

Note – All references to appendices refer to the AGR rather than this report.

- 5.5 Under the council’s constitution these matters will be for council to determine. At the council meeting Members will be recommended to note the AGR and approve the audited Statement of Accounts. The comments of the Audit Panel arising from this meeting will be communicated to Council on 26th September 2012.

6 AUDIT FINDINGS

- 6.1 Overall, the audit has revealed a significant improvement in the draft 2011/12 financial statements and working papers provided to support the entries in the accounts compared to 2010/11.
- 6.2 However, there is still room for improvement, and during the audit a number of errors were identified and amendments to the Accounts agreed with the auditors. None of these changes are material to the financial position shown in the Accounts and they do not affect the charge to the Council Tax. The changes are mainly presentational and will ensure that the Council complies with the technical accounting regulations.
- 6.3 In Appendix 2 of the AGR, the Audit Commission have again raised the accounting treatment of the guarantee provided by the Council to Lewisham Homes regarding pension costs which the Council has not agreed to amend for. This issue has been the subject of discussion over the last few years with our accounting treatment remaining consistent and we do not agree with the Audit Commission interpretation that they are errors.

- 6.4 In Appendix 3 of the AGR, the Audit Commission have identified a number of errors which the Council has agreed to amend for.
- The incorrect adjustment of £13.6m between cash and creditors results from a difference in interpretation in the accounting treatment between the Audit Commission and the Council. This year end adjustment is consistent with our treatment of corresponding sums in previous years accounts. However, on reviewing the position, we now agree with the Audit Commission viewpoint.
 - The misclassification of the former Tidemill School as land and building rather than a surplus asset, and two investments as cash rather than short term investments were unfortunate oversights which affect the classification on the balance sheet but do not affect the overall equity.
 - The misclassification of interest on the Group CIES was due to an difference in interpretation of the treatment of interest recovered.
 - The debt which was written off to the general fund was done pending the external audit of the NNDR Pooling claim. This debt has now been charged to the NNDR Pool and therefore the write off to revenue will be reversed.
- 6.5 The Action Plan in the AGR at Appendix 6 has two recommendations in it which have been agreed.
- 6.6 Overall the reduced number of changes required to the 2011/12 Accounts compared to last year indicates a good system of financial control and the robustness of financial information throughout the organisation.

7 INFORMATION REQUESTED AT LAST AUDIT PANEL

- 7.1 At the last meeting, information was requested on the reasons for the 10% increase in the Pension Fund liability from £1,061m to £1,162m. The major reasons for this £101m increase were as follows;

	£m
Interest Cost on the present value of commitments arising because the benefits are one year closer to being paid	58
Actuarial Losses due to difference between estimate and actual, and change in mortality assumptions	50
Cost of service which employees have earned during year	22
Benefits Paid during year	-41
Other Miscellaneous	<u>12</u>
	<u>101</u>

8 ANNUAL GOVERNANCE STATEMENT

- 8.1 This document has been slightly updated from that considered at the Audit Panel on 20th June 2012, following comments from a number of parties. It is attached as Appendix 1.

9 FINANCIAL IMPLICATIONS

- 9.1 There are no direct financial implications in agreeing the recommendations in this report.

- 9.2 The cost of external audit services in respect of 2011/12 was £496,000, including the cost of the audit of the accounts, the certification of grant claims and returns and other external audit services.

10 LEGAL IMPLICATIONS

- 10.1 Regulation 8 of the Accounts and Audit (England) Regulations 2011 requires authorities to publish its Statement of Accounts after the external audit is concluded no later than 30 September. The approval of the audited Statement of Accounts by Council on 26 September 2012 will satisfy this statutory requirement.
- 10.2 It is the role of the Audit Panel to receive, review and where appropriate advise and make recommendations to the Council in relation to the external auditor's opinion and report to Members, and to monitor management action in response to issues raised by external audit.

11 EQUALITIES IMPLICATIONS

- 11.1 There are no equalities implications in this report.

12 CONSULTATION

- 12.1 Sections 15 and 16 of the Audit Commission Act 1998 give electors the right to question the auditor or object to the Accounts. The Accounts are required to be available for public inspection for 20 working days prior to the conclusion of the audit and an advertisement placed in the local press to publicise this fact. This public inspection period ended on the 15 August 2012, which was also the day electors were able to question the auditor. No questions were received by the District Auditor on this day. It is also a requirement that notice of conclusion of the audit is advertised in the local press.

13 ENVIRONMENTAL IMPLICATIONS

- 13.1 There are no environmental implications in this report.

14 CRIME AND DISORDER IMPLICATIONS

- 14.1 There are no crime and disorder implications arising from this report.

15 BACKGROUND PAPERS

None

APPENDIX

1 - Annual Governance Statement

For further information on this report please contact:

Conrad Hall, Head of Business Management and Service Support
Richard Lambeth, Group Finance Manager – Accounting and Capital



Appendix 1

Draft Annual Governance Statement

1. Scope of responsibility

The London Borough of Lewisham (Lewisham) is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It must make certain that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Lewisham also has a duty under the *Local Government Act 1999* to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Lewisham is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Lewisham has approved and adopted a [Local Code of Corporate Governance](#), which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*.

In accordance with paragraph 3.7.4.3 of the Code of Practice on Local Authority Accounting for 2011/12; it is noted that Lewisham's financial management arrangements conform with the governance requirements of the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government* (2010) as set out in the Application Note to *Delivering Good Governance in Local Government: Framework*.

The Annual Governance Statement (AGS) explains how the authority has complied with the code and also meets the requirements of regulation the *Accounts and Audit (England) Regulations 2011* in relation to the publication of a statement on internal control.

2. The purpose of the governance framework

The governance framework comprises the systems and processes, culture and values, by which the authority is directed and controlled. The framework also governs the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to

consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk or failure to achieve aims and objectives or compliance with policies and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Lewisham's policies, aims and objectives. It then evaluates the likelihood of those risks being realised and the impact should they be realised, and seeks to manage them efficiently, effectively and economically.

The governance framework has been in place at Lewisham for the year ending 31 March 2012 and up to the date of approval of the annual governance statement and statement of accounts.

A summary of the governance framework

Lewisham's directly elected Mayor ensures the Council has a clear strategic direction and effective leadership. The Council benefits from the perspectives and contributions of 54 Councillors. The Council's Constitution clearly defines the roles of Members and Officers, and this clarity contributes to effective working relationships across the Council.

The Local Code of Corporate Governance and well developed Codes of Conduct for Members and Officers demand the highest standards of ethical behaviour. These are reviewed regularly and are communicated widely. A new Member Code of Conduct was adopted in June 2012 to reflect changes introduced in the Localism Act 2011.

Financial decisions are tied to corporate priorities. The management of risk is handled at a corporate and directorate level and is overseen by an independently chaired Internal Control Board. The involvement and contribution made by the Constitution Working Party, the Standards Committee and the Audit Panel to provide a check on the Council's governance arrangements represent constructive and informative tools to ensure the robustness of the Council's arrangements.

The Council's overall vision for the area is shared by its key partners on the Lewisham Strategic Partnership (LSP) and was developed following extensive consultation with the community.

The Annual Audit letter of 2009/10, issued by the Audit Commission's appointed auditor concluded that the Council was considered to have '*strong governance arrangements in place*' and '*effective risk management systems which are well integrated across the whole of the council and includes partnership working*'. In its subsequent reporting no governance concerns have been raised.

In December 2010, the Government introduced the Localism Bill (now the Localism Act) into Parliament. The Head of Law provided an all party briefing on the Act, and also provided briefings to the Standards Committee in March and June 2012. Briefings on the Localism Act have also been provided to the Mayor and Cabinet, the Executive Management Team and Heads of Service. The Head of Law has also provided training to staff in specific services such as Planning and Housing, where the Localism Act could have a significant impact as well as briefings on the new Member Code of Conduct and the revised Constitution.

3. Elements of the governance framework

a) Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users

The long-standing vision of the Council is: *Together, we will make Lewisham the best place in London to live, work and learn.* This was agreed following extensive consultation and adopted by the LSP as the vision statement for Lewisham's first Community Strategy, launched in 2003. This joint vision is promoted on the Lewisham website and in Council strategies, which are also published on the website.

In 2008 the LSP published "*Shaping our future: Lewisham's Sustainable Community Strategy (SCS) 2008-2020*" in line with the recommendations of the Local Government White Paper, *Strong and Prosperous Communities* (2006). The development of the SCS was informed by an extensive programme of consultation, which identified resident's aspirations for Lewisham, and which ensured that those views fed into the six key outcomes for the borough the SCS sets out to achieve.

This development approach was endorsed by the Audit Commission, when they concluded in their 2009 Area Assessment that "*Lewisham's local strategic partnership understands the issues of concern to residents very well. Their main priorities reflect local people's needs and wishes clearly*".

The Council has an enduring set of 10 corporate priorities. The corporate priorities set out how the organisation will contribute to the delivery of the SCS. Performance against the corporate priorities is reviewed every year through the Annual Report and is also supplemented by the Monthly Management Report. The most recent version was in August 2012.

Details relating to the Council's vision, values and priorities are contained on Lewisham's website. This ensures that members of the public, citizens and service users are able to hold the Council to account.

b) Reviewing the authority's vision and its implications for the authority's governance arrangements

The Lewisham Strategic Partnership is led by the LSP board which is chaired by Lewisham's directly-elected Mayor. A series of thematic partnerships work with the LSP board, each concentrating on a specific set of cross-cutting policy issues. The thematic partnerships bring together the relevant organisations and individuals to determine appropriate interventions and to ensure that joint-working results in the best possible outcomes for citizens and service users. The LSP board and thematic partnership boards have re-aligned their focus around the six key outcomes set out in the SCS. The plans which relate to the thematic boards, are monitored on a regular basis. The monitoring of such plans feeds up to the LSP board and into the wider monitoring of the SCS.

The Council assessed the implications of change for the Council's governance arrangements through the review of the Local Code of Corporate Governance at the Standards Committee (10th May 2007) and at Council (23rd May 2007). Further reviews of the Local Code have taken place in 2008, 2009, 2010, 2011 and is ongoing for 2012. The review of 2009 (reported to Standards Committee on 5th May 2009) recommended that the Local Code be extended to include a new requirement – in the light of new CIPFA guidance and the Council's extensive partnership arrangements – to ensure effective partnership governance and risk management.

Further to this, on an ongoing basis, the work of the Constitution Working Party and the Internal Control Board addresses governance issues arising out of the Council's vision for the area.

c) Measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources.

In the 2010/11 [Annual Audit Letter](#) the Audit Commission concluded that: *'The Council challenges the way activities are delivered and explores new ways of delivering activities. The Council has good arrangements to monitor efficiency savings and the impact on service quality and provision. It uses the Performance Plus performance monitoring system to monitor performance. Cabinet and the senior management team monitor the impact of the savings via regular budget monitoring reports.'*

A review of the Performance Management Framework takes place annually, to ensure continuous improvement. The Performance Management Framework allows for robust and structured target setting against national requirements and local priorities. It also allows the Council, its partners and residents to monitor and measure the Council's effectiveness against these national and local performance indicators.

Our Monthly Management Report is the centrepiece of our performance reporting structure. It provides a clear and easy to read analysis of our performance against a basket of 59 indicators including former national indicators and local measures, and also includes an executive summary to direct attention to areas of strong performance as well as areas requiring greater management attention. It is produced entirely from the Performance Plus (P+) system and is presented monthly to the Executive Management Team and quarterly to Mayor's briefing and to the Mayor and Cabinet.

The Monthly Management Report utilises exception reporting to focus attention on key areas: exception reporting for red Projects, Risk and Finance and Red and Green exception reporting for performance. By combining these four areas for each of our corporate priorities, it functions as the critical tool for supporting decisions across the organisation. While examining this report, the Executive Management Team, Mayor and Cabinet and Public Accounts Select Committee challenge all aspects of performance. The report is also published on the Council's website, and so is accessible to members of the general public.

In March 2012, following a review of the Council's performance management system, our internal auditor RSM Tenon reported that: 'Taking account of the issues identified, in our opinion the Council can take Substantial Assurance that the controls are relied on to manage this area, as currently laid down and operated, are effective.'

The quality of services for users is also measured through satisfaction surveys and information from the complaints management and resolution process. The Council's complaints procedure is published on the web and has been publicised, through the Council's quarterly newsletter – "Lewisham Life" - to all residents of the borough. The Council has taken active steps to improve its complaints procedure and continues to use the Council's complaints management system, iCasework, to record complaints and feedback. The Council's website has been updated to provide comprehensive information relating to complaints. This also includes a fact sheet about the role of the Independent Adjudicator. The Head of Strategy and Performance for Customer Services reports annually to the Standards Committee with an update on complaints, complaints performance is considered annually by Mayor and Cabinet and the Public Account Select Committee. Further reports are considered monthly at Directorate Management Team level and quarterly at Executive Management Team and in the Council's Management Report.

Value for Money (VFM) is integral to Council operations, and the budget strategy is predicated on ensuring that the Council is delivering good VFM. A Budget Saving Strategy Group is in place and provides a focus on securing budget savings (whether this be via improving efficiency, or by the thematic review and re-design of services or by budget cuts or service cessations). The group was created to focus on delivering the revenue budget savings which would be needed to ensure the success of the Budget Strategy.

The Group comprises, Heads of Strategy and Performance and Group Finance Managers, plus a representative from Human Resources and Legal Services. The Group has the remit to review and act as a sounding board for the Budget Strategy, savings process, saving proposals and the mechanics for ensuring the Council has a smooth process for delivering savings. The Group is also responsible for annually reviewing the existing process and suggesting ways to improve it.

In addition to this, the Council is continuing to develop its approach to value for money through its participation in the Local Authority Performance System (LAPS). The LAPS tool enables London local authorities to benchmark costs and performance and develop VFM profiles across a range of service areas.

In the 2010/11 [Annual Audit Letter](#) the Audit Commission concluded that:

'The Council has prioritised its resources within tighter budgets and has secured economy, efficiency and effectiveness, for example by achieving cost reductions and by improving efficiency and productivity.'

d) Defining and documenting the roles and responsibilities of the Executive, non executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication

The Council's Constitution sets out the roles and responsibilities of the Mayor, Chair of Council, the Council as a whole, the Executive, Overview and Scrutiny committees, Standards Committees and other committees.

Members follow the required formal procedures when making Council decisions, which ensure that such decisions are made transparently and openly. There is an annual programme of regular meetings whereby formal decisions are taken. Every committee agenda includes as a standard item a section on declarations of interest by committee members which sets out the legal position in relation to the need to declare, and on occasion, withdraw from discussion of matters where the member has a personal interest.

Decisions are taken in accordance with the Council and Mayoral scheme of delegation as appropriate and these schemes are maintained, kept up to date and made available to the public as detailed within the Constitution. Decisions are taken in accordance with the general principles of administrative law and on the basis of professional advice at all times. Minutes are published and made widely available through the Lewisham website. All Executive decisions are subject to review by Overview and Scrutiny business panel and may be called-in in accordance with the Council's Constitution. There was one matter called-in (referred to the Mayor for reconsideration) during the current AGS 2011/12 review period, this was the prioritisation of transport schemes on June 1st 2011. More recently however, there have been two call-ins made; the Removal or Governor report in June 2012 and the Housing Matters Report in July 2012.

The highest standards of ethical conduct are adhered to in order to avoid actual,

potential and perceived conflicts of interest. The principles of decision making appear as Article 16 within the Constitution. Each year the Standards Committee receives a report on Member compliance with the Code of Conduct. In December 2011 the Standards Committee reported that there has been good compliance with the Member Code of Conduct. From the 1st July 2012 there will be a requirement for a new Code of Conduct, preparations have been made during 2011 and 2012 to brief members of the Standards Committee ahead of this, with the most recent briefing being given in June 2012.

In achieving accreditation under the London Member Development Charter in April 2008, the Council agreed a range of role descriptors for members according to the role they fulfil (e.g. executive/community representative/overview and scrutiny etc) and has put in place a personal development scheme to enhance member capability in those roles. In preparation for the 2012/13 Member needs development programme a training needs assessment was carried out. Officers support all Members in the performance of their various roles and this is detailed in the Constitution. The roles of the statutory officers are also set out at Article 14 of the Constitution and in detailed job descriptions. The Schemes of Delegation by both the Mayor and the Council are appended to the Constitution at Part VIII.

e) Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

The Council adopted an amended Member Code of Conduct in July 2010 to comply with new legal requirements. It complies with all statutory provisions and is appended to the Constitution at Part V. It appears on the Council's website, on the intranet and is well publicised. A comprehensive training programme on the Codes of Conduct is delivered by the Head of Law (Monitoring Officer) on an on-going basis for members of the Council. A revised Member Code of Conduct will be in place by July 2012, the Head of Law has briefed members of the Standards Committee ahead of these changes.

Monitoring Officer advice is regularly sought by members in relation to potential Code of Conduct issues. The Standards Committee was consulted on changes to the Member Code in June 2012. They were also consulted on the review of compliance with the Members Code of Conduct in December 2011.

The Council has in place an Employee Code of Conduct which complies with all legal requirements and is appended to the Constitution at Part V. The purpose and content of the Employee Code of Conduct is communicated frequently and widely.

f) Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks

Reviewing and updating standing orders, standing financial instructions

The Council's Financial Regulations, Financial Procedures and Directorates' Scheme of Delegation, are regularly updated and communicated to all relevant staff and are available on the Council's intranet. The Financial Regulations, the Schemes of Delegation and the Financial Procedures were updated and published in November 2011. The Council's procedure rules, of which Standing Orders are a part, are reviewed alongside the Constitution; the Constitution is reviewed on a regular basis.

Alongside this, the financial awareness rolling training programme for budget holders continued in 2011/12 and beyond, to ensure that all budget holders have the necessary skills required to manage budgets effectively.

Scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken

The Constitution is very clear about the decision making process. It requires that Members follow formal procedures when making Council decisions, which ensures that such decisions are made transparently and openly. There is an annual programme of regular meetings whereby formal decisions are taken. Committee reports are produced by officers in a standard format to ensure that authors address all significant considerations such as the legal and financial implications of decisions, equalities issues, environmental issues and a crime and disorder assessment.

Every committee agenda includes as a standard item a section on declarations of interest by committee members which sets out the legal position in relation to the need to declare, and on occasion, withdraw from discussion of matters where the member has a personal interest. The principles of decision making appear as Article 16 within the Constitution.

There is a well embedded agenda planning process and a requirement for reports to be signed off by senior officers. Decisions are taken in accordance with the Council and Mayoral scheme of delegation as appropriate and these schemes are maintained, kept up to date and made available to the public as detailed within the Constitution.

The Constitution requires Executive decisions to be published within two working days of being taken, and sent to all Members of the Council where possible by electronic means. Minutes are published and made publicly available on the Lewisham website. All Executive decisions may be called-in by the Overview and Scrutiny Business Panel in accordance with the Council's Constitution.

The Constitution provides for the Council to have a Constitution Working Party (CWP) to advise it on the operation of its constitutional arrangements. In practice, the procedure rules set out in the Constitution are under constant review to reflect changing needs. In 2011/12 reports to Council have included a Parliamentary Boundary Review, a Polling District review, the creation of a Positive Ageing Council,

and the confirmation of a statutory Scrutiny Officer. The Constitution has been updated to reflect these new responsibilities.

In October 2011 the Chief Executive, Barry Quirk, the Head of Law, Kath Nicholson and the Executive Director for Resources, Janet Senior provided training on decision making within the Local Authority. The training was delivered to Group Managers, Head of Services and other relevant staff who undertake decisions within the organisation.

Maintaining an adequate and effective system of internal audit

The Account and Audit (England) Regulations 2011, require the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The role of internal audit is to provide an independent and objective opinion on the control environment within the Council. Internal audit work is undertaken in accordance with the CIPFA Internal Audit Code of Practice for Internal Audit in Local Authorities 2006 (the code).

The work of internal audit is set out in an annual internal audit plan that covers the key financial systems, schools, and the operational activities where Internal Audit and management perceive there are risks to achieving operational objectives. The work of internal audit also supports the work of the Council's External Auditor who reviews their work in detail to satisfy themselves the work of internal audit can be relied upon.

The Council's governance, risk and control management arrangements are subject to annual independent review by the Audit Commission, the Council's external auditors.

In order to provide assurance on our risk management framework, a 'risk maturity thematic review' of risk management across the Council was again commissioned from our internal audit service providers, which reported in May 2012. The conclusion of the review is that the Council has maintained its 'managed' approach to risk, which is the second highest of their five potential categories for the assessment.

For each audit where controls have been analysed, Internal Audit issues an assurance statement which indicates the level of assurance that management can place on the adequacy and effectiveness of the internal controls. For 2011/12, four levels of assurance were used: Two positive levels, 'substantial' and 'satisfactory' assurance; and two negative levels, 'limited' and 'no assurance'. In each report Internal Audit may also make control improvement recommendations, rated High, Medium or Low.

For 2011/12 89 assurance reviews were undertaken. Of the 81 of these finalised by end July and for which an opinion on internal controls was issued 11% (7% in 2010/11) were issued with a negative level of assurance, including two 'no assurance' opinions. Where a negative or no assurance opinion has been issued remedial action is being undertaken by managers and monitored by Audit Panel and

ICB. In respect of the total number of recommendations made from all the reviews in the year; 8% were high (4% in 2010-11) and 48% medium (58% in 2010/11).

The 16 key financial systems are fundamental to the operation of the Council, so it is important that these systems have robust internal control mechanisms and operate effectively. The Head of Audit and Risk confirmed that, with one exception, all of these systems have been issued with a positive assurance level for 2011/12. In all but three cases these systems have either maintained or improved their assurance level on 2010/11. Recommendations have been made to strengthen internal control for the three systems where the assurance opinion was lower this year than last; Council Tax, Payroll and Debtors. All three retained their positive assurance opinion in 2011/12. Payments to Residential and Domiciliary Care Service Providers system received a limited assurance opinion in 2011/12. The internal control recommendations raised were in respect of compliance with controls, not the controls themselves. These recommendations will be addressed by management and followed-up by internal audit in 2012/13.

In the 2010/11 [Annual Audit Letter](#) the Audit Commission concluded that the Council: *'has robust systems and processes to manage effectively financial risks and opportunities and secure a stable financial position'*.

The processes and controls required to manage risks

The Accounts and Audit (England) Regulations 2011 highlight the Council's responsibility for ensuring it has in place a sound system of internal control which includes arrangements for the management of risk.

There is a robust risk strategy and framework, reviewed and updated in 2010/11, in place to manage risks. All services must maintain an operational risk register aligned to their service plan objectives. Risks are recorded and reported using the Council's main performance management system – Performance Plus. The risk registers record significant risks and score them in terms of impact and likelihood. Target scores are set and mitigation actions identified and monitored.

Directorate risk registers are considered in detail at least quarterly at Directorate Management Teams. Key risks within the directorate and corporate risk registers are then subject to quarterly reviews by the Risk Management Working Party and the Internal Control Board. The Internal Control Board is chaired by an independent 'non executive' person (Bill Roots, a former London local authority Chief Executive) and comprises the Executive Management Team, Head of Law (Monitoring Officer), Head of Audit and Risk and Group Manager for Insurance and Risk. Risks are updated quarterly and are tracked through the monthly Management Report which summarises key risks and mitigation actions taken.

The focus on risk in the Management Report was reviewed in 2011/12 to include a statement on the risk environment for each priority as well as the risks with a 'red'

rating being reported. In addition, for both corporate and directorate risks any significant variances against target are reported.

Risk Management is embedded within the Council's approach to programme and project management. Project risks are regularly reviewed by Project Review Groups and Corporate Project Board. Risks for the whole capital programme are reviewed and updated quarterly. Members are involved in scrutinising risks with updates of the Capital Programme considered regularly by Public Accounts Select Committee and reported to Mayor & Cabinet.

In addition for 2011/12 to support better decision making, with the significant savings proposals considered and agreed by members specific attention was given to identifying and assessing the key risks for each proposal submitted as part of the budget setting process.

g) Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities

The Audit Panel is made up of six elected members and up to four independent advisors and meets at least quarterly. A key role of the panel is to review and comment on the strategy, plans and resources of Internal Audit. Internal Audit update reports are received by the panel on a quarterly basis, summarising the audit reports issued, management's progress on implementing internal audit recommendations, and the performance of the Internal Audit function. Update reports on the activities of the Anti-fraud and Corruption Team are also received by the panel on a quarterly basis. The panel receive the annual report of the Council's Head of Audit and Risk.

The panel consider and monitor the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements. In terms of external assurance, the panel consider the external auditor's Annual Plan, other relevant external reports which contribute to the level of assurance. The panel monitors management action in response to issues raised by internal and external audit, and significant issues identified by these are included in the action plan appended to this statement.

The panel also consider the Council's annual Statement of Accounts and this Statement and makes comments on those to the meeting of the Full Council that considers the accounts.

h) Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

The duties of the Head of Law (Monitoring Officer) are defined in the Constitution. The Monitoring Officer attends Mayor and Cabinet and Full Council meetings and regularly briefs EMT, Members and relevant staff on corporate legislative developments. In 2012, the Head of Law briefed EMT, Members and relevant staff on the Localism Act and the possible impact that it could have on the organisation.

The Head of Law has also briefed EMT, Members and relevant staff on the Bribery Act 2010, which came into force on 1st July 2011.

Legal advice is incorporated in every report and advice on proper process is a regular feature of that. Where gaps or non-compliance are identified, appropriate action is taken (e.g. in response to Freedom of Information compliance issues, alternative procedural arrangements were put in place to enhance performance). Reports do not proceed unless robust legal implications on all matters have been considered and are included in the report. Experienced professional legal staff are employed by the Council.

The financial management of the authority is conducted in accordance with financial regulations set out in the Constitution. The Council has designated the Executive Director of Resources as Chief Finance Officer in accordance with Section 151 of the *Local Government Act 1972* and to discharge the responsibilities under Section 114 of the *Local Government Act 1998* and Sections 25-28 of the *Local Government Act 2003* in relation to the Chief Financial Officer's statutory duties. The Chief Finance Officer advises on the proper administration of the Council's financial affairs, keeping proper financial records and maintaining effective systems of financial control. These duties are reflected in the job description of the Executive Director for Resources which are set out at Article 14 of the Constitution. Financial implications are included in all committee reports and form an integral part of the information needed to aid the decision making process.

The Pensions Investment Committee has agreed a Governance Policy Statement which sets out how the Committee exercises its fiduciary duty to members of the Pension Fund. The Committee's governance arrangements include the appointment of an independent Custodian Bank responsible for the safe custody of the Fund's assets, the appointment of an independent investment advisor, independent actuary and investment consultant, Hymans Robertson. The Committee will review its Statement of Investment Principles in accordance with the CIPFA's Pensions Panel Principles of Investment decision making.

i) Whistle-blowing and procedures for receiving and investigating complaints from the public

The Council has a whistle-blowing policy in place which is widely publicised on the Council's website and in 'Lewisham Life'. Complaints made under this policy are handled by the Head of Law (Monitoring Officer). An annual review is considered by the Standards Committee (this most recently happened in March 2012).

j) Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

The overall aim of the Members' Development Programme is to ensure that all members have access to the training and development opportunities they need to fulfil their responsibilities to the local community and provide clear leadership and effective scrutiny of local Council functions. For 2011-12 a general member

development programme has been completed. This comprised member briefings, specific training events and targeted support as appropriate.

This is recognised as best practice and feedback from members indicates the programme has helped them considerably in carrying out their roles.'

The Head of Personnel and Development has responsibility for the development needs of senior officers. The Monitoring Officer also plays a key role in ensuring that senior officers are aware of their statutory duties and changes in legislation. At the start of the financial year the Chief Executive defines objectives for each of the Executive Directors. These are then cascaded to officers throughout the organisation through the Performance Evaluation Scheme.

k) Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

Lewisham has an open and outward facing culture that is clearly focussed on the needs of our residents and facilitated by an exceptionally strong and diverse approach to engagement and consultation.

The Council's engagement activity is overseen by the Strategy Performance and Communications Board. The Board operates at Executive Director level and provides a strategic steer on the communication and consultation agendas within the Council. It is supported by its subsidiary, the Consultation Steering Group, which draws representation from across the Council and supports effective resident engagement at an operational level.

These arrangements are underpinned by the Council's Framework for Engagement (2009-2012). This sets in place shared principles for engagement, which were also agreed at a partnership level through the Stronger Communities Partnership.

In support of this, and to provide increased channels through which citizens are engaged, the Council continues to promote e-Participation by implementing a new online engagement system. This system provides the platform through which citizens can respond to online consultations as well as set up and respond to e-Petitions. Other channels of engagement include the 18 ward-level Area Assemblies which came into operation in 2008 and are open to anybody living or working in the ward, and the Young Citizens Panel which enables any young person aged 11-18 years either living or studying in the borough to join.

The Audit Commission awarded Lewisham a "green flag" for community engagement and empowerment of local people, in their 2009 Area Assessment. They concluded that *'empowering and involving local people is at the heart of the way public sector partnerships work in Lewisham to improve the area as a place to live. Partners have an excellent track record of involving local people, including those who are less likely to be active in the local community.'*

l) Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements

The Council acts in a number of partnerships with a view to improving the quality of life for local people. These partnerships take a variety of forms, from large scale contracting, as in the case of the Building Schools for the Future programme, to strategic alliances such as the Lewisham Strategic Partnership (LSP). The Council has used the Audit Commission report on the governance of partnerships to provide a framework to assess its arrangements in relation to partnership working.

As a first stage in that process, the Head of Law (Monitoring Officer) conducted an exercise in relation to several of the most significant partnerships in the borough and reported those findings to the Internal Control Board. In February 2009, a detailed audit of all of the Council's major partnerships and contractual arrangements was reported to the EMT and to ICB. In response, EMT required all Directorates to consider partnership governance arrangements, and particularly the business continuity arrangements of those partnerships, as a standing item at Directorate Management Team meetings. In November 2009, the Chief Executive presented a paper to ICB which assessed the main risks to the partnerships within each of Lewisham's six Sustainable Community Strategy priority themes.

As part of the review of the Local Code in 2009 the Standards Committee accepted a recommendation to extend the Code to include a provision to ensure that the Council has robust and effective mechanisms to ensure partnerships are effectively governed and that partnership risks are identified and managed.

In November 2009, Standards Committee considered a new "Standards in Partnership" protocol that has been developed by Standards for England. Adherence to this protocol is intended to ensure that the aims of the partnership can be fulfilled effectively and the public can have confidence in the operation of the partnership.

The Standards Committee made a recommendation to refer this partnership protocol to the LSP, where it was considered in December 2009. The LSP reviewed its Terms of Reference and Code of Conduct in 2010 in order to reflect the good practice set out in the new Standards for England partnership protocol.

4. Review of effectiveness

Lewisham has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit and Risk's annual report, and

also by comments made by the external auditors and other review agencies and inspectorates.

The process by which the governance framework has been maintained and reviewed is widespread. It occurs throughout the year and at year end. On an ongoing basis, throughout the year, it has involved the following:

- Consideration by Internal Control Board of governance issues – including risk registers, counter-fraud updates and internal audit reports.
- The Head of Audit and Risk prepares a rolling plan of audit coverage to be achieved in the forthcoming year, based in primarily on an assessment of the Council's risk profile. The plan is reviewed by the Internal Control Board.
- The Audit Panel receives the Internal Audit Strategy and approves the annual audit plan.
- The Audit Panel receives the annual assurance report from the Head of Audit & Risk which set out his opinion on the Council's overall control environment.
- The Audit Panel reports on its work to the Public Accounts Select Committee twice a year.
- Executive Management Team (EMT) consider a full range of governance issues throughout the year, including issues relating to the improvement of the Internal Audit Service. EMT scrutinise performance and risk regularly and ensure management action where necessary.
- The Standards Committee considered the efficiency of the Council's complaints handling system and the effectiveness of the Whistle Blowing Policy. In June 2012 it considered the review of the Council's Code of Corporate Governance, and in December 2011 it reviewed Member compliance with the Member Code of Conduct.
- The Independent Remuneration Panel made recommendations to the Council about the accountability and effectiveness of Members.
- An Executive Remuneration Panel was established and the Pay Policy Statement endorsed by full Council (March 2012).
- Consideration of external audit reports conducted in year by Mayor and Cabinet, Audit Panel and relevant Select Committees.
- Constitution Working Party considered the Ethical Framework (Localism Act 2011) and endorsed the retention of a formal Standards Committee.

At year end, the review of the effectiveness of the governance framework is conducted under the auspices of the Chief Executive by a team of officers consisting of:

- Kath Nicholson: Head of Law and Monitoring Officer
- Troy Robinson: Standards & Education Law Advisor
- Barrie Neal: Head of Corporate Policy and Governance
- David Austin: Interim Head of Audit and Risk
- Annabel Saunders: Principal Policy Officer
- Paul Aladenika: Head of Policy & Partnerships

The AGS working party have met regularly since March 2008. Officers have been drawn from across the council to represent key areas of expertise in governance and internal control matters. The terms of reference for the group are as follows:

- To provide expertise in the development of the AGS on governance and internal control matters
- To analyse CIPFA/SOLACE guidance in relation to the development of the Annual Governance Statement
- To collate evidence from across the organisation relating to CIPFA/SOLACE guidance
- To evaluate evidence collated and identify areas for action
- To compile an action plan of significant governance issues
- To develop the Annual Governance Statement to be incorporated in the Statement of Accounts on an annual basis
- To ensure that the AGS is signed off appropriately through the council's key control mechanisms: Internal Control Board (including EMT members), Audit Panel and Full Council
- To review the Annual Governance Statement and arrangements for governance and internal control throughout the year

The process by which the governance provisions are reviewed at year end includes:

- The consideration by ICB (EMT members) on the 3 September 2012 of a draft Annual Governance Statement. This year no significant gaps or governance issues have been identified, as such the action plan outlined in Appendix 2 outlines instead significant areas of governance focus needed to maintain an effective governance framework.
- Preparation of the Accounts and the Head of Audit and Risk's Annual Report and consideration of these and the Annual Governance Statement by the Council's Audit Panel on 20th June 2012.
- A review of the Council's Local Code of Corporate Governance by the Standards Committee on the 6th June 2012, with reference to CIPFA/Solace Guidance.

- Referral of the Annual Governance Statement to full Council with the Statement of Accounts, and advice from Audit Panel on the 26th September 2012.
- Sign off by the Chair of the Council and Chief Executive, once approved.

DRAFT

5. Significant governance focus

In addition to the action taken to deal with governance during the course of 2011/12, as outlined in section 3 of this statement, we propose to take steps over the coming year (2012/13) to continue to maintain and improve governance within Lewisham. Appendix 2 outlines the areas of significant governance focus in Lewisham, as well as progress to date and next steps. These actions have been selected due to their importance in maintaining an effective governance framework and have been agreed by the Internal Control Board.

We intend to monitor their implementation, operation and effectiveness as part of our next annual review. To do this regularly throughout 2012/13 it is proposed that the officer team dealing with governance arrangements meet quarterly and report on progress to the Internal Control Board and/or Audit Panel on relevant issues.

Signed:

.....
Leading Member (or equivalent) & Chief Executive (or equivalent) on
behalf of [the authority]

Appendix 2: Action Plan Update 2012/13

1. Governance Action:	Legislative Change – Ensure compliance with new and forthcoming legislation
Desired Outcomes	Lewisham is compliant with all legislation including new and forthcoming changes
Timescales	March 2013
Lead Officer	Head of Law
Notes	<p><u>Context & existing arrangements:</u> The duties of the Head of Law (Monitoring Officer) are defined in the Constitution. As part of these duties the Monitoring Officer attends Mayor and Cabinet and Full Council meetings and regularly briefs EMT, Members and relevant staff on corporate legislative developments. The Monitoring Officer and Executive Directors accept responsibility for compliance with new legislation.</p> <p>Legal advice is incorporated in every report and advice on proper process is a regular feature of that. Reports do not proceed unless robust legal implications on all matters have been considered and are included in the report. Experienced professional legal staff are employed by the Council to support with this and wider legal matters.</p> <p><u>Progress to date:</u> Examples of progress over the past quarter include the following:</p> <ul style="list-style-type: none"> • briefings by the Head of Law have been done for all members, EMT, Service Head and Legal Services on implications of the Localism Act 2011; • report to full Council on the new ethical framework and adoption of new Member Code of Conduct; • briefing to all members on the revised Member Code of Conduct; • phased redrafting the Constitution to reflect changes introduced by Localism Act 2011; • Healthier Communities Select Committee received a briefing on the Health and Social Care Act 2012; • briefing and discussion at EMT on Community Right to Challenge; • report to members on Community Right to Challenge; • report to Mayor & Cabinet on meeting the Decent Homes Standards and the provision of sufficient housing, and; • report to Mayor & Cabinet on changes to allocations and tenancies post Localism Act 2011. <p><u>Next steps:</u></p> <ul style="list-style-type: none"> • report to Constitution Working Party on constitutional amendments following internal review and Localism Act 2011 changes;

	<ul style="list-style-type: none">• report to Council on adoption of revised Constitution;• further consideration on Community Right to Challenge;• implement procedures for Assets of Community Value;• assess impact of anticipated Regulations in relation to Access to Information and Health Scrutiny functions, and;• preparation for transfer of public health functions;• in August 2012 the Government introduced new access to information regulations to be effective from 10th September this year. A report is to be considered by the Council's Constitution Working Party on 6th September with a view to recommending changes to the Council's Constitution at its September meeting to reflect the new law;• the Head of Law is conducting an officer briefing also on 6th September to inform those involved in report writing of the new requirements for access to information. A member briefing will follow.
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2. Governance Action	Procurement Strategy – Development and Implementation of an updated Procurement Strategy
Desired Outcomes	The Council is compliant with the revised procurement strategy including all new legislation
Timescales	December 2012
Lead Officer	Procurement Strategy Manager
Notes	<p><u>Context & existing arrangements:</u></p> <p>The Procurement team works within European Union and UK legislation related to Public Procurement Regulations; and internally to Lewisham Council's Contract Procedure Rules included within the Constitution. The Council's procurement function maintains a strategic overview of corporate procurement activity and ensures that contracts and purchasing arrangements are carried out in line with legal requirements and the Council's policies and procedures. The procurement function also:</p> <ul style="list-style-type: none"> • provides advice, guidance and training on all aspects of the Council's contractual procedures and contractual and purchasing arrangements including the review of draft committee reports, and; • undertakes contractor/service provider appraisals, tender evaluation and contract negotiations. <p><u>Progress to date:</u></p> <ul style="list-style-type: none"> • legal advice has been gained regarding new and anticipated legislation that will be reflected within the revised strategy, this is namely the Localism Act 2011 and the Public Services (Social Value) Act 2012; • the Procurement Team have been actively assisting client colleagues in meeting the Council's requirement to include social considerations in contracts, which has been achieved by the acceptance of paying the London Living Wage over an increased number of contracts; • the Code of Practice for Contractors, Suppliers and Service Providers has also been amended to include the use of contracting activity to increase the number of apprenticeships, use of local labour and local businesses; • a draft strategy has been produced and is being consulted on by colleagues, and; • the contract procedure rules have been revised within the new Constitution (to be agreed in September 2012). <p><u>Next steps:</u></p> <p>The draft strategy is to be revised in light of comments from colleagues and a final draft is to be presented to the Commissioning and Procurement Board in September.</p>

3. Governance Action	Multi-agency Governance – Maintain effective multi-agency governance and partnership working
Desired Outcomes	Delivery of the priorities within the Sustainable Community Strategy (2008 -2020)
Timescales	March 2013
Lead Officer	Strategic Partnership Manager
Notes	<p><u>Context & existing arrangements:</u> The Lewisham Strategic Partnership (LSP) brings together representatives from Lewisham’s public, private, voluntary and community sector organisations. The LSP Board coordinates partnership activity in Lewisham and brings together representatives from Lewisham’s public, private, voluntary and community sectors to set the overarching vision for the borough and to provide a partnership framework which will ensure that this vision is realised.</p> <p>The Shadow Health and Wellbeing Board is the newest thematic partnership having been formed in 2011 (ahead of statutory requirements to have this board in place by April 2013).</p> <p><u>Progress to date:</u></p> <ul style="list-style-type: none"> • an LSP meeting was held in May 2012 to discuss the future role and work programme for the partnership; • formal terms of reference for the Shadow Health and Wellbeing Board have been developed, and; • membership of the Shadow Health and Wellbeing Board has been detailed within the new Constitution (due to be signed off on the 26th September 2012 by Full Council). <p><u>Next steps:</u></p> <ul style="list-style-type: none"> • following the meeting in May, the Mayor has requested that a paper be drafted outlining the different options, relating to the future role and work programme of the LSP. This options paper will be used to agree any future changes to the partnership structure, and; • the formality of the Health and Wellbeing Board.

4.Governance Action:	Internal Control - Maintain robust risk management arrangements
Desired Outcomes	Foreseeable risks are anticipated with mitigations and controls in place and complied with to minimise the impact on service delivery and the wider Council (financial or reputational) in the event of a risk materialising.
Timescales	March 2013
Lead Officer	Head of Audit & Risk
Notes	<p><u>Context & existing arrangements:</u></p> <p>The management of risk is handled at a corporate and directorate level and is overseen by an independently chaired Internal Control Board. The involvement and contribution made by the Constitution Working Party, the Standards Committee and the Audit Panel also provide a check on the Council's governance arrangements and risk mitigation work. In addition to this the Council also has systems in place to manage business continuity, health and safety (H&S), anti-fraud and corruption and information management.</p> <p><u>Progress to date:</u></p> <p>In 2011/12 the actions for improvement identified at the Internal Control Board were implemented. This included strengthening the focus and reporting to Internal Control Board on risk and internal control matters, significant business continuity testing and preparation in advance of the Olympics/ Paralympics, launch of a mandatory training programme in respect of information asset safeguarding, and preparations for strengthening compliance arrangements.</p> <p><u>Next steps:</u></p> <ul style="list-style-type: none"> • deliver the full planned core systems and risk based (including lessons learnt from cases of fraud) internal audit programme for the financial year; • complete the refresh and re-launch of all H&S procedures online supported by a full year's H&S training programme to raise H&S awareness and skills; • continue to strengthen the framework around information management by updating policies to meet requirements of Transparency Agenda and proposed Freedoms Bill, delivering training and monitoring compliance with good practice, and; • assess and prepare for the operational impact(s) (immediate or medium term) on internal control arrangements from the integration of health services taken on by the Council.

5. Governance Action:	Performance Management - Maintain effective and robust performance management arrangements
Desired Outcomes	Performance management arrangements are a robust and transparent indication of the Council's performance
Timescales	March 2013
Lead Officer	Head of Corporate Policy & Governance
Notes	<p><u>Context & existing arrangements:</u> The monthly Management Report is the centrepiece of Lewisham's performance reporting structure. It provides performance analysis against a basket of 59 indicators including an executive summary to direct attention to areas of strong performance as well as areas requiring greater management attention. The management report is presented monthly to the Executive Management Team and quarterly to Mayor's briefing and Mayor & Cabinet. It is also available on the Council website.</p> <p>The Report brings together performance indicators, risk entities, finance data and information on major projects into one overarching document.</p> <p>The production of the monthly Management Report is supported by Directorate Management Teams, which convene performance meetings to directly monitor and address performance for which they are responsible.</p> <p><u>Progress to date:</u> Following the review of current performance indicators a revised basket of indicators will be presented in the August 2012 report, including some newly introduced indicators.</p> <p>Progress continues to be reported against individual and aggregate performance measures (by Council priorities).</p> <p>The Council is also inputting into the Local Authority Performance System (led by London Councils) and LG Inform (led by the Local Government Association).</p> <p><u>Next Steps:</u> Over the next year the performance management framework will be reviewed and revised accordingly to ensure continuous improvement of arrangements.</p>

6. Governance Action	Ensure that the financial management of the Local Authority is conducted in accordance with the Council's statutory and financial obligations
Desired Outcomes	<ul style="list-style-type: none"> • improve the quality of auditable grant claims; • close the council's financial accounts on time, and; • accounts are produced on time and without significant issues arising from external audit.
Timescales	June 2012, October 2012 and December 2012 respectively
Lead Officer	Head of Business Management & Service Support
Notes	<p><u>Context & existing arrangements:</u> The financial management of the authority is conducted in accordance with financial regulations set out in the Constitution. The Council has designated the Executive Director of Resources as Chief Finance Officer. The Chief Finance Officer advises on the proper administration of the Council's financial affairs, keeping proper financial records and maintaining effective systems of financial control. These duties are reflected in the job description of the Executive Director for Resources and Regeneration which are set out at Article 14 of the Constitution. Financial implications are included in all committee reports and form an integral part of the information needed to aid the decision making process.</p> <p>The Council's Financial Regulations, Financial Procedures and Directorates' Scheme of Delegation, are regularly updated and communicated to all relevant staff and are available on the Council's intranet.</p> <p><u>Progress to date:</u> Closing timetable prepared and significantly shorter than last year, allowing for extra focus on key risk areas. Training provided to all finance staff to enable them to understand audit requirements better and hence how to prepare improved working papers.</p> <p><u>Next steps:</u></p> <ul style="list-style-type: none"> • complete the audit of 2011/12 accounts to be presented to Full Council on the 26th September 2012, and; • prepare transition to new auditors from 1 November 2012.

7. Governance Action:	Business as Usual - Maintain robust control over the business as usual during the economic downturn and public sector cuts
Desired Outcomes	Public Welfare (social, economic and environmental wellbeing of Lewisham)
Timescales	March 2013
Lead Officer	Annual Governance Statement Working Party
Notes	<p><u>Context & existing arrangements:</u> The Executive Management Team (EMT) continue to receive reports on the economic situation and it's impact on related areas including employment, housing and health. EMT are also addressing the demographic pressures on school rolls.</p> <p><u>Progress to date:</u> The Council is addressing issues of unemployment, the implementation of the Health and Social Care Act, housing needs and the significant increase in demand on school places through discrete initiatives relating to:</p> <ul style="list-style-type: none"> • apprenticeships – which has seen 152 young people benefit to date (plus 63 new apprentices due to start in September). To date 20 new companies have provided expressions of interest for the October 2012 intake; • Mayor and Cabinet has agreed a wide ranging programme of housing investment to respond to increased demand and new financial circumstances, including new and improved council homes and sheltered housing; • the preparation for the transfer of Public Health functions to the Council, the establishment of the Shadow Health and Wellbeing Board, the Clinical Commissioners Group Pathfinder and the successful Council/Lewisham LINK bid to become a Healthwatch Pathfinder, and; • the programme to secure sufficient school places continues through a programme of permanent expansions and temporary enlargements. A new Framework agreement has been established for the procurement of buildings and building modifications. <p><u>Next steps:</u></p> <ul style="list-style-type: none"> • recruitment for the 4th cohort of the apprenticeship program (starting October 2012); • develop a comprehensive NEETs strategy for 12-24 year olds; • delivery of the housing matters programme, which will include building 250 new council homes in the next five years, a programme of improvements for existing sheltered care housing and a new extra care housing scheme, and a conversation with residents about their priorities and the potential of new investment and ownership models, and; • ongoing work to progress the Health and Social Care Act and its implications to ensure appropriate arrangements are in place before April 2013. This includes: the transition of public health functions and resources to the Council; the Commissioning of a local Healthwatch organisation; the

	<p>procurement of an advocacy service for health complaints; establishing the statutory Health and Wellbeing Board and producing a Health and Wellbeing Strategy, and supporting the authorisation of Lewisham's Clinical Commissioning Group, and;</p> <ul style="list-style-type: none">• to continue to carry out places planning in order to cater for the additional school places that will be needed.
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Agenda Item 5

AUDIT PANEL		
Report Title	INTERNAL AUDIT UPDATE REPORT	
Key Decision	No	Item No. 5
Ward	ALL	
Contributors	Interim Head of Audit & Risk	
Class	Part 1	Date: 19 September 2012

1. Purpose of the report

This report presents members of the Audit Panel with a summary of:

- Internal audit progress with the audit plan since the last Audit Panel report,
- Performance of the Internal Audit contractor, and
- Implementation of internal audit recommendations.

2. Recommendations

It is recommended that the Audit Panel note the content of this report.

3. Background

- 3.1. The Council's Head of Internal Audit reports to the Executive Director for Resources and Regeneration and is supported by an Internal Audit Contract Manager.
- 3.2. This client side of Internal Audit contracts out the Council's Internal Audit Service. Since 2008, and following a competitive tendering process in 2011, this service is provided by RSM Tenon Ltd as the contractor.
- 3.3. The contractor is responsible for completing all the Internal Audit reviews for the Council (non-schools and schools) and any consultancy or grant certification work as directed.
- 3.4. Under a service level agreement, the Internal Audit Service also undertakes audits for Lewisham Homes and occasionally for some of Lewisham Council's partners. This work is fully recharged.

4. Internal audit progress update

2011/12

- 4.1. Of the total programme of 89 audits, as at 22/08/12 there are still two draft reports to be issued and two draft reports to be finalised.
- 4.2. To be issued:
 - HR – Thematic review, and
 - Regeneration of Lewisham.

4.3. To be finalised

- Payroll and HR System – implementation review, and
- Monitoring of small grants for Community and Local Assembly.

4.4. Since the last report 19 2011/12 reports have been finalised. They are:

Dir	Audit	Date of Final	Audit Opinion	Recs. Made		
				H	M	L
RRE	Counter Fraud Policies & Procedures	14/06/12	Consultancy	-	3	13
RRE	Major Grants	30/05/12	Satisfactory	-	2	4
RRE	Main Accounting (General Ledger)	15/05/12	Substantial	-	2	4
RRE	Accounts Payable	02/05/12	Substantial	-	1	4
RRE	Risk Maturity	31/05/12	Managed	1	2	1
RRE	Property Asset Management	29/05/12	N/A	See note*		
RRE	Cyber Security	23/07/12	Limited	1	8	2
RRE	Information Governance	06/08/12	Satisfactory	-	3	3
CUS	Housing 21 – Generic Contract Monitoring Review	02/05/12	Limited	1	13	-
CUS	Housing and Council Tax Benefit	11/05/12	Substantial	-	1	-
CUS	Accounts Receivable	12/05/12	Satisfactory		3	1
CUS	Cash Collection and Banking	23/05/12	Satisfactory	1	1	2
CUS	Implementation review of NNDR system	17/08/12	Limited	-	4	2
CYP	CONTROCC System – Joint review with Community	18/05/12	Satisfactory	-	4	3
CYP	School IT Security	15/05/12	Limited	1	8	-
CYP	Looked After Children	30/05/12	Substantial	-	2	1
COM	Supporting People Service Plan	14/06/12	Satisfactory	-	2	-
COM	Younger Adults	23/05/12	Substantial	-	-	1
COM	Payments to Residential and Domiciliary Care Providers	17/08/12	Limited	-	2	3

* Follow up only done.

4.5. Of these the majority were in draft at the time of the last report to the Audit Panel in June and as such the indicative assurances were considered and included in the internal annual assurance opinion reported then. The conclusions of those reported still to be issued will now be included in the 2012/13 assurance conclusions.

2012/13

4.6. The table below shows the status of the audit plan for 2012/13 as at the 22/08/12. It shows that:

- 23% of plan is underway - with
- 18% of the plan completed to at least draft report stage, and
- 11% of the plan finalised.

Lead Dir.	Original Plan Work for Year	Extra Audits	Dropped Audits	Current Audit Plan	Final Reports Issued	No of Draft Reports	WIP	Work not yet started
RRE	27	3	-	30	1	1	2	26
CUS	11	1	-	12	1	-	1	10
COM	9	1	-	10	-	1	1	8
CYP	6	-	-	6	-	-	-	6
SCH	29	-	-	29	8	4	-	17
Total	82	5	0	87	10	6	4	67

4.7. As at the 22/08/12, there have been no non-school audit reports issued, only advice memos. Of the school audits completed to date, all have positive opinions

4.8. There have been two additional pieces of work added to the audit plan since the last Audit Panel meeting. They are:

- Advice on Post Office Payment Procedures, and
- Advice on Client Monies Handling Procedures.

5. Limited and No Assurance reports

5.1. Since the last Audit Panel meeting there has been five 'Limited' reports issued and one consultancy report – all from the 2011/12 plan. There are no reports with a 'No Assurance' opinion.

- Housing 21 –Generic Contract Monitoring Review – Limited,
- Data Handling Controls in Schools - Limited
- Cyber Security – Limited and,
- Implementation Review of NNDR System – Limited,
- Payments to Residential and Domiciliary Care Providers - Limited
- Counter Fraud Polices and Procedures – Consultancy and
- Property Asset Management - Follow up only

5.2. Appendix 3 summarises the scope and key findings of these reviews.

6. High or Medium recommendations not agreed

6.1. Two medium recommendations were not agreed by management. One for the Counter Fraud team to implement a new case management system and the second for a review of the business case for enabling the Intrusion Detection System.

6.2. These were referred to the Internal Control Board (ICB) for a decision on the risk assessment (cost v benefit of accepting the recommended control) in each case. The ICB agreed with the managers risk assessment in each case so these recommendations will not be implemented.

7. Implementation of internal audit recommendations

7.1. The table below is a summary of the total number of recommendations followed-up by the contractor since the last Audit Panel report and up to 22/08/12. It shows that 96% of recommendations that were followed up were either implemented, in progress or superseded, with 4% not implemented. Details of the individual follow-ups conducted can be found at Appendix 2.

	Implemented	In progress	Superseded	Not Implemented	Not Due	Total
Number	22	4	-	1	-	27
Rec'ns.	81%	15%	-	4%	-	100%

7.2. The detail of the recommendations noted as superseded and why from 2011/12 reviews was requested at the last Audit Panel. This information is provided in the table below.

Audit			Recommendation		Management comment
COM18	Supporting People Framework	Sat	A joint framework agreement contract should be put in place	Medium	Supplier have now been decommissioned
CUS14	NDR Application Implementation	Ltd	Retain evidence and key records on project closure	Medium	Actions cross referenced to 2011/12 project management recommendations in RRE08
			Retain PID approval and PRG monitoring records	Medium	
			Complete project closure and lessons learnt / benefits realisation review	Medium	
RES05	Public Transparency Board – Public Data	Sat	Develop a policy & procedure for the provision of data to the public (in line with DCLG practice code)	Medium	Process now managed by Head of HR
			Published data should include details of all senior workforce (in accordance with definitions).	Medium	Protocol in development and information will be published
RRE01	Highways – contract review	Ltd	Contingency plan to be developed in the event of contractor failure	Medium	LBL engaged with TfL procurement of London wide framework. This will provide alternative supplier options

			Undertake review to determine VFM achieved through contractor's asphalt recycling plant	Medium	Client division not in a position to complete this. Savings to be assessed at next retender
			Client Division to set specific requirements on the use of the asphalt plant towards achievement of intangible environmental and social benefits	Medium	Not feasible at this time. To be reconsidered when contract next retendered
			Develop a customer involvement strategy and communication plan	Medium	Plan is a means of informing residents but will not directly contribute to improving service delivery
			Benchmark level of highways claims with other authorities as part of performance management	Medium	Tried benchmarking previously but was problematic as Council operations vary. Insurance claims will be monitored for trends

7.3. As at the 22/08/12, the table below shows the status of recommendations made by Internal Audit. Details of those recommendations that are either overdue or have multiple changes of implementation date can be found in Appendix 3.

Lead Dir	Previous No. of O/Due Recs.	Current No. of O/due Recs at 22/08/12	Current No. of Recs with 2+ changes	Previous No. of Open Recs at 30/04/12	No of Recs Re-opened since 30/04/12	No. of New Recs From 30/04/12 to 22/08/12	Closed Recs from 30/04/12 to 22/08/12	Current Open Recs at 22/08/12
RRE	16	1	2	50	1	27	55	23
CUS	2		1	17		10	19	8
COM	18		6	31	2	17	38	12
CYP	11	9	2	12		15	2	25
Total N/S	47	10	11	110	3	69	114	68
SCH	59	35	-	60	-	16	26	50
Total All	106	45	11	170	3	85	140	118

7.4. There has been considerable progress in the last quarter with a net reduction of 52 open recommendations and more than halving the number of overdue recommendations to 45 (of which only ten are non-schools related). The number of recommendations with two or more changes is now 11.

8. Performance of the contractor

8.1. One of the ways that the performance of the contractor is measured is by agreed Performance Indicators (PIs). The position for 2012/13 to the end of July, including the new indicator for tracking follow-up work, is:

No.	Performance Indicator (as at 31/07/12)	Target YTD	Actual YTD to	Variance (+/-)
1	Percentage of all draft reports issued against audit plan.	33%	16%	(50)%
2	Percentage of draft audit reports issued within 15 working days of the exit meeting.	90%	54%	(36)%
3	Percentage of final reports issued within 10 working days of agreed draft report.	95%	100%	+5%
4	The average level of client satisfaction to be achieved (out of a score of 4).	3	3.6	+0.6
5	Percentage of High & Medium recommendations made agreed by management.	90%	100%	+10%
6	Percentage of follow-up reviews completed to plan (i.e. within nine months of final report)	95%	31%	(64)%

8.2. As noted in previous reports to the Audit Panel the quality of internal audit work is not an issue. However, there remains the challenge of completing agreed work on a timely basis.

8.3. The first PI reflects the agreed delivery profile for the Audit Plan. Not all of the delay noted is the contractor's responsibility. There have been delays on ten reviews due to have completed at this point that were at the request of management – six school and four non-school. The school audits are booked by the contractor before the start of the financial year and we are reviewing why in 2012/13 so many schools have subsequently requested date changes. The reasons behind the management delays for the four non-school audits are understood. The detail of progress against the plan is included at Appendix 1.

9. Internal Audit Plan compared to the corporate risk register

9.1. The Audit Panel requested a more detailed presentation of the internal audit plan compared to the risks in the corporate risk register. This is provided at Appendix 5.

9.2. These corporate risks are those reported and commented on in the monthly management report reported to members. The internal audits have been allocated on a 'best fit' basis to a risk. This recognises that each audit may cover more than one risk (be it a corporate, directorate or service risk).

9.3. It should also be noted that the focus of the audits will not always directly match the planned mitigations for each risk in the corporate risk register. However, the internal audit work on the internal control framework does additionally contribute to and support management's assessment and confidence in these risk areas. The work underway on assurance mapping will inform the 2013/14 internal audit planning and hopefully present in a more holistic manner the risks, key processes, and related management and independent sources of assurance.

10. Legal Implications

There are no legal implications arising directly from this report.

11. Financial Implications

There are no financial implications arising directly from this report.

12. Equalities Implications

There are no equality implications arising directly from this report.

13. Crime and Disorder Implications

There are no crime and disorder implications arising directly from this report.

14. Environmental Implications

There are no legal implications arising directly from this report.

Background Papers

There are no background papers.

If there are any queries on this report, please contact David Austin, Interim Head of Audit and Risk, on 020 8314 9114 or email him at david.austin@lewisham.gov.uk

Appendix 1 – Progress on the 2012/13 audit plan.

Lead Dir	Audit Title (Key Audits in Bold)	Due to start	Date F/W Started	Date Draft Issued	Date Final Issued	Assurance Level	Comments
RRE	Croydon PFI advice on Governance	May	10/05/12	N/A	25/06/12	N/A	
RRE	Members Expenses and Interests	Apr	09/05/12	06/07/12			
RRE	Assurance Mapping	Apr	06/07/12				
RRE	Gifts and Hospitality for Council Staff	May	03/06/12				
RRE	Storage of Major contracts	Apr					Delayed due to elections
RRE	Third Party Access to IT systems	Apr	14/08/12				Delay by client sponsor
RRE	Criminal Records Bureau checks	Apr					Waiting for 11/12 audit to be completed.
RRE	Continuous Auditing	May					
RRE	Procurement Card Expenditure	Jun					
RRE	Land Management, Commercial Properties and Planning	Jul					
RRE	Budget Control and Monitoring	Sep					
RRE	Non Current Assets	Sep					
RRE	Capital Programme, Monitoring and Expenditure	Sep					
RRE	Treasury Management	Sep					
RRE	Main Accounting	Sep					
RRE	Maintenance of Assets and Premises	Sep					
RRE	Health and Safety	Sep					
RRE	New Oracle Update.	Sep					
RRE	Information Asset Register (IAR)	Sep					
RRE	Business Continuity of ICT Infrastructure	Sep					
RRE	IT Strategy	Oct					Management deferred to Oct
RRE	Payroll	Oct					
RRE	Accounts Payable	Nov					

Appendix 1 – Progress on the 2012/13 audit plan.

Lead Dir	Audit Title (Key Audits in Bold)	Due to start	Date F/W Started	Date Draft Issued	Date Final Issued	Assurance Level	Comments
RRE	Pensions	Nov					
RRE	Croydon Lighting PFI Contract	Nov					
RRE	Procure 2 Pay (P2P) benefits	Nov					
RRE	Income forecasting V's Savings Agreed	Nov					
RRE	Risk Maturity	Jan					
RRE	Divisional Risk Registers	Jan					
RRE	Payment by Results Pilot	Jan					
CUS	Advice on Post Office Pay Out Process	May	16/05/12	N/A	15/08/12	N/A	
CUS	New Waste Recycling Contract	Jun	23/07/12				
CUS	Review of ASH Debt Management System post implementation	Jun					Might be cancelled.
CUS	Phase 2 of the cashiers	Jul					
CUS	Council Tax	Sep					
CUS	Accounts Receivable	Sep					
CUS	Housing and Council Tax Benefit	Oct					
CUS	Bereavement Services	Oct					
CUS	Clienting of Lewisham Homes	Oct					
CUS	Private Sector Leasing	Oct					
CUS	Banking	Feb					
CUS	NDR	Feb					
COM	Personal Budgets and Individual Budgets	Apr	11/06/12	03/08/12			
COM	Library Contract	Apr	12/07/12				
COM	Advice on Client Monies Procedures	May	18/05/12				
COM	Project Advice Board - IAS System	Jun					To attend when needed.
COM	Adult assessment and care management review.	Oct					

Appendix 1 – Progress on the 2012/13 audit plan.

Lead Dir	Audit Title (Key Audits in Bold)	Due to start	Date F/W Started	Date Draft Issued	Date Final Issued	Assurance Level	Comments
COM	Client Contributions for Residential & Domiciliary Care	Nov					
COM	Payments to Residential and Domiciliary Care	Nov					
COM	Community Equipment and TSES.	Dec					
COM	National LG Calculations	Jan					
COM	Social Care Advice & Information Team (SCAIT) and District Nurse Call Centre (DNCC)	Feb					
CYP	Early Intervention Grant	Apr					Deferred for team changes
CYP	Pupil Referral Unit (PRU) - New Full Delegated Powers.	Jul					
CYP	Looked after Children Payments	Dec					
CYP	Statutory Maintenance in Estate Management (CYP)	Dec					
CYP	SEN - Pathfinder Scheme and Personal Budgets	Jan					
CYP	Notification Process for Looked After Children (LAC)	Feb					

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Schools

Lead Dir	Audit Title (Key Audits in Bold)	Due to start	Date F/W Started	Date Draft Issued	Date Final Issued	Assurance Level	Comments
SCH	St Stephens Primary	Apr	30/04/12	31/05/12	01/06/12	Substantial	
SCH	Clyde Nursery	Apr	19/04/12	23/05/12	13/06/12	Satisfactory	
SCH	Holbeach Primary	Apr	16/04/12	10/07/12			
SCH	Forest Hill Secondary	Apr	17/04/12	10/07/12			
SCH	Sandhurst Infant	Apr	25/06/12	16/07/12			

Appendix 1 – Progress on the 2012/13 audit plan.

Lead Dir	Audit Title (Key Audits in Bold)	Due to start	Date F/W Started	Date Draft Issued	Date Final Issued	Assurance Level	Comments
SCH	St Mary Magdalene's Primary	May	16/05/12	20/06/12	10/07/12	Substantial	
SCH	Athelney Primary	May	03/05/12	31/05/12	28/06/12	Satisfactory	
SCH	St Josephs Primary	May	24/05/12	20/06/12	10/07/12	Substantial	
SCH	Sedgehill Secondary	May	28/05/12	18/06/12	22/06/12	Substantial	
SCH	Sydenham Secondary	May	14/05/12	19/06/12	10/07/12	Substantial	
SCH	Crossways Secondary	May					Cancelled. New date TBC
SCH	Prendergast - Ladywell Secondary	Jun	18/06/12	10/07/12	27/07/12	Substantial	
SCH	Forster Park Primary	Jun	27/06/12	10/07/12			
SCH	St Michaels Primary	Sep					
SCH	Edmund Waller Primary	Sep					
SCH	Adamsrill Primary	Sep					
SCH	Watergate Special School	Sep					
SCH	Launcelot Primary	Sep					
SCH	Bonus Pastor RC Secondary	Oct					
SCH	Deptford Green School Secondary	Oct					
SCH	Prendergast - Hilly fields Secondary	Oct					
SCH	Kender Primary	Oct					
SCH	Our Lady & St Philip Neri Primary	Oct					
SCH	Trinity School Secondary	Oct					
SCH	Abbey Manor Secondary PRU	Nov					
SCH	Addey & Stanhope Secondary	Nov					
SCH	Conisborough College Secondary	Nov					
SCH	Prendergast Vale College (Secondary)	Nov					
SCH	Kilmorie Primary	Dec					

Appendix 2 Follow-up reviews completed .

Dir.	Audit Name	Audit Opinion	Final Rpt date	Rec Cat.	Implemented	In Progress	Superseded	Not Implemented	Not Due Yet	Total Recs
COM	Financial Management of Public Funds Held by LPHA	No Assurance	20/11/11	H	8	2				11
				M	1					
RRE	Security of Town Hall and Laurence House	Satisfactory	19/09/11	H						3
				M	2	1				
SCH	St John The Baptist School	Substantial	21/10/11	H						1
				M		1				
SCH	Downderry Primary School	Substantial	20/10/11	H						1
				M	1					
SCH	Elfrida Primary School	Substantial	30/09/11	H						1
				M	1					
SCH	Baring Primary School	Satisfactory	25/10/11	H						4
				M	3			1		
SCH	St Margaret's Lee School	Satisfactory	25/10/11	H						4
				M	4					
SCH	Haseltine School	Satisfactory	25/10/11	H						1
				M	1					
SCH	Christchurch School	Satisfactory	25/10/11	H						1
				M	1					
Total No.					22	4	-	1	-	27
Percentage					81%	15%	-	4%	-	

Appendix 3 – Overdue Recommendations and Recommendations Two or More Changes of Date as at 22/08/12

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Dir	Name of Audit	Final Report Date	H O/D	M O/D	2+ chgs	Comment
RES	Taxation (VAT)	21/02/2011		1	1	Target date changed 2 times.
CYP	School Data Handling Controls	15/05/2012	1	7		
CYP	School Outsourced Pension	16/09/2010		1		
SCH	Childeric Primary School	21/10/2011		1		
SCH	Perrymount Primary School	23/12/2012		1		
SCH	St Bartholomew's School	28/12/2011		3		
SCH	John Ball Primary School	19/01/2012		1		
SCH	Foster Park School	16/01/2012	4	9		
SCH	Grinling Gibbons Primary School	11/02/2012		5		
SCH	St Saviour's School	27/03/2012		2		
SCH	All Saints School	30/03/2012		1		
SCH	St Stephen's Primary School	01/06/2012		2		
SCH	Clyde Nursery 2012/13	13/05/2012		3		
SCH	Prendergast - Ladywell School	27/07/2012		1		
SCH	Sydenham School 12-13	10/07/2012		2		
Not overdue but with multiple changes of date.						
RES	Risk Management - Operational Risk Registers	01/11/2010			1	Target date changed 2 times.
CUS	Brockley Housing PFI Contract	03/02/2012			1	Target date changed 3 times.
COM	Community Mental Health (SLAM)	18/12/2009			1	Target date changed 7 times.

Appendix 3 – Overdue Recommendations and Recommendations Two or More Changes of Date as at 22/08/12

Dir	Name of Audit	Final Report Date	H O/D	M O/D	2+ chgs	Comment
COM	Client Contribution for Res and Com Care 2011-12	24/04/2012			2	One rec date changed 4 and the other 5 times.
COM	Direct Payments 10/11	29/03/2011			3	Two rec dates changed 2 times and the other 5 times.
CYP	Payments for Looked After Children 2010/11	04/04/2011			1	Target date changed 2 times
COM	Social Care Contractual Arrangements - CAMHS	26/05/2011			1	Target date changed 2 times.
Total			5	40	11	

Appendix 4 Limited or No Assurance reports.

Audit Name, Date of Issue and Opinion	No of Recs. Made		Risks reviewed during the audit
Housing 21 21 May 2012 Limited	High	1	Internal audit assessed the controls to mitigate the follow risks: <ul style="list-style-type: none"> • Not having a formal contract including detailed specification of works and performance standards between the Council and Housing 21, signed by the parties and placed under the common seal of the Council, could restrict the Council’s ability to enforce the contract and ensure good quality work at the right price. • There may not be effective controls in place to manage and monitor the contract, to ensure that the service has been delivered in accordance with the contract requirement, failure of which could result in substandard work and/or additional cost. • There may not be a business continuity plan, regularly reviewed and tested as a contingency in the event of contract failure. • Risk of misuse of Council assets available to the contractor, could lead to data protection breaches, resulting in reputational damage to the Council and; • Economy, efficiency and effectiveness may not be routinely monitored and continuous improvement achieved, resulting in unnecessary cost or sub-standard service to the Council.
	Medium	13	
			Key Findings
			<ul style="list-style-type: none"> • Due to staff sickness a full annual review of Cinnamon Court has not been undertaken since 2009/10. • Annual budgets based on projected savings are out of date and have resulted in significant overspends. • Variations have been made to the terms of the contract without the changes being documented. • No provision has been made in the form of a Council business continuity plan for the continuation of service in the event of the contractor failing to provide a service upon the expiry of the current contract. • There are no clear documented processes in place to identify cashable and non-cashable savings including definitive efficiency targets, to secure and evidence the achievement of value for money, during the lifetime of the Housing 21 contract. • A trend analysis review has not been undertaken to determine if customer satisfaction levels have improved on an annual basis. • No formal processes are in place to identify slippage against meeting the prescribed quality standards with documented steps agreed with the Contractor in the form of defined actions to drive service improvements.

Appendix 4 Limited or No Assurance reports.

Audit Name, Date of Issue and Opinion	No of Recs. Made		Risks reviewed during the audit
Data Handling Controls in Schools 14 May 2012 Limited	High	1	Internal audit assessed the controls to mitigate the follow risks:
	Medium	8	<ul style="list-style-type: none"> • Breach of statutory responsibility associated with data protection act leading to financial penalty or damage to the school's reputation. <p>Key Findings</p> <ul style="list-style-type: none"> • All schools in the sample had a current Notification of Processing with the ICO. However, three did not include the use of CCTV. In addition there is not a formal review process to check the notification is complete. • Two schools could not provide a documented Data Protection policy. • Privacy / fair processing notices were not found on the primary school websites. • None of the schools had defined Subject Access Requests (SAR) processes covering charging, timetable for review, criteria for review of SAR eligibility or approval of information for release. • Only one of the schools had conducted and documented an information classification and risk assessment exercise. • Two schools were unable to provide an IT Security Policy. The others did not address the full scope of the increasingly accepted international standard ISO 27001:2005 • In five of the six schools, there are no formal polices documented for a number of the key data handling controls identified in the Becta guide. • 5/6 schools had no controls to prevent storage of personal data on unencrypted portable devices, e.g. USB drives. • Password and account lockout polices do not meet best practice guidelines and some schools did not know the current settings. • Only one school had defined the standards for infrastructure or application security as part of IT support contracts . • Strong private passwords are not set MIS accounts and are not forced to change periodically. • No structured DPA / information security awareness, guidance and training framework is provided to staff or governors. • Apart from one school, no schools had documented policies or procedures for computer media/ hardware disposal. • For five out of the six schools, there are no documented procedures for responding to Information security loss/ breach reporting procedures.

Appendix 4 Limited or No Assurance reports.

Audit Name, Date of Issue and Opinion	No of Recs. Made		Risks reviewed during the audit
Counter Fraud Polices and Procedures Consultancy 14 Jun 2012	High	0	Internal audit assessed the controls to mitigate the follow risk:
	Medium	3	<ul style="list-style-type: none"> • Not having the correct counter fraud policies increases the Council’s risk of loss of assets and reputation. Staff may not be aware of their roles and responsibilities concerning fraud, resulting in it not being prevented, detected, reported or dealt with effectively when it occurs. Policies may not be inline with current legislation such as the Fraud Act 2006. • Inadequate counter fraud procedures and resources will increase the Council’s risk of loss of assets and reputation due to fraud by members, staff or individuals. <div style="background-color: #cccccc; padding: 2px;">Key Findings</div> <ul style="list-style-type: none"> • Changes to the Money Laundering Policy to make it easier for staff to use and understand • A number of Policies require minor amendments such the addition of the responsible officer, date of implementation and review date as well as some cross referencing to other reports. • Some changes to information, relating to fraud, provided on the Council’s intranet and external website • General improvements to the procedures within A-FACT

Appendix 4 Limited or No Assurance reports.

Audit Name, Date of Issue and Opinion	No of Recs. Made		Risks reviewed during the audit	
Cyber Security Limited 23 Jul 2012	High	1	Internal audit assessed the controls to mitigate the follow risk:	
	Medium	8	<ul style="list-style-type: none"> • Failure to include all known risks in operational risk registers. This could result in failure to take appropriate action to mitigate known and reported risks that have been identified. • Failure to protect the Council’s key systems from cyber threats affecting the delivery of services and leading to financial and reputation loss 	
			<table border="1"> <thead> <tr> <th data-bbox="622 531 2105 592">Key Findings</th> </tr> </thead> <tbody> <tr> <td data-bbox="622 592 2105 1045"> <ul style="list-style-type: none"> • There is not a suitable operational risk register within IM&T for managing risks. • User authentication on firewalls is not effectively managed. • Centralised logging of information from firewall infrastructure is not fully implemented. • Changes made to rule sets in the firewalls do not reference the Request for Change or reason for the rule. • The absence of a documented process for managing and operating the Forefront application increases the risk that malware prevention and detection may not be effective and infection may lead to a loss of IT services. • Monthly service reports do not include metrics on the deployment of up-to-date anti-virus policies or signatures across the council’s computers. The Council does not get regular assurance that the controls are operating as required. • Although Intrusion Detection System (IDS) appliances were purchased and installed under the Network Replacement Project (NRP), the system is not in use as the annual licence agreement was not renewed. • There is no documented process covering the management and resolution of issues identified in external vulnerabilities assessments. </td> </tr> </tbody> </table>	Key Findings
Key Findings				
<ul style="list-style-type: none"> • There is not a suitable operational risk register within IM&T for managing risks. • User authentication on firewalls is not effectively managed. • Centralised logging of information from firewall infrastructure is not fully implemented. • Changes made to rule sets in the firewalls do not reference the Request for Change or reason for the rule. • The absence of a documented process for managing and operating the Forefront application increases the risk that malware prevention and detection may not be effective and infection may lead to a loss of IT services. • Monthly service reports do not include metrics on the deployment of up-to-date anti-virus policies or signatures across the council’s computers. The Council does not get regular assurance that the controls are operating as required. • Although Intrusion Detection System (IDS) appliances were purchased and installed under the Network Replacement Project (NRP), the system is not in use as the annual licence agreement was not renewed. • There is no documented process covering the management and resolution of issues identified in external vulnerabilities assessments. 				

Appendix 4 Limited or No Assurance reports.

Audit Name, Date of Issue and Opinion	No of Recs. Made	Risks reviewed during the audit
Implementation of NNDR System 17/08/12 Limited	High	-
	Medium	4 Internal audit assessed the controls to mitigate the follow risk: <ul style="list-style-type: none"> • Failure to include all known risks in operational risk registers. This could result in failure to take appropriate action to mitigate known and reported risks that have been identified. • Weaknesses in the IT-related controls may compromise the security and integrity of the system and data leading to data corruption, fraud or failure to collect all income due to the Council. • Ineffective reconciliation activities to verify the NNDR property and transaction data, including balances, loaded into Academy from the Pericles system, leading to a lack of assurance on the integrity of the database and possible loss of income. • Ineffective system implementation leading to a lack of assurance on the integrity of the system and possible fraud/ financial loss <div style="background-color: #cccccc; padding: 2px;">Key Findings</div> <ul style="list-style-type: none"> • There are no proven Disaster Recovery arrangements. • There was an absence of comprehensive test results or sign-off of testing completion prior to transfer. • There is no evidence that all tests were successful or of resolution of all variations / limitations, or that the 'go live' decision was based on a structured review of testing and reconciliation evidence. • The Council has not conducted a formal project closure report or benefits realisation exercise for the project. • The Council's project review groups (Directorate and in turn Corporate) did not pick up on the project's non-adherence to the Council's defined project methodology and escalate this for action.

Appendix 4 Limited or No Assurance reports.

Audit Name, Date of Issue and Opinion	No of Recs. Made	Risks reviewed during the audit
Payments to Residential and Domiciliary Care Providers 17/08/12 Limited	High Medium 0 2	<p>Internal audit assessed the controls to mitigate the follow risk:</p> <ul style="list-style-type: none"> • Failure to include all known risks in operational risk registers which may lead to mitigation strategies not being implemented or adopted. • Procedures in place may not be sufficient in detail or distributed to staff leading to miscalculation in client contributions and a loss of revenue to the Council. • Details of clients including costs may not be accurately held and the cost of care may not be appropriately approved. This may lead to a financial loss being incurred the Council. • Invoices may not be independently entered onto CONTROCC or authorised for payment. This may lead to overpayments being made and a financial loss to the Council being incurred. • Exception reports may not be produced for unmatched invoices and discrepancies may not be investigated. This may lead to financial loss and errors in accounting. • Budget holders may not review budget monitoring reports on a monthly basis. This may lead to budget overspends. <p>Key Findings</p> <ul style="list-style-type: none"> • A full and comprehensive procedure and process map for the payment of residential and domiciliary care providers has not been created. • The budget approval process for domiciliary care clients is not always completed on the Integrated Adults System (IAS) and may lead to overpayments being made.

Appendix 4 Limited or No Assurance reports.

Audit Name, Date of Issue and Opinion	No of Recs. Reviewed		Risks reviewed during the audit
Property Asset Management 29 May 2012	High	2	Not applicable – Follow up report
	Medium	5	
			Key Findings / Recommendations to implement.
			<ul style="list-style-type: none"> • Identification of the property address should be consistent throughout the council, until such time that all building users are able to incorporate the National Land & Property Gazetteer references. • The council should establish formal governance arrangements for the roles and responsibilities of those responsible for managing property assets, an escalation process for any issues or concerns, the process for the monitoring and assessing compliance (where applicable) and reporting arrangements • Consideration should be given to assign one central team to manage the risk of maintaining all the property of the council for statutory maintenance and health and safety responsibilities • Executive Directors should ensure that property under their responsibility is maintained to an appropriate standard complying with any relevant legislation. • All property should be assessed and included within a strategic programme for maintenance and any appropriate legislation (i.e. Health & Safety). • Consideration should be given to create a comprehensive programme of inspections to ensure that all properties comply with relevant legislation.

Appendix 5 – Internal Audit plan compared to corporate risks.

Ref	Corporate risks and scores (range 1-25)	Current score	Target score	2012/13 Internal Audit plan (excluding schools) by Directorate	Dir.	Comment
A	Failure to maintain minimum service continuity during and quickly recover from a disaster	12	8	Business Continuity of ICT Infrastructure	R&R	Independent audit in 2010/11 and area of significant work preparing for the Olympics
B	Failure of central ICT infrastructure	12	4	Project Advice Board - IAS System	COM	Proportion (approx. 15%) of the audit plan dedicated to IT risks each year with specialist support under the contract
				IT Strategy	R&R	
				New Oracle Update	R&R	
				Third Party Access to IT systems	R&R	
C	Non-compliance with Health & Safety legislation	12	6	Corporate Health and Safety arrangements	R&R	Last audited in 2009/10.
D	Failure to anticipate and respond appropriately to legislative change	8	5	Land Management, Commercial Properties and Planning	R&R	
				Members Expenses and Interests	R&R	
E	Financial failure and inability to maintain service delivery within a balanced budget	8	4	National LG Calculations	COM	Mainly key system audits (along with G, H & N). This assurance work also complements the assurances from the Council's external auditors
				Banking	CUS	
				Housing and Council Tax Benefit	CUS	
				Pupil Referral Unit (PRU) - New Full Delegated Powers.	C&YP	
				Accounts Payable	R&R	
				Budget Control and Monitoring	R&R	
				Income forecasting V's Savings Agreed	R&R	
Main Accounting	R&R					

Appendix 5 – Internal Audit plan compared to corporate risks.

Ref	Corporate risks and scores (range 1-25)	Current score	Target score	2012/13 Internal Audit plan (excluding schools) by Directorate	Dir.	Comment
F	Failure to prevent and detect fraud and corruption	8	8	Personal Budgets and Individual Budgets	COM	Close working between internal audit and counter fraud teams in this area so audits follow up on risks identified from investigations
				Advice on Client Monies Procedures	COM	
				Advice on Post Office Pay Out Process	CUS	
				Gifts and Hospitality for Council Staff	R&R	
				Procurement Card Expenditure	R&R	
G	Lack of provision for unforeseen expenditure or loss of income in respect of Council's liabilities or funding streams	10	6	Payments to Residential and Domiciliary Care	COM	Key system audits (along with E, H & N)
				Looked after Children Payments	C&YP	
H	Loss of income to the Council	12	6	Client Contributions for Residential & Domiciliary Care	COM	Key system audits (along with E, G and N)
				Accounts Receivable	CUS	
				Council Tax	CUS	
				NNDR	CUS	
				Post Implementation of ASH Debt Management System	CUS	
				Treasury Management	R&R	
I	Failure to manage performance leads to service failure	6	4	Private Sector Leasing	CUS	Focus on strengthening and monitoring management assurances (via assurance mapping, continuous audit and risk management) to address compliance failures and reduce the need for independent audit
				Assurance Mapping	R&R	
				Continuous Auditing	R&R	
				Divisional Risk Registers	R&R	
				Non Current Assets	R&R	
J	Multi-agency governance failure leads to ineffective partnership working	8	4	Community Equipment and TSES.	COM	This will be an area for more internal audit work in 2013/14 with closer working with health

Appendix 5 – Internal Audit plan compared to corporate risks.

Ref	Corporate risks and scores (range 1-25)	Current score	Target score	2012/13 Internal Audit plan (excluding schools) by Directorate	Dir.	Comment
K	Failure to manage strategic suppliers and related procurement programmes	6	6	Library Contract	COM	Contract management was also an area in the 2011/12 internal audit plan where significant assurances work was done
				Clienting of Lewisham Homes	CUS	
				New Waste Recycling Contract	CUS	
				Croydon Lighting PFI Contract	R&R	
				Croydon PFI advice on Governance	R&R	
L	Loss of a strategic asset or premises through failure to maintain it in a safe and effective condition	16	6	Statutory Maintenance in Estate Management (CYP)	C&YP	Property asset management audit in 2010/11 and subsequent follow-up covered risks in this area. Next full audit scheduled for 2013/14
				Capital Programme, Monitoring and Expenditure	R&R	
				Maintenance of Assets and Premises	R&R	
M	Failure of safeguarding arrangement	20	15	Adult assessment and care management review.	COM	Significant independent audit in this area from the likes of CQC and OFSTED, in addition to internal audit work
				Social Care Advice & Information Team & District Nurse Call Centre	COM	
				Notification Process for Looked After Children (LAC)	C&YP	
				Criminal Records Bureau checks	R&R	
N	Loss of constructive employee relations	20	4	Payroll	R&R	These are two key system audits. HR Thematic audit in 2011/12 also covers risks in this area
				Pensions	R&R	
O	Information governance failure	9	8	Information Asset Register (IAR)	R&R	This has been a priority over the last two years with assurances coming from compliance work
				Storage of Major contracts	R&R	
P	Failure to maintain sufficient management capacity and capability to deliver business as usual and implement transformational change	16	9	Bereavement Services	CUS	These audits, along with those at R, are selected to review areas of recent or proposed changes in management or service delivery
				Early Intervention Grant	C&YP	
				Payment by Results Pilot	R&R	

Appendix 5 – Internal Audit plan compared to corporate risks.

Ref	Corporate risks and scores (range 1-25)	Current score	Target score	2012/13 Internal Audit plan (excluding schools) by Directorate	Dir.	Comment
Q	Loss of service capacity and failure to protect the vulnerable due to extreme environmental circumstances	8	6			See comment above re business continuity and emergency planning
R	Governance failings in the implementation of service changes	8	4	Phase 2 of the Cashiers	CUS	These audits, along with those at P, are selected to review areas of recent or proposed changes in management or service delivery
				SEN - Pathfinder Scheme and Personal Budgets	C&YP	
				Procure 2 Pay (P2P) benefits	R&R	

AUDIT PANEL		
Report Title	ANTI FRAUD AND CORRUPTION TEAM (A-FACT) UPDATE	
Key Decision	NO	Item No. 6
Ward	ALL	
Contributors	Interim Head of Audit & Risk A-FACT Group Manager	
Class	Part 1	Date: 19 September 2012

1. Purpose of the Report

The purpose of this report is to present the Audit Panel with a review of the work of the Anti-Fraud and Corruption Team (A-FACT) in the last period.

2. Recommendations

It is recommended that the Audit Panel note this report for information.

3. Special Investigations

- 3.1. In respect of it's work for the Council, the Special Investigations section received 30 new allegations or enquiries relating to fraud and/or irregularity in the period April to July 2012, this compares with 36 referrals in the same period last year.
- 3.2. During the period April to July 2012 the section completed 17 cases, compared with 38 cases completed in the same period last year. The reduction in cases closed is due to a number of major cases which have taken up most of the section's time but are yet to come to a conclusion.
- 3.3. A further 45 cases are still in progress, not including Lewisham Homes and pre-employment checks.

Employee Related cases

- 3.4. Of the 17 cases completed, eleven relate to employees. Of these eleven, disciplinary action was taken against two, two cases were found to be error rather than fraud, three cases related to confirming the personal details or employment status of employees in post, and in four cases no further action was required.
- 3.5. The two cases where disciplinary action involved:
 - Serious discrepancies on a CRB renewal form, and
 - Fraudulent use of a disabled Blue Badge.

Non-employee investigations

- 3.6. Other matters investigated by the team in this period include a suspicious school place application, concerns about Direct Payments and an allegation that a contractor was issuing false invoices. Enquiries were able to establish that there were no irregularities in connection with these referrals and that no action was required.
- 3.7. Regular reports continue to be issued quarterly to each Executive Director with a summary of all cases being dealt with by Special Investigations in their Directorate. This ensures that the risk of fraud is considered in the context of the demands of the service, priorities are agreed, and progress on investigations communicated

Pre-employment Checks

- 3.8. A-FACT support Human Resources by undertaking a part of the recruitment checks. Each potential employee of the Council is required to complete a pre-employment check form which focuses on any issues relating to benefits, council tax, rent and personal business interests which may cast doubt on the individuals integrity. In the period April to July 110 checks were undertaken including 13 for Lewisham Homes. This compared to 73 with eight Lewisham Homes, in the same period last year.
- 3.9. In four cases outstanding declarations were highlighted that were subsequently resolved satisfactorily.

4 Benefit Investigations

- 4.1 During the period April to July the Benefit Investigation section has secured 25 sanctions, six of which have been prosecutions. This compares to 20 sanctions of which three were prosecutions in the same period last year. The total value of the overpayments identified for the period is £191,475, compared to £90,876 in the same period last year.
- 4.2 The teams level of referrals has increased with 100 new cases being referred in the period April to July 2012 compared to 74 referrals in the same period last year. They completed and closed 230 cases compared with 129 cases in the same period last year. This increase in closures is due to the review and closure of all long standing cases where a positive outcome is now unlikely. 219 investigations are in progress.
- 4.3 The precise details of the move to the Single Fraud Investigation Service are still awaited from the DWP but is now unlikely to have a significant impact on service delivery over the next couple of years.

5 Housing Investigations

- 5.1 During the period April to July 19 cases were passed for investigation, which was a decrease on the same period last year when 32 cases were referred. There are currently 67 cases under investigation.
- 5.2 In the period 11 cases of fraud were identified compared to three cases in the same period last year. The 11 results are broken down as follows; four false applications for housing on the basis of Homelessness, one false application under the Council's Cash Incentive Scheme, and two prosecutions.
- 5.3 The prosecutions relate to the following cases
- A woman was housed in temporary accommodation by Phoenix Community Housing based on a fake passport. The fraud was detected when she contacted Phoenix to say the information held for her was incorrect and she wanted to change the details on her tenancy agreement. Lewisham Council launched a joint investigation resulting in the Council bringing charges for offences under the Forgery and Counterfeiting Act 1981. She pleaded guilty and was sentenced to eight months in jail. The case received national coverage from Inside Housing – see Appendix 1.
 - The applicant submitted a housing form claiming that she was going to be made homeless in December 2011. She failed to declare that she had an assured short hold tenancy with West Kent Housing Association that commenced in September 2008. She was prosecuted under Section 171(a) of the Housing Act 1996 at Bromley Magistrates Court. She pleaded guilty and was fined £100 with costs of £150 plus, a £15 Victim Surcharge, and a Fine Collection Order were also made.

6 DCLG Housing Bid funding

- 6.1 As reported previously the DCLG has, as part of the Government's commitment to tackling social housing fraud, allocated Lewisham Council £100,000 in both 2011/12 and 2012/13 for tackling social housing fraud. Work is being directed by Strategic Housing (Customer Services) and delivered by A-FACT working in Lewisham and with the South East London Housing Partnership (SELHP). The DCLG have indicated that future funding may also be available for this work in 2013/14 and 2014/15.
- 6.2 The Housing Investigator appointed under this scheme started in January 2012 and is working primarily with L&Q and Regenter B3 / Pinnacle. During the period April to July Eleven tenancies have been recovered - six for L&Q, two for Regenter B3 / Pinnacle, two decants from Milford Towers, and one for Lewisham Homes.

- 6.3 Both L&Q and Regenter B3 / Pinnacle have welcomed this project and it is anticipated that they will also be able to develop experience in tackling the misuse of tenancies themselves.
- 6.4 L&Q recently commented that “We have found this pilot to be an overwhelming success, and it has saved L&Q a huge amount in legal costs where we have worked with A-FACT and the resident has returned the keys”.
- 6.5 Regenter B3 / Pinnacle have also found the project useful stating “The work of the Housing Fraud Project at Regenter Brockley, and Karen in particular, has resulted in a positive and revitalised step change to how our housing managers approach the issue of tenancy audits and provide more qualitative data”.

7 Publicity

- 7.1 A-FACT has only received press coverage in relation to one case which is detailed in the Housing Investigations section of this report. A copy of the article is attached as Appendix 1.
- 7.2 It is also planned for an article to be released in September 2012 on the work of the Benefits and Housing investigators in Lewisham, consistent with the Audit Panel’s request in June.

8 Fraud Awareness Training

- 8.1 In the period April to July A-FACT has provided fraud awareness training commissioned by the South East London Housing Partnership for a variety of boroughs and social housing providers. This has received positive feedback.
- 8.2 Phoenix Community Housing also commissioned two days of Fraud Awareness training which have been successfully delivered.

9. Metropolitan Police Seconded

- 9.1. Detective Constable Norris on secondment from the Metropolitan Police continues to effectively contribute and enhance the work of the A-FACT by providing advice, assistance and applying Police powers where appropriate.
- 9.2. He is also an Accredited Financial Investigator and has used his powers under the Police and Criminal Evidence Act to obtain Production Orders for information from Financial Investigations for ongoing investigations.

9.3. The Council's use of a seconded Detective Constable has been highlighted as an example of good practice in the recently published Home Office Local Government Fraud Strategy called "Fighting Fraud Locally".

9.4. In the last financial year he has undertaken ten arrests resulting from Section 8 PACE Search Warrants. These relate to investigations being carried out by all of the A-FACT (Benefits, Housing & Special Investigations). His secondment has been extended for a further year to August 2013.

10. Legal Implications

There are no legal implications arising directly from this report.

11. Financial Implications

There are no financial implications arising directly from this report.

12. Equalities Implication

There are no specific equalities implications arising directly from this report.

13. Crime and Disorder Implications

There are no crime or disorder implications arising directly from this report

14. Environmental Implications

There are no specific environmental implications arising directly from this report.

Background Papers

There are no background papers reported.

If there are any queries on this report, please contact

David Austin at david.austin@lewisham.gov.uk or on 020 8314 9114, or

Carol Owen at carol.owen@lewisham.gov.uk or on 020 8314 7909

Woman jailed for fraudulent housing claim | News | Inside Housing



Woman jailed for fraudulent housing claim

1 May 2012 | By Carl Brown

A woman who used a false passport to fraudulently obtain a social home has been jailed for eight months.

Mary Christine Obanokho pleaded guilty on 18 April to offences under the Forgery and Counterfeiting Act 1981 following a prosecution by Lewisham Council.

Ms Obanokho arrived in the UK from Nigeria in 1996 on a six month visa but did not return home when the visa expired. Instead, she purchased a British passport, which had a fake date of birth, for £500 and used it to apply for social housing. She was housed in temporary accommodation by housing association Phoenix Community Housing.

The fraud was detected when she contacted PCH to say the information they held on her was incorrect and she needed to change the name and date of birth on her tenancy agreement.

Lewisham Council and Phoenix launched a joint investigation and she was sentenced to eight months in prison at Woolwich Magistrates Court.

Judge Alan Saggerson said that Ms Obanokho had jumped the housing queue and obtained a benefit to which she was not entitled to.

Susan Wise, cabinet member for customer services at Lewisham Council, said: 'Social housing is vital for those people who are in housing need.

'Ms Obanokho used deceit to obtain a home that she was not entitled to, and, effectively, deprived someone else who was legally entitled to a council home from having one. We will not tolerate housing cheats in Lewisham and will seek to prosecute those who do try to cheat the system.'