



AGENDA AUDIT PANEL

Date: THURSDAY, 11 SEPTEMBER 2014 at 7.00 pm

Committee Room 3
Civic Suite
Lewisham Town Hall
London SE6 4RU

Enquiries to: Olga Cole
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COUNCILLORS

Councillor Helen Klier (Chair)
Councillor Chris Barnham
Councillor Simon Hooks
Councillor Mark Ingleby
Councillor Jim Mallory
Councillor Jonathan Slater

Independent Members

Paul Dale
Richard King
Mike Robinson¹ Vacancy

Members are summoned to attend this meeting

Barry Quirk
Chief Executive
Lewisham Town Hall
Catford
London SE6 4RU
Date: 2 September 2014



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: 11 September 2014 |

Recommendation

It is recommended that the Minutes of the meeting of the Audit Panel, which was open to the press and public, held on 24 June 2014 be confirmed and signed.

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Voluntary Action Lewisham.

4. AUDIT PLAN 2013/14

4.1 The report was introduced by Darren Wells, Director, Grant Thornton. He informed Panel members that the Audit Plan contained the Main Accounts and the Pension Fund. The Main accounts included the financial statement and value for money conclusion. Mr Wells explained the contents of the main accounts and highlighted the significant risks outlined in the report. He then described how the scope of work was done for a value for money conclusion, adding that a specific report would be done for Council on value for money arrangements.

4.2 The Chair asked whether there was capacity to complete the proposed plan, and was told that there were resources to deploy staff to do additional work as required. The Chair also asked if payroll has been reconciled, and was told it has for 2013/14, and the process for 2014/15 was currently being reviewed. Mr King asked if officers had not been reconciling after the end of each month, and was told they had not.

4.3 Councillor Slater said that it would be useful if the information presented in these reports could be summarised at the beginning of each report and the key issues highlighted for members as this would save a lot of time, because members would focus on things that are important for them to be aware of. The Head of Financial Services said an Executive Summary could be done for future meetings. Mr Robinson said that although an Executive Summary would be useful, reports that are done for the Audit Panel were prescriptive as part of Governance responsibilities, and the format could not be altered.

Head of
Fin. Serv.

4.4 Panel members asked whether Grant Thornton had reviewed asset revaluations as this had been an on-going issue since last year. Darren Wells said that they noted a clear use of the asset register, but it had not been used throughout the year.

RESOLVED that the report be noted.

5. PENSION FUND AUDIT PLAN

5.1 Darren Wells introduced the report. The Chair said she was aware of the historical issue about having a separate bank account for the Pension funds, and asked if this had been resolved. It was noted that although a separate account was now being used the Council was still not fully compliant, and a recommendation had been raised within the report.

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- 5.2 The Head of Corporate Resources said that this issue had been discussed in the past and would need to be discussed further, to ensure a final decision could be reached. He added that officers were quite clear as to Council activities as opposed to pension activities. He said that the new Oracle R12 financial system would be going live on 4 August and the Council could then work to get to a position of compliance. Councillor Barnham said that this standard had been mandatory since 2012, and asked whether other councils were in compliance. It was noted that some were, but others were in the same position as Lewisham.
- 5.3 Panel members said it would be sensible for Lewisham to look at how others were able to comply and see if they could emulate them. The Chair said the pension plan would be a budget pressure each year, and asked whether increased expenditure would contribute to the pension pressure. The Head of Corporate Resources said that this would depend on how the investments perform, and the accounts would be reviewed by the Pensions Investment Committee.

RESOLVED that the report be noted.

6. PRE AUDIT STATEMENT OF ACCOUNTS

- 6.1 The report was introduced by the Head of Financial Services, who informed Panel members that future funding remain uncertain as in previous years. The Group Finance Manager, Core Accounting informed Panel Members that extensive valuation of the non-current assets had been done this year, and the housing stock had been valued and progress was being made with the asset register which would soon be in regular use.
- 6.2 The Chair commented that the cost for Adult Social Care seem to be going up. The Head of Financial Services said that the reason for this was because of Grants, which were technically not ring-fenced. It was noted that Grants have been drastically reduced and although it was expected to go up a bit in the next financial year it would be minimal. The Head of Financial Services added that there were huge reductions in RSG in the last 3 years, and money was being put into non ring-fenced Grants.
- 6.3 Councillor Barnham stated that he had noticed the rise in reserves. The Head of Financial Services explained the two types of reserves as set out in the report, adding that unusable reserves could not be used to fund expenditure, but usable reserves could be used. Councillor Barnham said he had noted that the schools

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reserves had gone down from £20m to £19m.

- 6.4 Councillor Klier commented that when career average pension payments come into force there would be some savings on redundancies. The Head of Corporate Resources said that this would not be implemented for a while. Councillor Klier asked whether Lewisham staff could not be asked to contribute more, and was told that this was a national scheme, and could not be varied locally.
- 6.5 Mr Robinson said that it would be difficult to evaluate pensions on an annual basis, it should be done on long term forecast. He added that although the average salary scheme might help, a large factor would be the value of the council's investments.
- 6.6 The Chair asked whether officers were comfortable with the level of risk on page 43 of the report. The Group Finance Manager, Core Accounting said that these were the investments and loans of the Council, and were reported to members each year. The Head of Corporate Resources said that a judgement had to be made, there was a strategy in place, and the level was normal. He added that officers were very cautious with council money.
- 6.7 The Chair asked whether the figures had been affected by changes to welfare benefits and council tax. The Group Finance Manager, Core Accounting said that there had not been any effect on pension funds, but it was still early days. The Head of Financial Services stated that the council took a very cautious view, on council tax collections, and predicted 50% payment rate, but actually had 90% payment, which was very good.

RESOLVED that the report be noted.

7. ANNUAL ASSURANCE REPORT FOR 2013/14

- 7.1 The Head of Corporate Resources introduced the report, he apologised for the following typos in the report;
- i. page 94, first sentence para 6.1 should read " Only 74% of the non-school internal assurance work planned to be delivered in the year was finalised at the
 - ii. end of May by the contractor (compared to 87% in the prior year)".
 - iii. Para 7.7, 3rd sentence should read "For each change, the HIA will agree and report the changes to the audit panel".

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- 7.2 Mr Robinson asked whether the delay in implementing some of the recommendations, was because of the loss of management capacity. The Head of Corporate Resources stated that this was the case on occasion as when staff resources were reduced some recommendations were left unattended, and because officers believed there was risk involved, follow- up work was being done. It was noted that with the new financial system underway, the risks involved could be greater.
- 7.3 The Head of Corporate Resources stated that with the core financial system in place, it is hoped would result in fewer financial recommendations
- 7.4 Mr King commented that he had asked in a previous meeting why nothing had been done about the 13 outstanding recommendations within the Third Party Access to IT System. The Head of Corporate Resources said that some of them were partially completed but they have now been re-opened. Much of the IT focus has been on clearing Public Sector Network requirements which impact on IT system security. It was noted that there were some management delay, and when audit officers had not heard from IT officers they had assumed that they had agreed with the recommendations.
- 7.5 Panel members were informed that there had been a lot of issues with the IT provision, which is outsourced. The Head of Corporate Resources informed Panel members that another reason for the problems could be that the head of IT had recently retired. Audit Panel members asked if there was something they could do to assist audit officers, to ensure managers implement audit recommendations. The Head of Corporate Resources said that Panel Members could continue to invite managers to future meetings to explain why they were having problems implementing audit recommendations. Councillor Slater said that this could be done for Managers with recurring issues.
- 7.6 Councillor Slater asked why there had not been plans that could be used to drive efficiency and effective work within the IT section. The Head of Corporate Resources said that there was an IT Strategy being prepared which included benchmarking with other authorities. The installation of Windows 7 would give the council some structural base to enable further improvements.
- 7.7 Councillor Ingleby raised his concerns over the number of deferred and cancelled reviews, and asked whether there was any intention of running some of these programmes to identify variances in order to narrow any impending risk. It was noted that there were

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software available to run business interrogation, but it would need to be done regularly for it to be effective.

- 7.8 The Head of Corporate Resources said that the contractor had not been able to do the work consistently. Councillor Ingleby asked whether this was because officers were not confident to do the work. Panel members asked whether capability could be an issue. The Head of Corporate Resources said that budgets had shrunk and officers had to do things differently to deliver services. It was noted that an update on progress with the internal audit service would be brought to the next meeting in September.

Head of Corp. Res.

- 7.9 Mr King asked whether the table on page 24 stating that improvement was required for Acceptance of Gifts and Hospitality, implied that there had been failures in the past. The Head of Corporate Resources said that this was not the case, but that there had been a request to strengthen the process, and it was being looked at on a regular basis, and if there were any potential conflict this would be reported to the Audit Panel. The Head of Corporate Resources said that the wording would be looked at.

Head of Corp. Res.

RESOLVED that the report be noted

8. INTERNAL AUDIT UPDATE

- 8.1 The Head of Corporate Resources introduced the report, and notified Panel members that they would get this report on a quarterly basis. Mr King asked why the reconciliations were not timely. Chris Harris Director, Baker Tilly, said that some discrepancies had not yet been ironed out fully, but the reconciliations had improved from the last time. The Head of Corporate Resources said that officers had done some work on this as reconciliation was highlighted as a concern before. It was noted that risk remains on individual transactions and payments. The Head of Corporate Resources said that internal audit would review this every year to stay on top of things, and Audit Panel would be updated regularly.
- 8.2 The Head of Financial Services said that new systems were being introduced, with better modules, and management would ensure staff were being trained properly. Councillor Slater said that it was important that officers know and understand what needs to be done. Mr Robinson said that the figures should always balance before they are signed off. Mr King said that money reconciliation was part of the performance structure. Mr Robinson said that other authorities he had worked with reconciled on a weekly basis.
- 8.3 Councillor Slater said that with the present financial climate being

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so fluid reconciliation was of the utmost importance, and members need to have confidence in the reports that come before the Audit Panel. Mr King added that if reconciliation was not done, it could lead to fraud.

- 8.4 Councillor Barnham asked why the due date for Libraries contracts had changed so many times. The Head of Corporate Resources said that it involved lease negotiations, but he would find out more and inform the Panel at their next meeting. Head of Corp. Res.

9. ANTI FRAUD & CORRUPTION TEAM UPDATE

- 9.1 The Head of Corporate Resources introduced the report. Councillor Slater asked whether there was something in particular that officers would want Panel members to be aware of. The Head of Corporate Resources said that officers do mainly reactive work instead of preventive work. He informed Panel Members that there was a Police Officer seconded to the Team, and their investigation were very thorough. Councillor Slater asked whether staff had to be reduced.

- 9.2 The Head of Corporate Resources said that there were some temporary staff in the team as housing funding was time limited and the benefit staff had been reduced pending transfer to the DWP on 1 April 2015. Councillor Klier said there seem to be a lot of complaints about blue badges. The Head of Corporate Resources said that his staff investigate blue badges fraud, and they catch offenders every year. He added that it was important to put deterrents in place to prevent increases in offences.

- 9.3 Councillor Slater asked what type of system was in place to trigger suspicions. The Head of Corporate Resources said that it depended on the area. Front office staff were trained to check irregularities, also there were some long standing clients whose circumstances may have changed. Scrutiny of validation documents was part of the process.

RESOLVED that the report be noted.

Meeting ended 9:02pm

Chair

Agenda Item 2

| AUDIT PANEL | | |
|--------------|--------------------------|-------------------------|
| Report Title | DECLARATIONS OF INTEREST | |
| Key Decision | | Item No. 2 |
| Ward | | |
| Contributors | Chief Executive | |
| Class | Part 1 | Date: 11 September 2014 |

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)

| AUDIT PANEL | | | |
|---------------------|---|-----------------|--------------------------|
| Report Title | 2013/14 FINAL ACCOUNTS - GRANT THORNTON'S EXTERNAL AUDIT REPORTS | | |
| Key Decision | No | Item No. | 3 |
| Ward | ALL | | |
| Contributors | EXECUTIVE DIRECTOR FOR RESOURCES AND REGENERATION | | |
| Class | | Date: | 11 September 2014 |

Reasons for Lateness and Urgency

This report was not available for the original dispatch date because the report by Grant Thornton on their findings during the audit of the main accounts had not been agreed with the Director for Resources and Regeneration by that date. The report is urgent and cannot wait until the next meeting of the Audit Panel on 19 November 2014 because the Council has a statutory requirement to approve and publish its audited Statement of Accounts by 30 September each year and as part of the approval process the Audit Panel are required to report their comments to Council.

Where a report is received less than 5 clear days before the date of the meeting at which the matter is being considered, then under the Local Government Act 1972 Section 100(b)(4) the Chair of the Committee can take the matter as a matter of urgency if he is satisfied that there are special circumstances requiring it to be treated as a matter of urgency. These special circumstances have to be specified in the minutes of the meeting.

1. PURPOSE

- 1.1 The purpose of this cover report is to present to the Audit Panel the reports by Grant Thornton on their findings during the external audit of the Council's 2013/14 Main Accounts and Pension Fund Accounts. These reports follow on the agenda.
- 1.2 The Grant Thornton report on it's Value for Money conclusion on the Council's arrangements in place for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness is also attached.

2. RECOMMENDATIONS

- 2.1 It is recommended that the Audit Panel consider and note the attached reports from the Council's external auditors, Grant Thornton.

APPENDICES

- 1 – Grant Thornton – The Audit Findings for the London Borough of Lewisham.
- 2 - Grant Thornton – The Audit Findings for the London Borough of Lewisham Pension Fund.
- 3 – Grant Thornton – Report on Value for Money for London Borough of Lewisham.

The Audit Findings for the London Borough of Lewisham

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2014

September 2014

Darren Wells

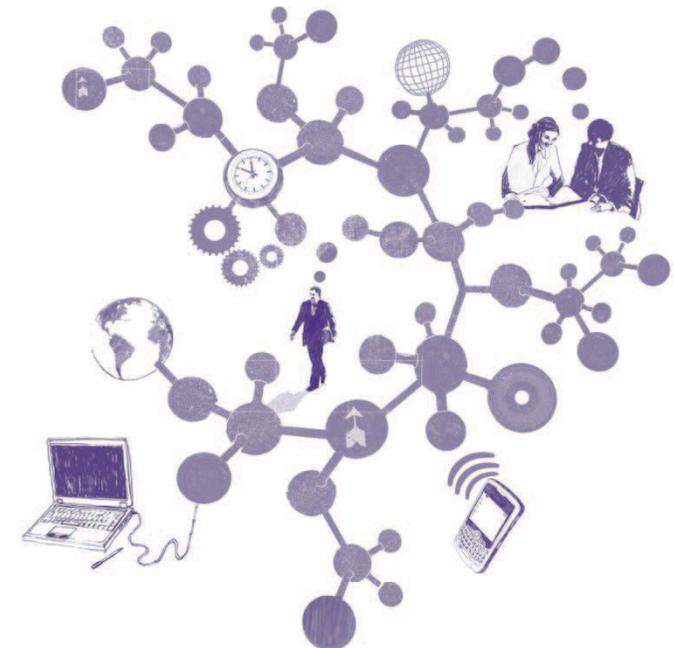
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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| 4. Fees, non audit services and independence | 28-29 |
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Appendices

- A Action plan
- B Audit opinion

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of the London Borough of Lewisham's ('the Council's') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to officers and the Council's Audit Panel (as those charged with governance) in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan in June 2014.

Our audit is mostly complete although we are finalising our work in the following areas:

- sample testing of operating revenue expenditure and income
- supplementary queries arising from our review and quality assurance processes
- completion of testing of welfare benefits
- review of employee remuneration disclosure notes and pensions disclosures
- reviews of operating and finance leases

- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We did not identify any adjustments affecting the Council's reported financial position.

We identified a number of issues with the Council's arrangements for accounting for property, plant and equipment transactions and valuations. This has led to some material adjustments in your financial statements, which are detailed in this report. We also identified some classification errors and some adjustments to improve the presentation of the financial statements.

We recognise that this year has been one of significant change in the finance department, including a staff restructuring programme and a major upgrade to the financial ledger. We are committed to working closely with the finance team through this transitional period and to using the learning from this audit process to promote improvements for 2014/15. Further details are set out in section 2 of this report.

Value for Money conclusion

Based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable. The work is planned for September 2014 and the audit certificate will be issued after we have audited the WGA consolidation pack.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

We draw your attention in particular to the following issues identified in relation to controls:

- During 2013/14 the Council has not been carrying out regular reconciliations between the payroll system and the general ledger.
- The Council did not produce a full audit trail to support its bank reconciliations.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Executive Director for Resources and Regeneration.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Executive Director for Resources and Regeneration and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2014

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Panel on 24 June 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you.

Audit opinion

We anticipate that we will provide the Council with an unqualified opinion as set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

| | Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|----|--|---|--|
| 1. | <p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p> | <ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions | <p>Our audit work has not identified any issues in respect of revenue recognition.</p> |
| 2. | <p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p> | <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions] | <p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p> |
| 3. | <p>Property, plant & equipment</p> <p>Revaluation measurement not correct</p> | <ul style="list-style-type: none"> • We have confirmed our understanding of the system for accounting for PPE valuations. • We wrote to the District Valuer to establish the scope and basis of valuations work for 2013/14 • We reviewed the valuations information in your financial statements to establish whether they have been accounted for correctly. • We considered the reasonableness of your valuations information by reference to valuation trend data provided by the auditor's expert. | <p>The District Valuer provided a reasonable valuation of the Council's PPE as at 1st April 2013 however we noted the following issues PPE being misstated on the balance sheet.</p> <ul style="list-style-type: none"> - The valuation was dated as at 1st April and did not take into account the significant increases in London property values over the year. The subsequent amendment was £161 million. - Some valuation information was not available until a very late stage, which led to omissions (net) of £3.4 million and a valuation error of £18.8 million in the draft accounts. <p>We also noted a number of errors in disclosure notes which are listed later in this report. The Council agreed to amend the accounts in respect of all these issues.</p> |

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|--|---|---|--|
| Operating expenses | Creditors understated or not recorded in the correct period | <ul style="list-style-type: none"> We reviewed and tested the year end creditors control account reconciliation. We tested a sample of transactions at the year end to confirm they are accounted for in the correct period We reviewed your accruals policy to confirm that it has been properly applied. | Our work in this area is on-going. We will provide an update to members at the meeting of the Audit Panel on 11 September 2014. |
| Employee remuneration | Employee remuneration accrual understated | <ul style="list-style-type: none"> We reviewed and test the year end payroll reconciliations We reviewed and tested your year end payroll accruals | Our work found employee remuneration to be materially complete. We noted some issues with the process of payroll reconciliations which are described in the "internal controls" section. |
| Welfare expenditure | Welfare benefit expenditure improperly computed | <ul style="list-style-type: none"> Our work to certify your Housing and Council Tax benefits claim should give us adequate assurance over the accuracy of your financial statements. We reviewed the reconciliation between your financial statements and the Housing and Council Tax benefits claim. | Our work in the housing and council tax benefits claim is on-going. |
| Housing Rent Revenue Account | Revenue transactions not recorded | <ul style="list-style-type: none"> We reviewed and tested your year end reconciliations of housing rents. We carried out predictive analytical review to confirm rental income is in line with expectations | We did not identify any significant matters against the risk identified |
| Property, plant & equipment | PPE activity not valid | <ul style="list-style-type: none"> We tested a sample of PPE additions to establish whether they have been appropriately accounted for in line with IAS16. | We identified two errors in in Assets Under Construction, totalling £3.8 million. These are detailed under "adjusted misstatements. The amount is not material to our opinion and we found PPE activity to be otherwise valid. . |

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

| Accounting area | Summary of policy | Comments | Assessment |
|--|---|---|-------------------|
| Accounting policy - Revenue recognition | Income from the provision of services or sale of goods is recognised when it is probable that the economic benefits or service potential associated with the transaction will be received by the Council. | The Council has adopted standard revenue recognition policies as set out in the Code of Audit Practice. We did not note any issues with the Council's revenue recognition policies or with their application. | ● Green |
| Other accounting policies | We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. | Our review of accounting policies has not highlighted any issues which we wish to bring to your attention | ● Green |
| Judgements and estimates – depreciation | Depreciation is charged by applying the straight-line method based on the asset's useful life. | The Council has an appropriate policy for depreciation. We have reviewed the Council's estimate of depreciation and found it to be fairly stated. | ● Green |

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements

| Accounting area | Summary of policy | Comments | Assessment |
|---|---|--|---|
| <p>Judgements and estimates Property plant and equipment valuations</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 26</p> | <p>The Council has a rolling programme of revaluations. Note 9a to your accounts shows that over 82 per cent of all your PPE was valued in 2013/14, including all council dwellings. This is a reasonable approach.</p> | <p>The Council no longer has its own in-house valuations expertise. For 2013/14 the Council engaged the District Valuer to carry out its valuations programme.</p> <p>We noted a number of issues with the process of obtaining valuations.</p> <ul style="list-style-type: none"> •Some valuation information was provided late by the District Valuer, right up to the date of producing the draft financial statements. This contributed to a number of errors in accounting for valuations. •There was an error of £18.8 million in one valuation, which arose because of late information provided by the District Valuer. <p>There were also issues with the accounting for revaluations leading to a number of material errors in note 9b. Errors have been made in this note in previous years.</p> <p>The Council's valuations were undertaken as at 1st April 2013. Over 2013/14 there was a significant increase in property values, meaning that this valuation was likely to be materially out of date by 31st March 2014. The Council agreed to uplift its property value by an appropriate index of 20 per cent, as advised by the DV, to reflect movements in house values over the year. This has led to an amendment of £161 million on the balance sheet .</p> <p>In order to address the timing issue between the valuation date and the accounting date, the Council proposes to obtain its valuations as at 1st February in future years, to minimise the likelihood of material valuation movements arising.</p> <p>The Council agreed to amend the accounts for these issues.</p> | <p style="text-align: center;">● Red</p> |

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

| Accounting area | Summary of policy | Comments | Assessment |
|--|---|--|---|
| <p>Judgements and estimates – PFI liabilities</p> | <p>The Council has developed and maintained PFI models to calculate the values of its PFI assets and liabilities on the balance sheet</p> | <p>We engaged a Grant Thornton PFI expert to review the figures in your accounts to the values that would be expected using the assumptions in the Council's models.</p> <p>On several of the schemes we noted some differences between our calculated figures and the figures in the accounts. These are not material either individually or in aggregate and may be due to timing differences. Officers have agreed to investigate these differences in 2014/15.</p> <p>Our analysis identified one significant difference of £12 million on the Drumbeat school PFI scheme. Officers investigated this and confirmed the accounts were incorrect and they have agreed to correct.</p> | <p style="text-align: center;">● Amber</p> |
| <p>Judgements and estimates – bad debt provision</p> | <p>Where it is likely that debts may not be settled, a charge is made to revenue for the income that might not be collected and the debtor is impaired.</p> | <p>In our 2012/13 audit we noted that the provision for bad debts in council tax may be overstated, as the Council has provided for more than the historic level of actual bad debts. In 2013/14 the Council has made a provision which is up to £7 million more than the actual rate of collection would indicate is required. The Council's view is that the approach is prudent and consistent with previous years. We raise this point for information.</p> | <p style="text-align: center;">● Amber</p> |
| <p>Judgements and estimates – accruals and provisions</p> | | <p>The Council's policy is reasonable. Our work in this area is on-going</p> | |

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Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Adjusted misstatements

Our audit identified a number of adjustments to draft financial statements. We are required to report all significant misstatements and whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit of the financial statements which management has agreed to amend for.

Impact of adjusted misstatements

All significant misstatements are set out below along with the impact on the key statements and the reported financial position.

| Detail | Comprehensive Income and Expenditure Account £'000 | Balance Sheet £'000 | Impact on surplus / (deficit) £000 |
|---|--|------------------------|--|
| <p>1 Expenditure on a decant programme had previously been brought forward and classified as an asset under construction which remained within assets under construction at 31 March 2014.. The expenditure was not a valid asset and so was removed. Dr I&E – Impairment £1063k Cr PPE – Assets under construction £1063k</p> <p>This amount will subsequently be reversed via the movement in reserves statement to the capital adjustment account.</p> | 1063 | (1063) | (1063) |
| <p>2 Schemes brought forward from the prior period which remained within assets under construction at 31 March 2014 but should have been written out when the asset was brought into use. Dr I&E – Impairment £1694k Cr PPE – Assets under construction £1694k</p> <p>This amount will subsequently be reversed via the movement in reserves statement to the capital adjustment account.</p> | 1694 | (1694) | (1694) |

Adjusted misstatements (2)

| Detail | Comprehensive Income and Expenditure Account £'000 | Balance Sheet £'000 | Impact on surplus / (deficit) £000 |
|---|--|------------------------|--|
| <p>3 Drumbeat school was recognised as an asset on 31 March 2013 by the Council. However the PFI liability was omitted from the Councils PFI model for Building Schools for the Future resulting in the liability being understated and so an amendment was required.</p> <p>Dr Capital adjustment account £11049k Dr revaluation reserve £1165k Cr PFI borrowings £12214k</p> | Nil | 12214 (12214) | Nil |
| <p>4 Expenditure during the year on primary places which remained within assets under construction at 31 March 2014 but should have been written out when the asset was brought into use.</p> <p>Dr I&E – Impairment Cr PPE – Assets under construction</p> <p>This amount will subsequently be reversed via the movement in reserves statement to the capital adjustment account.</p> | 5881 | (5881) | (5881) |
| <p>5 The Council's valuations were undertaken as at 1st April 2013. Over 2013/14 there was a significant increase in Property values, meaning that this valuation was likely to be materially out of date by 31st March 2014.</p> <p>Dr PPE – Dwellings £162697k Cr Revaluation reserve £110172k Cr I&E – Reversal of impairment £52525k</p> <p>This amount of £52525k will subsequently be reversed via the movement in reserves statement to the capital adjustment account</p> | (52525) | 162697 (110172) | 52525 |

Adjusted misstatements (3)

| Detail | | Comprehensive Income and Expenditure Account £'000 | Balance Sheet £'000 | Impact on surplus / (deficit) £000 |
|-----------------------|--|--|----------------------------------|--|
| 6 | A late amendment to a valuation of a school was not accounted for by the Council. Dr PPE – other land and buildings Cr Revaluation reserve | Nil | 18797 (18797) | Nil |
| 7 | The late receipt of valuations led to a number of property valuations not being accounted for by the Council. Dr PPE – Surplus assets £3100 Dr revaluation reserve £2200 Dr I&E impairment £2200 Cr PPE – Dwellings £3700 Cr PPE – Other land and buildings £3800 This amount of £2200k will subsequently be reversed via the movement in reserves statement to the capital adjustment account | 2200 | 3100 2200 (3700) (3800) | (2200) |
| 8 | The draft accounts disclosed a value for PPE which was less than the amount of assets disclosed within the Council's asset register. This was investigated and identified the accounts required amendment. Dr PPE – Surplus assets £1600 Cr revaluation reserve £300 Cr I&E – Impairments £1300 This amount of £1300k will subsequently be reversed via the movement in reserves statement to the capital adjustment account | (1300) | 1600 (300) | 1300 |
| 9 | Two deposits have been incorrectly classified as cash equivalents when they are actually short term investments. Dr Investments – current assets Cr Cash equivalents – current assets | Nil | 45000 (45000) | Nil |
| Overall impact | | £(42987) | £42987 | £42987 |

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Adjustment type | Value £'000 | Account balance | Impact on the financial statements |
|---------------------|----------------|---|--|
| 1 Misclassification | 78,619 | Revaluations - Council dwellings (note 9b) | Misclassification of revaluation transactions within note 9b for the movements due to revaluations |
| 2 Misclassification | 83,324 | Revaluations – other land and buildings (note 9b) | Misclassification of revaluation transactions within note 9b for the movements due to revaluations |
| 3 Misclassification | 1,848 | Impairments – other land and buildings (note 9b) | Misclassification of Impairment transactions within note 9b for the movements due to revaluations |
| 4 Misclassification | 10,947 | Impairments – surplus assets (note 9 b) | Misclassification of Impairment transactions within note 9b for the movements due to revaluations |
| 5 Misclassification | 2,424 | Impairments – Council dwellings (note 9b) | Misclassification of Impairment transactions within note 9b for the movements due to revaluations |
| 6 Misclassification | 24,064 | Notional income - donated asset (Glass Mill) | The Council included this donation as Income within cost of services. However the Code requires this to be shown as income from recognised grants and contributions. |
| 7 Disclosure | 9,978 | Movement in reserves statement 2013/14 | The draft financial statements had an Inconsistency in the movement in reserves statement on the other comprehensive income and expenditure line of the statement. |

Misclassifications & disclosure changes (2)

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Adjustment type | Value £'000 | Account balance | Impact on the financial statements |
|----------------------|----------------|--|--|
| 8 Disclosure | 5,766 | Movement in reserves prior year 2012/13 | The draft financial statements had an Inconsistency in the movement in reserves statement for 12/13. This was due to restatements made by the Council for IAS19 which were not subsequently amended for within the movement in reserves statement. |
| 9 Disclosure | 14,862 | Note 14 overdrawn balances and total. | The draft disclosure did not cast and did not equal the balance sheet disclosure. |
| 10 Disclosure | 1,254 | Note 35c – Movement in PFI assets in year | The disclosure was found to be inconsistent with the asset register requiring amendment. |
| 11 Disclosure | 2,606 | Note 30 - Housing benefit grant income | The Housing benefit grant income disclosed did not agree to the grant claim. |
| 12 Misclassification | 9,708 | Cash flow statement – Cash flows from investing activities | The draft financial statements had an Inconsistency between the disclosure and amounts disclosed elsewhere within the financial statements. |
| 13 Disclosure | 6,573 | HRA Note 3 - rebates | The disclosure included incorrect amounts for rent rebates paid and received by the Council. |
| 14 Disclosure | various | Collection fund | Additional disclosure to provide information regarding the impact on the council tax base due to the Welfare Reform Act that abolished the system of council tax benefits and replaced it with the Council Tax Reduction Scheme with effect from 1 April 2013. |
| 15 Disclosure | various | Accounting for schools | Additional disclosure regarding the accounting of schools in the 2014/15 Code. |

Misclassifications & disclosure changes (3)

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Adjustment type | Value £'000 | Account balance | Impact on the financial statements |
|-----------------|----------------|---------------------------------|--|
| 16 Disclosure | various | Cash flow statement | The Council omitted a disclosure note to analyse items for the line disclosed as the Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities. |
| 17 Disclosure | various | Cash flow statement | The Council omitted a disclosure note to analyse items for the line disclosed as the Adjustment to surplus or deficit on the provision of services for non-cash movements. |
| 18 Disclosure | 17,102 | Note 34b(ii) – operating leases | The Council identified an error in the disclosure resulting in a reduction in the total of £17.1 million |

Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Audit Panel is required to approve management's proposed treatment of all items recorded within the table below:

| Detail | Comprehensive Income and Expenditure Account £'000 | Balance Sheet £'000 | Reason for not adjusting |
|-----------------------|---|------------------------|--------------------------|
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| Overall impact | £0 | £0 | |

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Uncertainties

The table below provides details of uncertainties we identified during the course of our audit. The amounts are not material either individually or in aggregate. Management have agreed to investigate these in 2014/15.

| Detail | Comprehensive Income and Expenditure Account £'000 | Balance Sheet £'000 | Reason for not adjusting |
|--|---|------------------------|---|
| 1 Difference between PFI models (BSF) and calculated values, arising because of timing differences on the start of the scheme | | 4,400 | The net effect of PFI differences identified is immaterial. The Council has agreed to review these in 2014/15 |
| Page 35 2 Difference between PFI models (Brockley) and calculated values, possibly arising because of the valuation of the asset. The same scheme has a difference of £1,254 between the accounts and the supporting working papers | | (2,194) | As above |
| 3 Differences in other PFI schemes between the models and the calculated values | | (1,407) | As above |
| | | | |
| | | | |
| Overall impact | £0 | £799 | |

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

| | Assessment | Issue and risk | Recommendations |
|---------------|------------|--|---|
| 1. Page 36 | ● | <ul style="list-style-type: none"> We found that while most aspects of payroll are reconciled monthly (eg tax deductions) there is no regular reconciliation in total, to confirm that payroll has been completely and accurately transferred from the payroll system to the ledger. There is no evidence, however, that this has led to any errors in the accounts. | <ul style="list-style-type: none"> Carry out and retain evidence of regular and timely reconciliations of the payroll interface with the ledger. |
| 2. | ● | <ul style="list-style-type: none"> Management were not initially able to provide a schedule demonstrating that all its bank accounts had been satisfactorily reconciled to the ledger. As a consequence this area took significantly longer to audit than in 2012/13, when the Council provided a full reconciliation. There is no evidence, however, that this has led to any errors in the accounts. Internal Audit have also raised concerns about bank reconciliations. | <ul style="list-style-type: none"> Provide a full reconciliation and audit trail for principal bank accounts as in 12/13. |
| 3. | ● | <ul style="list-style-type: none"> We identified discrepancies of £700k between the schools bank reconciliations and the Council's accounts. The Council was subsequently able to explain the difference and that the accounts figures were correct. | <ul style="list-style-type: none"> Verify schools bank reconciliations and ensure these agree to the financial statements. |

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

| | Issue | Commentary |
|----|--|--|
| 1. | Matters in relation to fraud | <ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Chair of the Audit Panel. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit |
| 2. | Matters in relation to laws and regulations | <ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations. |
| 3. | Written representations | <ul style="list-style-type: none"> A letter of representation has been requested from the Council. In particular, representations will be requested from officers in respect of the significant assumptions used in treating the Glass Mill centre as a donated asset. |
| 4. | Disclosures | <ul style="list-style-type: none"> Our review found no material omissions in the financial statements |
| 5. | Matters in relation to related parties | <ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed |
| 6. | Going concern | <ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis. |
| 7. | Subsidiary companies | <ul style="list-style-type: none"> As in the previous years, the Council has not produced consolidated group accounts, because the effect of doing so would be immaterial to the accounts overall. The Council has included a detailed narrative disclosure note of its interests in companies. We concur with the Council's treatment of this. |
| 8. | De-cluttering | <ul style="list-style-type: none"> The Council has continued its continued to endeavour to make its accounts more concise and user-friendly, including reducing the length and format of the Annual Governance Statement. We are committed to continue to work with the Council in its efforts to de-clutter its accounts. |

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

The Council has proper arrangements in place for securing financial resilience - the Council 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.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Overall our work highlighted [\[enter short summary of Securing financial resilience findings\]](#).

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

We have issued a separate report setting out our detailed findings in respect of the value for money conclusion.

Overall VFM conclusion

Based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

The value for money conclusion is still subject to a moderation process.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

| | |
|--------------|---|
| Green | Adequate arrangements |
| Amber | Adequate arrangements, with areas for development |
| Red | Inadequate arrangements |

The table below and overleaf summarises our overall rating for each of the themes reviewed:

| Theme | Summary findings | RAG rating |
|--|--|--------------|
| Key indicators of performance | The key indicators of financial performance for 2013/14 show the Council's performance to be similar to other London Boroughs. | Green |
| Strategic financial planning | The Council has developed a medium term financial plan aimed at maintaining a resilient financial position. The plan covers the period to 2018 and estimates that £95 million of annual savings will be required. | Green |
| Financial governance | Management and members demonstrate a sound understanding of the financial challenges facing the Council. | Green |
| Financial control | Overall the Council has adequate financial controls in place. However the savings needed to achieve a resilient financial position are very challenging. Although the Council has good arrangements for identifying efficiencies, the scale of the issue gives rise to a risk of this not being achieved in the time scale. The Council is projecting a Directorate level overspend of £10 million in 2014/15. | Amber |
| Prioritising resources | The Council has good arrangements in place for prioritising its resources. This has been demonstrated in the work of the Lewisham Futures Board and in the Council's active engagement with NHS partners to develop proposals for the Better Care fund. | Green |
| Improving efficiency & productivity | The Council has a good track record of improving its efficiency and productivity. However comparative costs appear to be above the average of other similar councils for Adult social care services. The medium term financial plan contains the target to save £12 million through shared services arrangements, however there are no firm proposals to underpin this target at present. | Amber |

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission, and additional indicators identified by ourselves. Following completion of our work we noted the following residual risks to our VfM conclusion:

| Residual risk identified | Summary findings | RAG rating |
|---|---|------------|
| review key financial performance indicators for 2013/14. | The Council made a surplus of £1.8 million in 2013/14. The level of reserves, debt, working balances and schools balances are in line with those of other London councils. | Green |
| review and comment on your medium term financial projections. | The revised Medium Term financial plan was published in July 2014 and covers the period to 2018. A number of scenarios are set out in the plan, but the most probable is that the Council faces a funding gap of £95 million over the period. This arises due to cost pressures and reductions in central government programme. The scale of the challenge leads to the "amber" rating. | Amber |
| consider the work of the Lewisham Futures Board in seeking to ensure a sustainable future for the Council's services | Senior Management have established the Lewisham Futures Programme Board to drive through the changes needed to provide a sustainable financial position. The Council recognises that savings of this magnitude will have an impact on the way the Council provides its services. The Board has set out its thematic reviews to provide the framework for the transformational change which the Council needs to implement. | Green |
| Review your performance against your savings targets and comment on your identification of savings in 2014/15 and beyond. | The £95 million required savings have been profiled over four years. The Council estimates that £38 million is needed in 2015/16. As at September 2014 management is in the process of identifying proposals for cost savings and additional income which would achieve the £38 million. Around £27 million of proposals have been developed for further discussion with members. | Amber |
| Consider the management of staffing reductions in the finance function | The finance department has undergone a significant restructuring in 2013/14, with the number of principal accountants reducing from 14 to 9. This has had an impact on the accounts and auditing process in 2013/14 with some officers carrying out their new responsibilities for the first time. However it has been managed in a controlled way with responsibilities being appropriately reallocated to other officers. | Green |
| Comment on your partnership working in seeking to maximise the benefits of the Better Care Fund | The Council has engaged closely with its local NHS partners, particularly Lewisham CCG, to develop its approach to the better care fund. | Green |

Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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Fees, non audit services and independence

We confirm below our final fees charged for the audit.

Fees

| | Per Audit plan £ | Actual fees £ |
|-------------------------|---------------------|------------------|
| Council audit | 255,044 | 255,044 |
| Grant certification | 36,500 | 36,500 |
| Total audit fees | 291,544 | 291,544 |

Fees for other services

| Service | Fees £ |
|---------|--------|
| None | Nil |

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

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- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence
- 05. Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

| Our communication plan | Audit Plan | Audit Findings |
|--|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought | | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence | ✓ | ✓ |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Compliance with laws and regulations | | ✓ |
| Expected auditor's report | | ✓ |
| Uncorrected misstatements | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | | ✓ |

Appendices

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Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---------|--|----------|---------------------|--------------------------------------|
| 1 | Engage with the Council's valuers to improve the quality and the timeliness of the valuation process | High | | |
| 2 | Review and improve the Council's arrangements for accounting for PPE valuations | High | | |
| 3 | For 2014/15 ensure all expenditure treated as Assets under Construction is valid capital spending and complies with accounting standard IAS16. | Medium | | |
| 4 | Investigate the differences highlighted between the expected PFI values and those reported in your financial statements. | Low | | |
| 5 | Provide a full reconciliation and audit trail for principal bank accounts as in 12/13. | Medium | | |

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Appendix A: Action plan (2)

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|--------------|--|---|---------------------|--------------------------------------|
| 6 Page 48 | Verify schools bank reconciliations and ensure these agree to the financial statements | Medium | | |
| | 7 | Carry out and retain evidence of regular and timely reconciliations of the payroll interface with the ledger. | Medium | |
| | | | | |
| | | | | |
| | | | | |

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

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The Audit Findings Report for London Borough of Lewisham Pension Fund

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2014

September 2014

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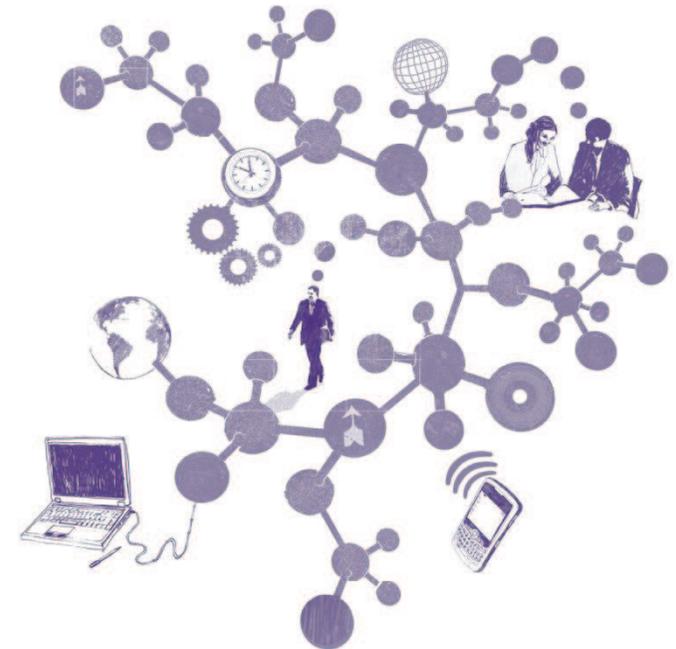
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Appendices

- A Action plan
- B Audit opinion

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Future developments

05. Communication of audit matters

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Executive summary

Purpose of this report

This report highlights the key issues arising from the audit of London Borough of Lewisham Pension Fund ('the Fund') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to officers and the Council's Audit Panel (as those charged with governance) in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, the financial transactions of the Fund during the year and whether they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated June 2014.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- journals, benefit payments, contributions and member data still require further testing
- review of the final version of the financial statements and Pension Fund Annual Report
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- a technical review of investments.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the Fund's financial statements subject to the satisfactory completion of our work.

Our audit did not identify any adjustments affecting the Fund's reported financial position (details are recorded in section two of this report). The draft financial statements recorded net assets/liabilities carried forward of £904,794k; and this remains the same in the audited financial statements.

We have proposed a small number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Fund's financial statements are:

- the quality of the financial statements were of a good standard.
- working papers were provided to us at the start of the audit. We noted a small number of errors in the working papers

Further details are set out in section 2 of this report.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2014

Section 2: Audit findings

- 01. Executive summary
- 02. Audit findings
- 03. Fees, non audit services and independence
- 04. Future developments
- 05. Communication of audit matters

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Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Panel on 24 June 2014. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you.

Audit opinion

We anticipate that we will provide the Fund with an unqualified opinion as set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

| | Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|---------|---|---|--|
| Page 59 | <p>1. Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p> | <p>We have rebutted this presumption and therefore do not consider this to be a significant risk for the London Borough of Lewisham Pension Fund since:</p> <ul style="list-style-type: none"> • The nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions. • The split of responsibilities between the Pension Fund, its fund managers and the custodian, provides a very strong separation of duties reducing the risk around investment income. • Revenue contributions are made by direct salary deductions and direct bank transfers from admitted/scheduled bodies, are supported by separately sent schedules and are directly attributable to gross pay, making any improper recognition unlikely. • Transfers into the scheme are all supported by an independent valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving funds. | <p>Our audit work has not identified any issues in respect of revenue recognition.</p> |
| | <p>2. Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p> | <p>We have completed the following work to address this risk:</p> <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries – these planned procedures are still outstanding • review of unusual significant transactions | <p>Our audit work has not identified any evidence of management override of controls. However journals testing has not yet been completed.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p> |

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|--------------------------------|--|--|---|
| <p>Investments</p> | <ul style="list-style-type: none"> Investments not valid Alternative investments not valid Investment activity not valid Fair value measurements not correct | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess whether those controls are designed effectively reconciled investments information provided by the Custodian and Fund Manager to the Fund's accounts confirmed the existence of investments directly with Fund Managers and the Custodian tested sales and purchases during the year back to detailed information provided by the Custodian compared the valuation of HarbourVest private equity unquoted investment to the latest available audited financial statements of the respective investment fund recalculated the fair value of HarbourVest quoted investments using an independently obtained price reviewed the Fund's compliance with its Statement of Investment Principles reviewed the ISAE3402 internal control reports for the fund managers and noted that the expected controls are in place and operating as designed. | <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> |
| <p>Benefit Payments</p> | <ul style="list-style-type: none"> Benefits improperly computed/ liability understated | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> reviewed and tested the key control that all calculations of pension lump sum payments are subject to review by a separate officer in the pensions administration team ensured the pensioner payments calculated by the pensions administration system were correctly input onto the payroll system selected a sample of individual transfers, new pensions in payment and lump sum benefits and tested them by reference to the benefit calculations on the respective member file rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained | <p>Our testing is not complete in this area due to outstanding information.</p> |

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|----------------------|---|--|---|
| Contributions | <ul style="list-style-type: none"> Recorded contributions not correct | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> sample tested employee and employer pensions contributions for the administering authority staff to payslips and to HR records to ensure gross salary and contributions to the fund were correctly calculated rationalised contributions received with reference to changes in contributor numbers and average pay sample tested contributions received from Scheduled and Admitted bodies to ensure the contributions received agreed to underlying records. | <p>Our testing is not complete in this area due to outstanding information.</p> |
| Member data | <ul style="list-style-type: none"> Member data not correct Regulatory/scheme rules requirements not met | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> reconciled the member data numbers within the financial statements to the pensions administration system sample tested starters, leavers and changes in circumstances to ensure that the member database has been updated accordingly. | <p>Our testing is not complete in this area due to outstanding information. We will update you at your meeting on 11 September.</p> |

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

| Accounting area | Summary of policy | Comments | Assessment |
|--|---|---|--|
| Revenue recognition | <ul style="list-style-type: none"> Income and expenditure to the Fund are accounted for on an accruals basis with the exception of transfers. | <ul style="list-style-type: none"> The Fund's accounting policies are appropriate under IAS 18 Revenue and the Code of Practice on Local Authority Accounting |  Green |
| Judgements and estimates Page 62 | <ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> The actuarial valuation of the fund at 31 March 2013 The valuation of private equity investments. | <ul style="list-style-type: none"> The policies adopted for accounting estimates are appropriate under the Fund's accounting framework The actuarial valuations has been undertaken by the actuary as a management expert The level of judgement required by the Fund is low. Estimates used are supported by adequate workings. Disclosure of judgements and estimates has not been tested | |
| Other accounting policies | <ul style="list-style-type: none"> The Fund's accounting policies are in accordance with the requirements of the Code of Practice on Local Authority Accounting. | <ul style="list-style-type: none"> We have reviewed the Fund's accounting policies against the requirements of the Code of Practice on Local Authority Accounting. The Fund's accounting policies comply with the Code. |  Green |

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Adjusted and Unadjusted misstatements

Our audit has identified the following errors within the financial statements. The errors are not material individually, or in aggregate. We are required to report all misstatements to the Audit Panel, whether or not the financial statements have been adjusted by officers. The table below provides details of adjustments identified during the audit which we request be processed, but which have not been made within the final set of financial statements. The Audit Panel is required to approve management's proposed treatment of all items recorded within the table below:

| Detail | Fund Account £'000 | Net Asset Statement £'000 | Reason for not adjusting |
|---|-----------------------|------------------------------|--|
| 1 Difference between the Custodian calculation of private equity investments and the sum of the independently confirmed capital account balances translated to Sterling at 31 March 2014. | (1,695) | 1,695 | Accounts produced using Custodian figures |
| 2 A duplicated investment management fee payment which was recorded in the fund account in error. | (53) | 53 | Too late to make the adjustment in the ledgers |
| 3 Difference between contributions: scheduled and admitted bodies - per accounts and per client schedule. | (96) | 96 | Client has not responded to query |
| 4 BlackRock investment management fees relating to the period 21/11/12-31/03/13 recorded in the year ended 31 March 2014. | (70) 70 – b/f | | Invoices came in late |
| Overall impact | (£1,844) | £1,844 | |

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Adjustment type | Value £'000 | Account balance | Impact on the financial statements |
|---------------------|----------------|------------------|--|
| 1 Misclassification | 756 | Benefit payments | There was a misclassification of £756k between pension benefit payments and lump sum benefit payments in the prior year (2012/13) figures in the fund account. They did not agree to the audited 2012/13 accounts. This was done in error and management have agreed to amend. |

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| | Assessment | Issue and risk | Recommendations |
|--------------|--|---|---|
| 1 Page 65 |  Amber | Public Sector Internal Audit Standards require the internal audit function to act independently and objectively. The Council's Head of Corporate Resources has responsibility for financial management of the pension fund as well as overseeing internal audit. We note the Council is aware of this potential threat to independence and has taken steps to mitigate this. Where a potential conflict exists the Internal Audit Contract Manager is able to report directly to the Executive Director of Resources and Regeneration. The contract manager has confirmed there are no such conflicts in 2013/14. | We recommend the Council keeps the appropriateness of this arrangement under review, particularly when the internal audit function is brought in-house. |
| 2 |  Amber | We have previously reported that the Pension Fund was in breach of LGPS Regulations, as it was not using the separate Pension Fund bank account for all pension fund transactions. Over the last two years the Council has been increasing its use of the Pension Fund Bank Account, but is still not fully compliant with LGPS Regulations. | The Regulations are mandatory and the Council should take steps to ensure that this Bank Account is being used for all Pension Fund transactions as soon as possible. |

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

| | Issue | Commentary |
|----|--|--|
| 1. | Matters in relation to fraud | <ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Panel. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit. |
| 2. | Matters in relation to laws and regulations | <ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations. |
| 3. | Written representations | <ul style="list-style-type: none"> A standard letter of representation has been requested from the Fund. |
| 4. | Disclosures | <ul style="list-style-type: none"> Our review of disclosures has not been completed. |
| 5. | Matters in relation to related parties | <ul style="list-style-type: none"> There is a minor query outstanding in relation to related party transactions. |
| 6. | Going concern | <ul style="list-style-type: none"> Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis. |

Section 3: Fees, non audit services and independence

01. Executive summary

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Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

| | Per Audit plan £ | Actual fees £ |
|-------------------------|---------------------|------------------|
| Fund audit | 21,000 | 21,000 |
| Total audit fees | 21,000 | 21,000 |

Fees for other services

| Service | Fees £ |
|---------|--------|
| None | Nil |

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 4: Future developments

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Future development

05. Communication of audit matters

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Developments relevant to your Pension Fund and the audit

| Political | | Environmental | | Social | | Technological | |
|--|--|---|--|---|--|---|--|
| Developments relevant to the next financial year | | | | | | | |
| <p>1. Financial reporting</p> <p>CIPFA has published best practice guidance relating to the identification and disclosure of administrative and investment management expenditure. This applies from 2014/15 and will enable consistent reporting across the LGPS facilitating more meaningful comparisons in this area. The definition is separated into three distinct categories of costs.</p> | | <p>2. Legislation</p> <p>Under the Local Government Pension Scheme (LGPS 2014), pensions will be calculated on Career Average Revalued Earnings (CARE) rather than a final salary basis from 1 April 2014. Administering authorities will need to ensure their updated administration systems are calculating new pensions accruals correctly from 1 April 2014; dealing effectively with more complex data requirements and that new contribution rates are being correctly applied by employers.</p> | | <p>3. Actuarial valuation</p> <p>Following the 31 March 2013 actuarial valuation all employers will need to consider the level of additional employer deficit contributions required and how to fund them.</p> | | <p>4. Other issues</p> <p>The number of LGPS employers continues to grow as local authorities outsource services. Affected funds need to consider the impact this has on its exposure to risks and reflect on the impact this has for their investment strategies.</p> | |
| Developments relevant to future periods | | | | | | | |
| <p>1. Financial reporting</p> <p>Changes to the Pension SORP may affect the investment disclosures in the Net Asset Statement and Fair Value determination (changing the classification from level 1, 2 & 3 to A, B & C). A revised SORP will be issued in 2014 and may find its way into the LG code in 2015/16.</p> | | <p>2. Legislation</p> <p>From April 1 2015 The Pensions Regulator will have formal powers and responsibilities for oversight of the LGPS. This will include monitoring implementation of new governance arrangements, which require the creation of a scheme manager and pension board for each LGPS.</p> <p>The Administering Authority will need to determine how it will meet the requirement to have a pension board and the consequent changes it will need to make to its general governance arrangements.</p> | | <p>3. Structural reform</p> <p>DCLG is consulting on the potential use of Collective Investment Vehicles and passive management of funds.</p> <p>The outcome of this consultation may lead to a change in administration of some schemes and significant changes in investment strategies.</p> | | <p>4. Other issues</p> <p>The Pensions Regulator, Financial Conduct Authority and HMRC continue to commit resources to combat pension liberation schemes. More guidance and potential changes to HMRC registration of new schemes is likely.</p> | |

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Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

| Our communication plan | Audit Plan | Audit Findings |
|--|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought | | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence | ✓ | ✓ |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Compliance with laws and regulations | | ✓ |
| Expected auditor's report | | ✓ |
| Uncorrected misstatements | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | | ✓ |

Appendices

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Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---------|--|----------|---------------------|--------------------------------------|
| Page 74 | The Council's Head of Corporate Resources has responsibility for financial management of the pension fund as well as overseeing internal audit. We recommend the Council keeps the appropriateness of this arrangement under review, particularly when the internal audit function is brought in-house. | Medium | | |
| | Over the last two years the Council has been increasing its use of the Pension Fund Bank Account, but is still not fully compliant with LGPS Regulations. The Regulations are mandatory and the Council should take steps to ensure that this Bank Account is being used for all Pension Fund transactions as soon as possible. | Medium | | |

Appendix B: Audit opinion

We anticipate that we will provide the Fund with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF LEWISHAM PENSION FUND

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of London Borough of Lewisham Pension Fund for the year ended 31 March 2014 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 2013/14.

This report is made solely to the members of London Borough of Lewisham Pension Fund 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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

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's Responsibilities, the Executive Director for Resources and Regeneration is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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. Our 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 us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund 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, we read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our 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 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the scheme year; and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our 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.

Darren Wells
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
Fleming Way
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September 2014



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| AUDIT PANEL | | | |
|---------------------|--|-----------------|--------------------------|
| Report Title | 2013/14 FINAL ACCOUNTS – LBL’s RESPONSES TO GRANT THORNTON’S EXTERNAL AUDIT REPORTS | | |
| Key Decision | No | Item No. | 4 |
| Ward | ALL | | |
| Contributors | EXECUTIVE DIRECTOR FOR RESOURCES AND REGENERATION | | |
| Class | | Date: | 11 September 2014 |

Reasons for Lateness and Urgency

This report was not available for the original dispatch date because the report by Grant Thornton on their findings during the audit of the main accounts had not been agreed with the Director for Resources and Regeneration by that date. The report is urgent and cannot wait until the next meeting of the Audit Panel on 19 November 2014 because the Council has a statutory requirement to approve and publish its audited Statement of Accounts by 30 September each year and as part of the approval process the Audit Panel are required to report their comments to Council.

Where a report is received less than 5 clear days before the date of the meeting at which the matter is being considered, then under the Local Government Act 1972 Section 100(b)(4) the Chair of the Committee can take the matter as a matter of urgency if he is satisfied that there are special circumstances requiring it to be treated as a matter of urgency. These special circumstances have to be specified in the minutes of the meeting.

1 PURPOSE

1.1 The purpose of this report is to respond to the external auditor’s Audit Findings Reports on the audit of the council’s 2013/14 Main Accounts and Pension Fund accounts and Value for Money conclusion. These are attached to the previous item on this agenda, and set out:

“...the key matters and audit findings arising from the 2013/14 audit of the financial statements...whether the accounts present a true and fair view of the financial position and have been properly prepared.....and whether you have put in place proper arrangements to secure value for money in your use of resources.”

1.2 The reports set out any issues arising from the audits 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 30 September each year. The pre-audit 2013/14 Accounts were considered and noted by the Audit Panel on 25 June 2014. Since then Grant Thornton have been carrying out their external audit, and the

final audited 2013/14 Accounts will be submitted to Council for approval on 18 September 2014.

3 RECOMMENDATIONS

- 3.1 The Audit Panel are recommended to note the reports from Grant Thornton 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 2014, they have been subject to extensive external audit by Grant Thornton and a number of changes have been agreed. At the time this report was dispatched, the audit was substantially complete and Grant Thornton report that subject to completing their outstanding work they anticipate providing an unqualified opinion on the financial statements and that they propose to give an unqualified value for money conclusion. Grant Thornton will give a verbal update at the meeting and, along with senior council officers, will answer any questions as required.
- 5.2 Grant Thornton have raised a few matters for Members to consider and it is important to note that these mainly relate to detailed disclosure requirements.
- 5.4 The external auditor requests that Members:
- Note the adjustments to the financial statements in the report
 - Approve the letter of representation on behalf of the council
 - Agree the response to the proposed action plan (Appendix A).
- 5.5 Under the council's constitution these matters are for Council to determine. At Council on 18 September 2014 Members will be recommended to note the Audit Findings reports and approve the audited Statement of Accounts. Any comments of the Audit Panel arising from this meeting will be reported to Council,

6 AUDIT FINDINGS

- 6.1 The external auditors have reported that overall the draft 2013/14 financial statements were of good quality and the working papers provided supported the entries in the accounts.
- 6.2 During the audit a number of misstatements and classification errors were identified and amendments to the Accounts agreed with the auditors. None of these affect the reported financial position shown in the Accounts and they do not affect the charge to the Council Tax or Housing Rents. The changes are mainly presentational and ensure that the Council complies with the technical accounting regulations.

6.3 Grant Thornton have identified a few issues which the Council has agreed to improve and a number of errors in the accounts which the Council has agreed to amend for. The major areas are as follows;

- The quality and timeliness of the Council's asset valuation process and the associated accounting arrangements need to be improved.
- The valuation of Council dwellings was undertaken as at 1 April 2013. Due to a significant increase in property values during the year, an adjustment of £163m has been made to the assets value.
- A amended school valuation of £18.8m was received too late to be included in the draft accounts. A number of other smaller amendments have also been made following the late receipt of valuations.
- Expenditure of £8.6m included in Assets under Construction should have been written off to revenue when the assets were brought into use.
- The Council's outstanding PFI liability of £241m was understated by £12m due to the omission of the liability for Drumbeat Special School.
- Two cash investments with a value of £45m were incorrectly classified as call accounts and were accounted for as Cash Equivalents instead of Short Term Investments.
- The notional income of £24.1m from the Glass Mill Leisure Centre was incorrectly classified within the Comprehensive Income and Expenditure Statement. It should have been include in the recognised grants and contributions line instead of the income from cultural services line.
- The detailed reconciliation of payroll and bank accounts was judged to be acceptable and no errors were found in the accounts, however the timeliness and regularity need to be improved. Overall reconciliations will be implemented for payroll and will be improved for the bank accounts.

6.4 The Action Plan at Appendix A has a number of recommendations in it which have all been agreed with Grant Thornton.

6.5 Overall the report indicates a reasonable system of financial control and the robustness of financial information throughout the organisation.

7 ANNUAL GOVERNANCE STATEMENT

7.1 This document has been slightly updated from that considered at the Audit Panel on 25 June 2014 to reflect the completion of a few items. It is will be submitted to Council on 18 September 2014 for approval.

8 FINANCIAL IMPLICATIONS

8.1 There are no direct financial implications resulting from this report.

8.2 The cost of external audit services for 2013/14 was £292,000, including the cost of the audit of the main accounts and the certification of grant claims. The cost of the Pension Fund audit was £21,000.

9 LEGAL IMPLICATIONS

9.1 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 18 September 2014 will satisfy this statutory requirement.

- 9.2 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.

10 EQUALITIES IMPLICATIONS

- 10.1 There are no equalities implications in this report.

11 CONSULTATION

- 11.1 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 18 August 2014, which was also the day electors were able to question the auditor. No questions were received by the External Auditor on this day. It is also a requirement that notice of conclusion of the audit is advertised in the local press.

12 ENVIRONMENTAL IMPLICATIONS

- 12.1 There are no environmental implications in this report.

13 CRIME AND DISORDER IMPLICATIONS

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

14 BACKGROUND PAPERS

None

For further information on this report please contact:

Selwyn Thompson, Head of Financial Services

Richard Lambeth, Group Finance Manager – Core Accounting

| AUDIT PANEL | | |
|---------------------|-------------------------------------|-------------------------------|
| Report Title | Internal Audit update report | |
| Key Decision | No | Item No. 5 |
| Ward | ALL | |
| Contributors | Head of Corporate Resources | |
| Class | Part 1 | Date:11 September 2014 |

1. Purpose of the report

- 1.1. This report presents members of the Audit Panel with a summary of progress with:
- Internal audit work against the audit plan, and
 - Implementation of internal audit recommendations.

2. Recommendations

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

3. Background

- 3.1. Internal Audit is going through a restructure since the internal audit contract ceased at the end June 2014. Arrangements are being put in place to ensure that the core audits, school audits and IT audits are completed.
- 3.2. At the time of writing this report, the in-house team consisted of the Head of Corporate Resources, Internal Audit Contract Manager and an Internal Audit - CIPFA Trainee.

4. Executive Summary

Section 5 - Internal audit progress update. The 2013/14 audit plan is now complete with no significant outcomes different to those reported in the annual assurance report.

Section 6 - Limited, No Assurance and Consultancy reviews. Two Limited assurance reports were issued since the last meeting – Non current assets and Security and Access to IT servers. These were from the 2013/14 audit plan.

Section 7 - High and Medium recommendations not agreed. Management have agreed all High and Medium recommendations made since the last meeting.

Section 8 - Progress on the implementation of recommendations. Seven follow-up reviews completed with 66% of recommendations implemented or in progress, four recommendations were superseded, and 39% of open recommendations were overdue at the end of August.

Section 9 - Restructure of the internal audit service. The internal audit service is changing following the end of the contract with Baker Tilly. The aim is to move to a more flexible mixed provision model (in-house & contract) working with partners.

Section 10 - Other business. Following discussion at the Internal Control Board, the audit plan year-end has changed from March to June for 2014/15 onwards.

5. Internal audit progress update

2013/14

- 5.1. The 2013/14 work is now completed. Of the 13 outstanding audits as reported at the last meeting, one was cancelled:
- Enforcement - The team manager resigned and the services have changed line management to a different Directorate in year. The service is also about to be the subject of a Food Standards Agency (FSA) audit. As such, the audit is deferred to 2015/16 once the FSA results are known.
- 5.2. The table below lists those audits that were finalised by the contractor to complete the 2013/14 audit plan.

| Dir. | Audit | Date of Final | Audit Opinion | Recs. Made | | |
|------|--|---------------|---------------|------------|---|---|
| | | | | H | M | L |
| RRE | Project Management | 16/07/14 | Satisfactory | - | 5 | 2 |
| RRE | Capital Programme & Monitoring 13-14 | 09/07/14 | Substantial | - | 1 | - |
| RRE | Capita IT Contract Management | 27/06/14 | Substantial | - | 1 | - |
| RRE | Non Current Assets 13-14 | 26/06/14 | Limited | - | 1 | - |
| RRE | Payroll 13-14 | 17/06/14 | Satisfactory | - | 4 | - |
| CUS | Security and Access to LBL Servers | 10/07/14 | Limited | 1 | 3 | - |
| CUS | Parking Contract | 10/07/14 | Substantial | - | 2 | - |
| CUS | Trade Waste | 27/06/14 | Satisfactory | 1 | 2 | 2 |
| COM | Ten Day Self Assessment Cases | 06/06/14 | Satisfactory | - | 3 | - |
| CYP | School's Catering Contract | 09/07/14 | Satisfactory | - | 5 | 5 |
| CYP | Payments to Children with Disabilities | 25/06/14 | Substantial | - | 2 | - |
| CYP | Leaving Care | 11/06/14 | Substantial | - | 1 | 1 |

2014/15

- 5.3. The contractor completed the five remaining school audits allocated to them as reported at the last meeting. See table below for details.

| Dir. | Audit | Date of Final | Audit Opinion | Recs. Made | | |
|------|------------------------------------|---------------|---------------|------------|---|---|
| | | | | H | M | L |
| SCH | St John Baptist CE Primary 2014-15 | 27/06/14 | Substantial | - | - | - |
| SCH | Sir Francis Drake Primary 2014-15 | 25/06/14 | Substantial | - | 1 | - |
| SCH | John Ball Primary 2014-15 | 18/06/14 | Substantial | - | 1 | - |
| SCH | Beecroft Garden Primary 2014-15 | 12/06/14 | Substantial | - | - | 1 |
| SCH | Baring Primary 2014-15 | 11/06/14 | Substantial | - | 1 | - |

- 5.4. There was one deferred audit and one audit added to the 2014/15 audit plan since the last meeting.

5.5. The deferred audit was:

- Foster Park School (SCH) - deferred to 2015/16 as full follow-up done in 2011/12.

5.6. The additional audit was :

- Adoption Reform Grant 13/14 (CYP) - IA required to validate the conditions of the grant claim.

5.7. The table below shows the status of the internal audit plan. Appendix 1, details the full 2014/15 internal audit plan.

| Lead Dir. | Original Plan | Addtnl. Audits | Dropped Audits | Current Plan | Final Reports | Reports at Draft | ToR* Issued | Not Started |
|-----------|---------------|----------------|----------------|--------------|---------------|------------------|-------------|-------------|
| RRE | 13 | - | - | 13 | - | - | - | 13 |
| CUS | 10 | - | - | 10 | - | - | - | 10 |
| COM | 9 | - | - | 9 | - | - | - | 9 |
| CYP | 6 | 2 | - | 8 | 2 | - | - | 6 |
| Sub | 38 | 2 | - | 40 | 2 | - | - | 38 |
| SCH | 32 | - | (1) | 31 | 7 | 2 | n/a | 30 |
| Total | 70 | 2 | (1) | 71 | 9 | 2 | - | 60 |

*Terms of Reference

6. Limited , No Assurance and Consultancy reports

6.1. There were two 'Limited' reports issued since the last meeting. There were no consultancy reviews or 'No Assurance' reports issued. These reports were:

- Non-current Assets 2013-14 - Limited (RRE)
- Security and Access to LBL Servers - Limited (CUS)

6.2. The executive summaries for these reports which highlight the key areas for improvement are provided in Appendix 2.

7. High or Medium recommendations not agreed

7.1. Since the last Audit Panel meeting, management have agreed all 'Medium' and 'High' recommendations made.

8. Progress on the implementation of recommendations.

Follow-ups

8.1. Non-school reviews with High or Medium recommendations are followed-up within nine months of the final report. School audits with a negative assurance opinion (i.e. 'Limited' or 'No assurance') also receive a follow-up review.

8.2. There were seven follow-up reviews completed since the last Audit Panel meeting (all non-schools). The summary status of the recommendations followed up is shown in the table below:

| Implemented | In Progress | Superseded | Not Implemented | Total Recs |
|-------------|-------------|------------|-----------------|------------|
| 7 | 7 | 2 | 5 | 21 |
| 33% | 33% | 10% | 24% | 100% |

8.3. Those recommendations found to be 'in progress' or 'not implemented' are held open or reopened. Management will continue to update the progress of implementation and internal audit report on this progress. Details of the reviews followed-up are in Appendix 5.

Superseded

8.4. Since the last Audit Panel meeting, four medium recommendations were 'superseded'. They came from the following audits:

- Information Asset Register - Risk Assessments (CUS),
- Payment by Result (PbR) Pilot Review (COM), and
- Third Party Access to IT Systems and Data (two recommendations (CUS))

8.5. Details of these superseded recommendations are provided in Appendix 4.

Implementation of recommendations

8.6. The table below shows the status of high and medium recommendations made by Internal Audit as at the 31/08/14.

| Lead Dir. | Previous No. of O/Due Recs. | Current No. of O/due Recs at 31/08/14 | Current No. of Recs with 2+ changes | Previous No. of Open Recs at 31/05/14 | No of Recs Re-opened since 31/05/14 | New Recs from 31/05/14 To 31/08/14 | Closed Recs from 31/05/14 To 31/08/14 | Current Open Recs at 31/08/14 |
|-----------|-----------------------------|---------------------------------------|-------------------------------------|---------------------------------------|-------------------------------------|------------------------------------|---------------------------------------|-------------------------------|
| RRE | - | 6 | 2 | 14 | 8 | 11 | (10) | 23 |
| CUS | 7 | 6 | - | 26 | 2 | 10 | (16) | 22 |
| COM | - | - | - | 10 | 3 | 4 | (9) | 8 |
| CYP | 4 | 12 | 1 | 15 | 1 | 8 | (1) | 23 |
| Total N/S | 11 | 24 | 3 | 65 | 14 | 33 | (36) | 76 |
| SCH | 1 | 11 | - | 18 | - | 1 | (5) | 14 |
| Total All | 12 | 35 | 3 | 83 | 14 | 34 | (41) | 90 |

8.7. The percentage of open recommendations that are overdue is 39%. This is in an increase from the 23% of open recommendations as reported at the last meeting. A possible reason for the increase may be due to the time of year (i.e. summer

holidays). As such, many officers are away from the office. Internal audit will report to the Audit Panel if this is a beginning of a new trend.

- 8.8. Details of those recommendations that are either overdue, have two or more implementation date changes or have been re-opened after the follow-up review are presented in Appendix 4.

9. Restructure of the Internal Audit Service

- 9.1. As noted in the background section above, the internal audit service arrangements changed from the 1 July 2014 when the current contract with Baker Tilly ended.

- 9.2. The intention is to create a more mixed internal audit economy rather than rely on one external provider, recognising the need for general audit and some specialist audit skills.

- 9.3. The medium term (three year) aim is to recruit a small qualified in-house team developing a number of accountant trainees. In doing so, options to share the service by pooling the trainee resource with other Councils and possibly join with one of the firms to leverage their accountant training programme for apprentices will be explored. This will have value for money benefits for Lewisham and provide the team with a stronger network, experience and opportunities for their own career development.

- 9.4. In the meantime the more pressing need (and risk) is to get the audit work for 2014/15 delivered. With a priority for the sixteen core financial audits, the key risk areas such as projects and contract management and IT, and schools audits. To do this the following arrangements are being put in place:

- Approaching the lead Councils (Croydon and Islington) to access the two internal audit framework contracts in London to undertake the core audits and project and contract audits in the plan.
- Engagement of an independent IT auditor (currently also used by Greenwich) to deliver the planned IT audits.
- Entering a service agreement with Greenwich to use some of their internal audit capacity to deliver some Lewisham schools audits.
- Recruiting temporary agency cover to support delivery of the rest of the plan as needed, in particular the remaining planned school audits.

- 9.5. In respect of the opportunity to access frameworks, the Croydon framework is a partnership with the professional services firm Mazars and the Islington framework with PwC. The experience of using these to deliver the 2014/15 audit work will also inform how the medium term plan for the service develops.

- 9.6. Over the summer the internal audit team have concentrated on building the necessary internal audit tools – plans, working papers templates, management and audit procedures, and report templates. They are now engaged in doing some schools audits, follow-up audits, and setting up the temporary working arrangements with suppliers.

- 9.7. Once the service re-organisation is completed the intention is to update the internal audit charter to reflect the new ways of working and include the recommendations for the Charter discussed at the March Audit Panel.

10. Other business

10.1. Following discussion at the Internal Control Board, the internal audit plan year-end has changed from March to June for 2014/15 to coincide with the annual reporting cycle that concludes in June each year. For 2014/15 this means the Council will have a 15 month internal audit year. From 2015/16 the internal audit year will then run from July to June.

10.2. Some of the benefits to changing the audit year are:

- Take some pressure off the immediate restructuring need,
- Set the audit plan to start and finish on time in respect of annual reporting.
- Allow for the audit team to train in the down time in July and August, and
- Avoid the March rush by internal audit scheduling work outside key busy periods, especially around the financial year-end.

11. Legal Implications

11.1. There are no legal implications arising directly from this report.

12. Financial Implications

12.1. There are no financial implications arising directly from this report.

13. Equalities Implications

13.1. There are no equality implications arising directly from this report.

14. Crime and Disorder Implications

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

15. Environmental Implications

15.1. There are no legal implications arising directly from this report.

16. Background Papers

16.1. There are no background papers.

If there are any queries on this report, please contact David Austin, Head of Corporate Resources, on 020 8314 9114, or email him at:

david.austin@lewisham.gov.uk

Appendix 1 - 2014/15 Audit Plan (core financial audits in bold)

| Lead Dir. | Name of Audit | Scope | Date Due / ToR Issued | Date Audit Finalised | Opinion |
|-----------|----------------------------------|---|-----------------------|----------------------|---------|
| RRE | Banking | Key financial controls (to be agreed) | Q3 | | |
| RRE | Treasury Management | Key financial controls (to be agreed) | Q3 | | |
| RRE | Pensions for LGPS and TPS | Key financial controls (to be agreed) | Q3 | | |
| RRE | Budget Monitoring | Key financial controls (to be agreed) | Q3 | | |
| RRE | Non-Current Assets | Key financial controls (to be agreed) | Q3 | | |
| RRE | Capital Expenditure | Key financial controls (to be agreed) | Q3 | | |
| RRE | Payroll | Key financial controls (to be agreed) | Q3 | | |
| RRE | Accounts Payable | Key financial controls (to be agreed) | Q3 | | |
| RRE | Main Accounting | Key financial controls (to be agreed) | Q3 | | |
| RRE | Procurement Card | Key financial controls (to be agreed) | Q3 | | |
| RRE | Insurance – In house processes | To review the procedures for in-house claims handing process for efficient and effective. | TBC | | |
| RRE | Procurement | Review the procurement process and monitoring of contracts, the governance and administration of the Commissioning and Procurement board. To include how the evaluation of business continuity plans at the award stage is conducted and approved. To include how the Public Services (Social Value) Act is enforced. | TBC | | |
| RRE | Programme and Project Management | To review the programme management process to establish if they are fit for purpose. Also, look at PRG in COM, CYP, RRE to see if they comply with Council's management approach. To include a review of the processes relating to projects that have concerns. | TBC | | |

Appendix 1 - 2014/15 Audit Plan (core financial audits in bold)

| Lead Dir. | Name of Audit | Scope | Date Due / ToR Issued | Date Audit Finalised | Opinion |
|-----------|--|---|-----------------------|----------------------|---------|
| CUS | Housing Benefit / Council Tax Reduction Scheme (CTRS) | Key financial controls (to be agreed) | Q3 | | |
| CUS | Council Tax | Key financial controls (to be agreed) | Q3 | | |
| CUS | Accounts Receivable | Key financial controls (to be agreed) | Q3 | | |
| CUS | NNDR | Key financial controls (to be agreed) | Q3 | | |
| CUS | IT Strategy (IT Audit) | Review the IT strategy. | TBC | | |
| CUS | Decent Homes Contractors / Fire / H&S - Client management | To review the management of 'Decent Homes' expenditure, objectives and outcomes. To include the monitoring of recommendations from Fire Brigade and other agencies. | TBC | | |
| CUS | Housing Grants / Council's Housing Assistance Policy | To review the controls surrounding the handy-person service and disabled facilities grants. | TBC | | |
| CUS | Business Continuity Plans (IT Audit) | To review the council's continuity plans for: Telephony / IT Systems (including servers - corporate and local / 3rd party) to see if they are reviewed regularly, feasible and officers know where they are and what to do. | TBC | | |
| CUS | Oracle12 Upgrade (IT Audit) | Post implementation review of the new Oracle upgrades system | TBC | | |
| CUS | SharePoint 2010 (IT Audit) | Look at local security and usability. | TBC | | |

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| Lead Dir. | Name of Audit | Scope | Date Due / ToR Issued | Date Audit Finalised | Opinion |
|-----------|--|---------------------------------------|-----------------------|----------------------|---------|
| COM | Payments to Care Providers for Older Adults | Key financial controls (to be agreed) | Q3 | | |

Appendix 1 - 2014/15 Audit Plan (core financial audits in bold)

| Lead Dir. | Name of Audit | Scope | Date Due / ToR Issued | Date Audit Finalised | Opinion |
|-----------|---|--|-----------------------|----------------------|---------|
| COM | Client Contribution for Care Provision | Key financial controls (to be agreed) | Q3 | | |
| COM | Direct Payments | Key financial controls (to be agreed) | Q3 | | |
| COM | South London and Maudsley (SLAM) - (Specialist Audit) | Review the governance and operational management in respect of LBL interest in relation to SLAM | TBC | | |
| COM | Youth Offending Service (YOS) | To review the objective and outcomes of the service | TBC | | |
| COM | Public Health Contracts | To review the management of Public Health Contracts for general process, decision making, scrutiny, length of contracts / renewal monitoring etc | TBC | | |
| COM | Quality Assurance Training - Pathway (non-assurance) | To provide training / advice on the new pathway service | Q1/2 | | |
| COM | Pathway framework (Assurance) | To assess the controls surrounding pathway process after the training has been provided. | Q3 / Sep | | |
| COM | Contract Management | Review the monitoring of contracts within the Community and CYP directorate. | TBC | | |

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| Lead Dir. | Name of Audit | Scope | Date Due / ToR Issued | Date Audit Finalised | Opinion |
|-----------|--|---|-----------------------|----------------------|---------|
| CYP | TFP - Claims submissions Check (non-assurance) claim 5 | To review the criteria for the Troubled Families Programme for each claim. Expected 2-4 times a year. | May 14 | 15/05/14 | n/a |
| CYP | Adoption Reform Grant 13-14 | Review the validity of the claim | Jun 14 | 01/07/14 | n/a |
| CYP | Payments to Care Provider and | Key financial controls (to be agreed) | Q3 | | |

Appendix 1 - 2014/15 Audit Plan (core financial audits in bold)

| Lead Dir. | Name of Audit | Scope | Date Due / ToR Issued | Date Audit Finalised | Opinion |
|-----------|---|---|-----------------------|----------------------|---------|
| | Foster Carers for Looked After Children | | | | |
| CYP | No recourse to public funds (Pilot Scheme) | Review the framework / guidance / policy on no recourse to public funds | Q4 | | |
| CYP | Disclosure and Barring Service (DBS) PT 1 | Review the framework of DBS in relation to schools / CYP. Review the DBS board and actions. | TBC | | |
| CYP | Youth Service | Review the governance , procedures and processes, reporting and scheme of management | Q3 | | |
| CYP | Troubled Families Programme (TFP) Annual Review | To review of the new system for gathering information and submission. | Q2 | | |
| CYP | Payments for 2 -4 year olds | Review the returns and payments to and from providers (private, voluntary and independent sectors). Potentially look at DBS compliance too. | TBC | | |

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| Lead Dir. | Name of Audit | Scope | Qrt / Mth | Date Audit Finalised | Opinion |
|-----------|----------------------------|---------------------------|-----------|----------------------|-------------|
| SCH | St John Baptist CE Primary | Standard School Programme | Jun 14 | 27/06/14 | Substantial |
| SCH | Sir Francis Drake Primary | Standard School Programme | Jun 14 | 25/06/14 | Substantial |
| SCH | John Ball Primary | Standard School Programme | Jun 14 | 18/06/14 | Substantial |
| SCH | Beecroft Garden Primary | Standard School Programme | May 14 | 12/06/14 | Substantial |
| SCH | Baring Primary | Standard School Programme | Jun 14 | 11/06/14 | Substantial |
| SCH | Downderry Primary | Standard School Programme | May 15 | 23/05/14 | Substantial |

Appendix 1 - 2014/15 Audit Plan (core financial audits in bold)

| Lead Dir. | Name of Audit | Scope | Qrt / Mth | Date Audit Finalised | Opinion |
|-----------|---------------------------------|---------------------------|-----------|----------------------|-------------|
| SCH | St Winifreds Catholic Junior | Standard School Programme | Apr 14 | 21/05/14 | Substantial |
| SCH | Chelwood Nursery | Standard School Programme | Feb 15 | | |
| SCH | All Saints Primary | Standard School Programme | Feb 15 | | |
| SCH | Ashmead Primary | Standard School Programme | Oct 14 | | |
| SCH | Brent Knoll – Special | Standard School Programme | Jul 14 | | |
| SCH | Brindishe Lee Primary | Standard School Programme | Nov 14 | | |
| SCH | Childeric Primary | Standard School Programme | Sep 14 | | |
| SCH | Christ Church CE Primary | Standard School Programme | Jul 14 | | |
| SCH | Coopers Lane Primary | Standard School Programme | Oct 14 | | |
| SCH | Elfrida Primary | Standard School Programme | Feb 15 | | |
| SCH | Eliot Bank Primary | Standard School Programme | Jan 15 | | |
| SCH | Gordonbrock Primary | Standard School Programme | Jan 15 | | |
| SCH | Greenvale - Special | Standard School Programme | Jan 15 | | |
| SCH | Grinling Gibbons Primary | Standard School Programme | Oct 14 | | |
| SCH | Haseltine Primary | Standard School Programme | Sep 14 | | |
| SCH | Holy Trinity CE Primary | Standard School Programme | Sep 14 | | |
| SCH | Kelvin Grove Primary | Standard School Programme | Dec 14 | | |
| SCH | New Woodlands (inc Primary PRU) | Standard School Programme | Dec 14 | | |
| SCH | Perrymount Primary | Standard School Programme | Jan 15 | | |

Appendix 1 - 2014/15 Audit Plan (core financial audits in bold)

| Lead Dir. | Name of Audit | Scope | Qrt / Mth | Date Audit Finalised | Opinion |
|-----------|-------------------------------|---------------------------|-----------|----------------------|---------|
| SCH | St Bartholomews CE Primary | Standard School Programme | Nov 14 | | |
| SCH | St James Hatcham CE Primary | Standard School Programme | Nov 14 | | |
| SCH | St Margarets Lee CE Primary | Standard School Programme | Nov 14 | | |
| SCH | St SavioursRC Primary | Standard School Programme | Feb 14 | | |
| SCH | St William of YorkCE Primary | Standard School Programme | Dec 14 | | |
| SCH | St Winifreds Catholic Infants | Standard School Programme | Dec 14 | | |

Appendix 2 Limited, No Assurance and Consultancy Reviews Executive Summaries

Explanations for Assurance Opinion

Each internal audit assurance review gives an opinion on the controls in place based on the fieldwork conducted. See table below to explaining these opinions.

| Assurance Opinion | Definition |
|-------------------|---|
| ★ Substantial | A strong framework of controls is in place to ensure that the service area is more likely to meet their objectives. In addition, the controls in place are continuously applied or with only minor lapses. |
| ● Satisfactory | A sufficient framework of controls is in place, but could be stronger to improve the likelihood of the service area achieving its objectives. In addition, the controls in place are regularly applied, but with some lapses. |
| ▲ Limited | There are limited or no key controls in place. This increases the likelihood of the service area not achieving its objectives. Where key do controls exist, they are not regularly applied. |
| ■ No Assurance | There is no framework of key controls in place. This substantially increases the likelihood that the service area will not achieve its objectives. Where key controls do exist, they are not applied. |

Definition of Category of Recommendation

Internal audit rates each recommendation made High, Medium or Low. This rating indicates to management the importance of implementing the recommendation.

| Rating | Definition |
|--------|---|
| High | It is crucial that this recommendation is implemented immediately. This will ensure that service area will significantly reduce its risk of not meeting its objectives. |
| Medium | Implementation of this recommendation should be done as soon as possible, to improve the likelihood of the service area meeting its objective. |
| Low | Implementation of this recommendation would enhance control or improve operational efficiency. |

Appendix 2 Limited, No Assurance and Consultancy Reviews Executive Summaries

London Borough of Lewisham

Executive Summary

Non-Current Assets 2013/14 – RRE 15

| Internal Audit Assurance Opinion | | Direction of Travel |
|----------------------------------|---|---------------------|
| ★ Substantial | ✓ | n/a |
| ● Satisfactory | | |
| ▲ Limited | | |
| ■ No Assurance | ✓ | n/a |
| C Consultancy | | |

The background for this service, including the agreed scope and risks identified, are included in the Audit Planning Sheet (APS) which can be found on page 5.

Internal Audit report by exception only. We mention only those areas where further management action is required to improve internal control.

These management actions are set out in the recommendation table on page 2.

D = Design of Controls C = Comply with Controls.

See glossary and contacts on page 4 for definitions and further details. For full risk identification please see the APS on page 5.

| Risk Headings | D | C | Recs | | |
|---|---|---|------|---|---|
| | | | H | M | L |
| Risk 1. Reconciliation of GL to Asset Register | ★ | ★ | | | |
| Risk 2. Existence and verification of Assets | ★ | ★ | | 1 | 1 |
| Total Number of Recommendations | ★ | ★ | 0 | 1 | 1 |

Changes to Scope

At the time of testing the 2013/14 Asset Register was in the process of being finalised and we were unable to perform sample testing in all areas. A limited scope was agreed and areas that were not available for testing at the time of the review have been given a rating of 'No Assurance'.

The limited scope which was agreed with the client focussed on reviewing; the 2012/13 reconciliation with the general ledger, in-year transactions and the process for verifying asset existence and the validity of cost centre codes.

Key Findings that Need Attention (Limited Scope)

- Requests sent by the accountant within Core Accounting, and replies from Principal Accountants for each division, regarding cost centre coding are not completed in a timely manner, leading to delays in compiling final Property, Plant and Equipment (Statement of Accounts) figures.
- Replies from Principal Accountants regarding cost centre coding do not demonstrate that all items have been carefully considered and have been verified.

Areas where controls worked well (Limited Scope)

- The 2012/13 reconciliation is adequately supported and testing showed report totals (from Legal, Property Services and other teams) were accurately transferred to the Risk Asset Management system.
- The cost centre totals from 2012/13 were found to be accurately carried forward into 2013/14.

Appendix 2 Limited, No Assurance and Consultancy Reviews Executive Summaries

London Borough of Lewisham

Executive Summary

Security of File Sharing Servers RRE14

| Internal Audit Assurance Opinion | Direction of Travel |
|----------------------------------|---------------------|
| ★ Substantial | |
| ● Satisfactory | |
| ▲ Limited | ✓ N/A |
| ■ No Assurance | |
| C Consultancy | |

The background for this service, including the agreed scope and risks identified, are included in the Audit Planning Sheet (APS) which can be found on page 7.

Internal Audit report by exception only. We mention only those areas where further management action is required to improve internal control. These management actions are set out in the recommendation table on page 2.

D = Design of Controls C = Comply with Controls.

See glossary and contacts on page 6 for definitions and further details. For full risk identification please see the APS on page 7.

| Risk Headings | D | C | Recs | | |
|--|----------|----------|----------|----------|----------|
| | | | H | M | L |
| Risk. IT-related controls | ▲ | ■ | 1 | 3 | 0 |
| Total Number of Recommendations | 4 | 0 | 1 | 3 | 0 |

Changes to Scope

- We were unable to provide assurance over the appropriateness of Capita SIS staff access to LBL file shares, as we were not provided with evidence.
- We were unable to test a sample of mover accounts to ensure that access to file shares is appropriately updated to reflect changes in the mover's role; as we were unable to obtain a sample of movers from the Business Systems Support Helpdesk team. We were informed by Capita that they would be unable to provide details of the permissions held by each mover with regards to file shares. This test would have to be done manually with each user.

Key Findings that Need Attention

For the sample reviewed by Internal Audit it was found that:

- There are no documented policies or security standards on the management, use and access controls for shared drives; or on the design, structure and ownership of departmental file shares. This increases the risk that the security and integrity of personal and confidential information held on LBL servers could be compromised.
- When user account permissions to shared drives are created or amended, the access permissions of an existing user are cloned. This practice of cloning network account privileges increases the risk of users having more network privileges than they require in fulfilling their job responsibilities, which could result in the security and integrity of personal and confidential information being compromised.
- There is no documented requirement for Information asset Owners (IAOs) to periodically review access to file shares, heightening the risk that controls aren't in place to appropriately secure information assets.
- The Council does not have documented security event monitoring procedures, outlining the process and requirement to capture and proactively monitor network shared drive access/activity. Thus the risk that unauthorised access and changes to data on shared drives will not be detected in a timely manner is elevated.

Areas where controls worked well

For the sample reviewed by Internal Audit it was found that:

- A SMAL procedure document is in place which outlines the process for creating access to network shares for staff and contractors.
- The leavers' process has been designed adequately, reducing the risk of unauthorised access to systems and data.
- Capita SIS documented work instructions specify that the Business Systems team are authorised access to shared folders, reducing the risk of LBL staff having unauthorised access to shared folders and data.

Appendix 3 - Status of recommendations

| Dir | Name of Audit | Final Report Date | H O/D | M O/D | 2+ chgs | Reopened at F/up | Comment |
|--------------|---|-------------------|----------|-----------|----------|------------------|--|
| RRE | Budget Monitoring 12/13 | 30/11/13 | | 2 | 2 | 2 | (Re-opened to avoid duplication) Due date changed 2 times |
| RRE | Capital Programme Monitoring 12/13 | 18/03/13 | | 1 | | 1 | |
| RRE | ISS Facility Services Ltd - Cleaning Contract | 02/08/13 | | | | 4 | |
| RRE | Land Management (Planning) | 30/04/13 | 1 | | | 1 | |
| RRE | Main Accounting System 12-13 | 08/01/13 | | 1 | | 1 | |
| RRE | VAT Arrangement | 18/11/13 | | 1 | | | |
| CUS | Banking 13-14 | 28/05/14 | | 1 | | | |
| CUS | Clienting of Lewisham Homes | 18/06/13 | 1 | | | 1 | |
| CUS | Payments Centre | 26/09/13 | | 2 | | 2 | |
| CUS | Third Party Access to IT Systems and Data | 03/04/13 | | 2 | | 2 | |
| COM | CCTV Contract Monitoring | 04/08/14 | | | | 2 | |
| CYP | Estate Management Statutory Maintenance | 06/12/13 | | 2 | 1 | | Due date changed 2 times |
| CYP | SEND Pathfinder Pilot 2013-14 | 03/03/14 | | 5 | | | |
| CYP | Special Educational Needs | 06/06/13 | | 5 | | 5 | |
| SCH | Adamsrill Primary School | 04/10/12 | | 1 | | | |
| SCH | Torridon Inf School | 17/10/14 | | 1 | | | |
| SCH | Turnham School | 30/06/13 | 5 | 4 | | | |
| Total | | | 7 | 28 | 3 | 24 | |

Appendix 4 - Superseded Recommendations

| Audit | Recommendation | Update from Management |
|---|--|---|
| Information Asset Register (IAR) - Risk Assessments | A high level plan for completing key information risk assessments should be established and agreed with the Senior Information Risk Owner. | We have decided to review the IAR and change the programme of audit reviews as the awareness levels within the organisation have risen. |
| Payment by Results Pilot Review | Ensure a Post-implementation review (PIR) is carried out locally, or that the Council participates in any national PIR of the pilot programme. Any lessons learned should be shared with and promoted to officers involved in other PbR contracts. | PbR is now business as usual for the Council. External evaluations are out of our control. |
| Third Party Access to IT Systems and Data | Information Asset Owners (IAOs) should ensure they get periodic assurance from third party support organisations that effective controls have been established to comply with the Data Protection Act 1998 and other privacy requirements | The new process that is now managed by the Corp Information team will ensure this requirement is fully addressed. |
| Third Party Access to IT Systems and Data | The LiquidLogic connection should be amended to restrict access to only the IAS / ICS servers and applications. | Superseded by the 'Third Party Access to IT Systems and Data' process/recommendation that the Corporate Information team is implementing. The details of all the third party staff and the servers to which they need access to has been supplied as part of the 2FA tokens process which would enable all Liquidlogic staff who have been issued with 2FA tokens to only have access to the servers specified as part of the request process. Capita is currently working with the Corporate Information team on individual PCF files for Third Parties which enables access to the servers. |

Appendix 5 – Status of recommendations at the follow up review.

| Lead Dir | Audit | Opinion | Final Rpt Date | F/up Rpt Date | Implemented. | | In Progress | | Superseded | | Not Implemented | | Total No. of Recs |
|--------------|--|--------------|----------------|---------------|--------------|----------|-------------|----------|------------|----------|-----------------|----------|-------------------|
| | | | | | H | M | H | M | H | M | H | M | |
| RRE | ISS Cleaning Contract | Limited | 01/08/13 | 23/06/14 | 2 | | | 1 | | | 1 | 2 | 6 |
| RRE | Capital Programme Monitoring and Expenditure 12-13 | Satisfactory | 22/02/13 | 06/06/14 | | | | | | 1 | | 2 | 3 |
| RRE | Pensions System Implementation | Substantial | 07/08/14 | 12/11/13 | | 1 | | | | | | | 1 |
| CUS | Payment Centre | Satisfactory | 26/09/13 | 11/06/14 | | 1 | | 2 | | | | | 3 |
| COM | CCTV Contract Management | Satisfactory | 15/10/13 | 04/08/14 | | 2 | | 2 | | | | | 4 |
| COM | Payment by Results | Satisfactory | 18/09/13 | 11/06/14 | | | | 1 | | 1 | | | 2 |
| CYP | Fostering and Residential Orders | Substantial | 22/07/13 | 09/06/14 | | 1 | | 1 | | | | | 2 |
| Total | | | | | 2 | 5 | - | 7 | - | 2 | 1 | 4 | 21 |

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Agenda Item 6

| AUDIT PANEL | | |
|---------------------|---|--------------------------------|
| Report Title | ANTI FRAUD AND CORRUPTION TEAM (A-FACT) UPDATE | |
| Key Decision | NO | Item No. 6 |
| Ward | ALL | |
| Contributors | Head of Corporate Resources A-FACT Group Manager | |
| Class | | Date: 11 September 2014 |

1. Purpose of the Report

- 1.1. 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 (April to June 2014).

2. Recommendations

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

3. Special Investigations

- 3.1. Details of work and comparative figures for the same period in the prior year are shown below, along with the previous full year figures for reference.

| Summary of Special Investigations work | 2014/15 | 2013/14 | Change | | 2013/14 | 2012/13 |
|--|---------|---------|--------|------|---------|---------|
| | P3 YTD | P3 YTD | Number | % | FY | FY |
| b/f | 30 | 41 | -11 | -27% | 41 | 32 |
| New | 26 | 23 | 3 | 13% | 79 | 103 |
| Closed | 9 | 21 | -12 | -57% | -91 | -94 |
| c/f | 47 | 43 | 4 | 9% | 30 | 41 |
| Of which | | | | | | |
| E'ee cases | 1 | 7 | -6 | -86% | 27 | 35 |
| - resulting in action | 1 | 3 | -2 | -67% | 16 | 21 |
| Other cases | 8 | 14 | -6 | -43% | 64 | 59 |
| - resulting in action | 2 | 3 | -1 | -33% | 22 | 13 |

- 3.2. The fall in number of cases closed in this quarter is a consequence of two things. The first that the team have been dealing with a small number of significant cases that have taken up considerable time and continuing to support the set up of the pilot No Recourse team. The outcomes of this work will be seen in future updates. The second reason is that there are a number of process changes the team need to prepare for with the general IT upgrades happening over the summer (Windows 7, SharePoint 2010, etc..). Again case numbers are expected to return to the more usual levels once these upgrades are in.

- 3.3. "Other Cases" include applications for support by those who have No Recourse to Public Funds as well as other non employee related fraud and enquiries to assist other

organisations or Boroughs with their investigations. The two cases concluded with action taken in the most recent period included:

- A case of destitution where we were able to prove that the person's circumstances were not as declared and payments ceased.
- The other case was a project to locate former Private Sector Leasing clients who had moved away leaving significant arrears and could not be located. Investigation by A-FACT identified the current location of 8 of these 20 cases, including one case where significant damage had been done to the property. Now the individuals have been traced further action is being considered by management.

Employee Related cases

- 3.4. Only one of the cases in the last three months concerned an employee and this has been closed. The person resigned during their probationary period when it was proved that they were also working at another borough whilst on sick leave from Lewisham. The £3,000 of sick pay they received is now subject to recovery action. The other Council have also terminated their contract with this person.

| Analysis of employee fraud | 2014/15 | 2013/14 | Change | | 2013/14 | 2012/13 |
|--|----------|----------|-----------|-------------|-----------|-----------|
| | P3 YTD | P3 YTD | Number | % | FY | FY |
| Dismissed/resigned & Convicted | 0 | 0 | 0 | 0% | 1 | 2 |
| Convicted & disc. action recommended | 0 | 0 | 0 | 0% | 0 | 1 |
| Resigned/Dismissed | 1 | 1 | 0 | 0% | 5 | 5 |
| Other disciplinary (incl not employed) | 0 | 2 | -2 | -100% | 6 | 3 |
| Monies repaid | 0 | 0 | 0 | 0% | 0 | 1 |
| Management action | 0 | 0 | 0 | 0% | 2 | 6 |
| Identity issue cleared | 0 | 0 | 0 | 0% | 2 | 3 |
| Total | 1 | 3 | -2 | -67% | 16 | 21 |

- 3.5. Quarterly reports continue to be issued 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.

Lewisham Homes

- 3.6. A-FACT continues to undertake investigation work on behalf of Lewisham Homes under a Service Level Agreement. This equates to just under one full time equivalent member of staff and a proportion of the police officer's time. The outcome of these investigations is reported by Lewisham Homes to their Audit Committee.

Pre-employment Checks

- 3.7. A-FACT support Human Resources by undertaking part of the Council's recruitment checks. Each potential employee of the Council is required to complete a pre-employment check focusing on any issues relating to benefits, council tax, rent and personal business interests which may cast doubt on the individual's integrity or potential conflicts for their work going forward.

| Summary of pre-employment checks | 2014/15 | 2013/14 | Change | | 2013/14 | 2012/13 |
|----------------------------------|---------|---------|--------|------|---------|---------|
| | P3 YTD | P3 YTD | Number | % | FY | FY |
| Checks completed | 56 | 46 | 10 | 22% | 274 | 246 |
| Action taken | 5 | 1 | 4 | 400% | 20 | 16 |

- 3.8. In the five cases where action was required to confirm the declarations made all were subsequently resolved satisfactorily. Action taken included removal of two Council Tax discounts on the basis of single occupancy and an undeclared directorship.

4 Benefit Investigations

- 4.1 Details of work and comparative figures for the same period in the prior year are shown below, along with the previous full years figures for reference.

| Summary of benefit investigations work | 2014/15 | 2013/14 | Change | | 2013/14 | 2012/13 |
|--|---------|---------|--------|------|---------|---------|
| | P3 YTD | P3 YTD | Number | % | FY | FY |
| b/f | 242 | 210 | 32 | 15% | 210 | 349 |
| New | 35 | 106 | -71 | -67% | 254 | 304 |
| Closed | 92 | 51 | 41 | 80% | 222 | 443 |
| c/f | 185 | 265 | -80 | -30% | 242 | 210 |
| Sanctions resulting | 16 | 17 | -1 | -6% | 77 | 78 |
| Of which | | | | | | |
| Admin penalty | 0 | 0 | 0 | 0% | 7 | 7 |
| Caution | 12 | 8 | 4 | 50% | 54 | 54 |
| Prosecution | 4 | 9 | -5 | -56% | 16 | 17 |
| Overpayment value £ | 230,223 | 206,690 | 23,533 | 11% | 534,918 | 616,761 |

- 4.2 Since the beginning of July 2013 the Benefit Investigation section has had just two officers but by careful prioritisation of workload they have managed to maintain the results. Recent work has however been focused more on Cautions than Prosecutions.
- 4.3 One of the recent prosecutions related to a case where the claimant failed to declare two civil service pensions. They were found guilty at Woolwich Crown Court. On failing to attend court for sentencing A-FACT tracked them to Winchester where they were arrested and held on remand until sentencing to nine months in prison.
- 4.4 A-FACT has now been informed by the Department for Work and Pensions (DWP) that the responsibility for the investigation of Benefit Fraud will move to the Single Fraud Investigation Service on the 1st April 2015. This is likely to result in the two team members being transferred to the DWP at this date.
- 4.5 There was a drop in the number of new cases taken on in the quarter as we have used the start of the new year (in the knowledge the service will be transferring to DWP) to clear down existing case work. It is unreasonable and inefficient for each investigator to be tracking over 100 cases each and this exercise will set the team up in a focused manner for the remainder of the year.

5 Housing Investigations

Details of work and comparative figures for the same period in the prior year are shown below, along with the previous full year figures for reference.

| Summary of Housing Application Investigation Work | 2014/15 | 2013/14 | Change | | 2013/14 | 2012/13 |
|---|---------|---------|--------|------|---------|---------|
| | P3 YTD | P3 YTD | Number | % | FY | FY |
| b/f | 39 | 76 | -37 | -49% | 76 | 48 |
| New | 8 | 19 | -11 | -58% | 67 | 105 |
| Closed | -17 | -58 | -41 | -71% | -107 | -77 |
| c/f | 30 | 37 | -7 | -19% | 36 | 76 |
| Resulting in action | 15 | 4 | 11 | 275% | 50 | 25 |

- 5.1 There have been 15 successful cases closed in this period. Of these, 14 relate to an ongoing project to check the Housing Register applications which are Band 2 applications for housing (These are considered in High Need of Housing).
- 5.2 The objective of the Band 2 project was to identify those who had been classified as in 'High Need' of housing but whose circumstances had either changed or had been falsely declared. Of the 14 cases identified in this period the majority have been actively placing bids for tenancies.
- 5.3 The drop in the number of closed cases in the quarter is as a consequence of the focus on finalising the Band 2 exercise which, as reported here and in reports last year, has produced good results and really helped the front line team in Housing.
- 5.4 There was also the successful prosecution of one case. An applicant for social housing failed to declare that their grandfather, who was also on their application, had died. As a result the person was housed on the basis of being in priority need. They were sentenced to a Community Order of 120 hours unpaid work, costs of £1,530 and a £60 victim surcharge. The tenancy has also been recovered and allocated to an applicant with a genuine need. A press release was issued for this case.
- 5.5 The Audit Commission have stated that there is significant value associated with recovering tenancies and preventing fraudulent applicants from being housed. They estimate that the average cost of temporary accommodation for a family for a year is £18,000. On this basis A-FACT have either recovered and prevented tenancies being wrongly allocated in 15 cases, representing £270,000 of public funds.

6 DCLG Housing Bid funding

- 6.1 Since January 2012 the DCLG have funded investigation work based within A-FACT to work with local housing partners to tackle fraud related to social housing. 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).

| Summary of DCLG Housing Investigations work | 2014/15 | 2013/14 | Change | | 2013/14 | 2012/13 |
|---|---------|---------|--------|------|---------|---------|
| | P3 | P3 | Number | % | FY | FY |
| b/f | 33 | 9 | 24 | 267% | 9 | 19 |

| Summary of DCLG Housing Investigations work | 2014/15 | 2013/14 | Change | | 2013/14 | 2012/13 |
|---|----------|----------|----------|-------------|-----------|-----------|
| | P3 | P3 | Number | % | FY | FY |
| New | 117 | 28 | 89 | 387% | 111 | 158 |
| Closed | 95 | 26 | 69 | 265% | -83 | -168 |
| c/f | 55 | 11 | 44 | 400% | 37 | 9 |
| Tenancies recovered | 8 | 4 | 4 | 100% | 33 | 26 |
| Breakdown by RSL | | | | | | |
| L & Q | 5 | 4 | 1 | 25% | 19 | 12 |
| Pinnacle | 0 | 0 | 0 | 0% | 6 | 8 |
| Decant (Milford Towers) | 0 | 0 | 0 | 0% | 0 | 4 |
| Lewisham Homes | 1 | 0 | 1 | 100% | 4 | 2 |
| Hexagon | 2 | 0 | 2 | 200% | 1 | 0 |
| Family Mosaic | 0 | 0 | 0 | 0% | 1 | 0 |
| Wandle | 0 | 0 | 0 | 0% | 1 | 0 |

- 6.2 The rise in number of cases taken on and closed and rise in results in this period is a reflection of the good progress this initiative continues to make as it matures (now in third year) and our approach is refined, the extra funding from DCLG that has enabled additional resource to be deployed, and the support and engagement of more partners from the region via SEHLP.
- 6.3 In the first three months eight properties have been recovered, including a four bedroom house. Under the scheme with SELHP, Lewisham has nomination rights on all of these properties.
- 6.4 One successful case in the last period concerned an L & Q tenant who, when contacting the housing office, inadvertently gave their actual address rather than their L & Q address. Further enquiries established that they actually owned three properties including one which was shared ownership. A requirement of the shared ownership property was that they use it as their principal home. From this we were able to prove that they had actually been subletting their three bedroom L & Q flat for seven years. When challenged with the evidence gathered the tenant surrendered their tenancy immediately.
- 6.5 On the basis of the Audit Commission figures for the value of social housing (see 5.4 above) the recovery of these eight tenancies equates to £144,000 of public funds.

7 Publicity

- 7.1 There have been two cases publicised on the Lewisham Council website. Neither of these stories were picked up by the local press.

8 Fraud Awareness Training

- 8.1 In this period A-FACT have delivered Fraud Awareness training to the new No Recourse to Public Funds Pilot team. This included training on document verification as well as guidance on establishing a claimants' true circumstances.

9 Metropolitan Police Seconded

9.1 Detective Constable Norris continues on secondment to A-FACT from the Metropolitan Police.

10 Legal Implications

10.1 There are no legal implications arising directly from this report.

11 Financial Implications

11.1 There are no financial implications arising directly from this report.

12 Equalities Implication

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

13 Crime and Disorder Implications

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

14 Environmental Implications

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

15 Background Papers

15.1 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