



Annual Audit and Inspection Letter

London Borough of Lewisham

Audit 2006/07

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

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

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

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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Key messages

- 1 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from:
 - the audit of the Council's accounts;
 - inspections that have been undertaken in the last year; and
 - a wider analysis of the Council's performance and its improvement over the last year, as measured through the Comprehensive Performance Assessment (CPA) framework.
- 2 The letter is addressed to the Council. It has, in particular, been written for councillors, but is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The main messages for the Council included in this report are that the Council:
 - is improving well and has been assessed as a four star council under the CPA framework;
 - received an unqualified opinion on its 2006/07 financial statements;
 - received a qualified conclusion on its arrangements for securing value for money during 2006/07, resulting from our assessment that internal audit did not operate in accordance with the CIPFA Code of Practice for internal audit in Local Government;
 - continues to have strong arrangements in place for budget setting, monitoring and reporting to Members; and
 - has good corporate management arrangements for data quality but these are not embedded at the directorate level.

Action needed by the Council

- 4 The Council should:
 - address areas where further improvements in performance have yet to be realised, such as housing;
 - continue its focus on improving internal audit;
 - ensure that all staff are aware of the importance of data quality and that the good corporate management arrangements for data quality are embedded at the directorate level; and
 - ensure that the agreed actions contained within Audit Commission reports are implemented.

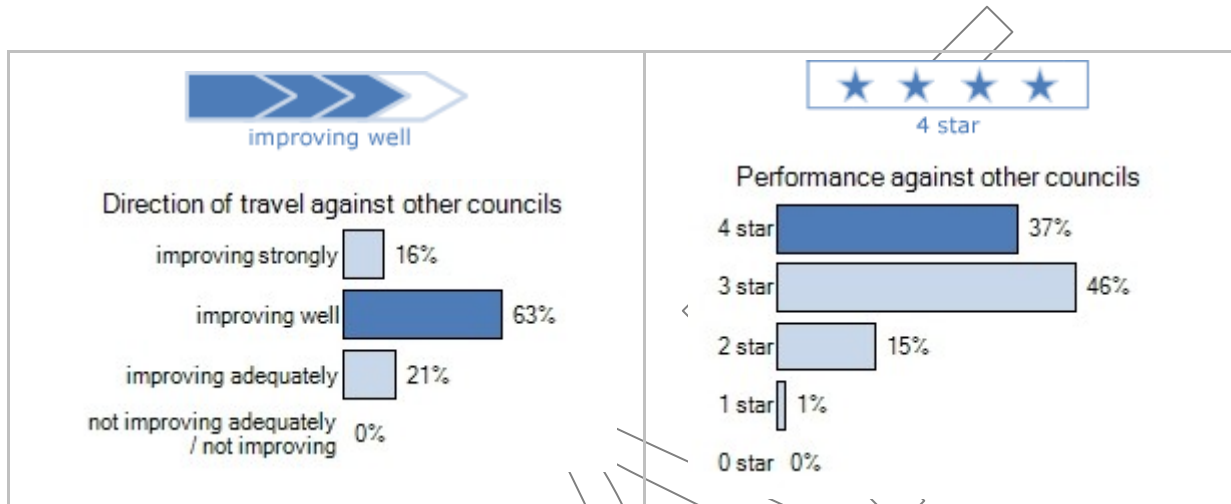
Purpose, responsibilities and scope

- 5 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council's accounts for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter. It also includes the results of the most recent corporate assessment.
- 6 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 7 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. In addition, the Council is planning to publish it on its website.
- 8 As your appointed auditor I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I review and report on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 9 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 10 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

How is Lewisham Council performing?

- 11 The Audit Commission's overall judgement is that Lewisham Council is improving well and we have classified Lewisham Council as four star in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.

Figure 1



Councils with a CPA star rating under review or with a Direction of Travel judgement that is subject to review are excluded from this analysis.

Source: Audit Commission

- 12 The detailed assessment for Lewisham Council is as follows.

Our overall assessment - the CPA scorecard

Table 1 CPA scorecard

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

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

The improvement since last year - our Direction of Travel report

- 13 Lewisham Council is improving well. The Council's services are improving in line with corporate priorities. Two thirds of key performance indicators have improved, which is in line with the national average.
- 14 Established and successful partnership working is securing improved outcomes in children and young people's services, environment services, and crime. Educational attainment has increased across key stages two and three; waste collection and recycling services have improved; the numbers of violent crimes against the person and theft of and from motor vehicles have all decreased. The Council has a coherent and relevant approach to diversity in providing equitable access to services for local people. Challenges remain in the key service area of housing which has achieved below average improvement.
- 15 The Council continues to improve its use of resources, provides good value for money overall, and has a sustained focus on improving performance management. There are excellent corporate governance arrangements, a robust performance management system, and the Council is building capacity to achieve continuous improvements in services and deliver its plans.

Corporate Assessment

- 16 The Audit Commission's Corporate Assessment was aligned with an Ofsted joint area review (JAR) of services for children and young people. The Corporate Assessment found that the Council is performing strongly. It is working for and delivering real improvements for Lewisham. A number of areas of strength were noted. These included the following.
- Excellent transformational leadership by the Mayor and Chief Executive.
 - The Council is a national leader in its work to understand local people's diverse needs and its consultation, research and community engagement continue to improve.
 - Ethical standards are high, relationships between councillors and staff are very good and the culture is user-focused and free of in-fighting.
 - Performance management is excellent and has continued to improve over the last five years.
 - The Council has achieved well against its key priorities over the last five years including important and continuing gains in school attendance, pupil attainment and the prospects of young people leaving care, in better maintained and outstandingly clean streets and parks and better energy use.
- 17 The assessment found that Lewisham's Mayor and Chief Executive have a clear-sighted view of areas of comparative weakness and track record of prioritising and delivering improvements. The Council is actively managing improvement in the housing service, including homelessness; its relationship with voluntary organisations, its customer service interface and internal ICT, although these are at an early stage. These remain important.
- 18 Areas that the Council could prioritise more strongly are:
- developing and extending its strategy for, and engagement with older people, particularly people between 50 and 65, and coordinating and publicising services and facilities to promote active lifestyles; and
 - improving the resolution of complaints and the relationship with tenants in housing.

Other inspectorates and regulators

- 19 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance. Relationship Managers share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates.

Benefit Fraud Inspectorate (BFI)

- 20 The Council has received a reduced assessment of good (a CPA score of 3) reflecting that performance had deteriorated against the performance measures for claims administration and user focus. In particular, performance for processing new claims, outstanding claims over 50 days and deciding new claims within 14 days declined significantly during 2006/07. This drop in service performance was due to a planned and managed system change. Officers expected performance to drop during this period and report that performance has now returned to the higher level.

Ofsted - Assessment of services for children and young people

- 21 The Council has maintained its level 3 (out of 4) assessment (CPA score of 3).
- 22 Lewisham Council delivers services that are good overall with some aspects of its work outstanding. Outcomes are improved in many areas. Effective partnerships and shared vision provide an effective service to children and young people within the borough.
- 23 The contribution the Council makes towards improving outcomes for achieving economic well-being and making a positive contribution are outstanding. Lewisham also demonstrates outstanding capacity to build on the continued good progress made in the integration of children's services and provides excellent value for money.
- 24 The Council's contribution to improving outcomes with regard to being healthy and enjoying and achieving are good although the contribution to staying safe was only assessed as adequate. There is a strong commitment to multi-agency working, effective preventative work and good early support. The joint area review judged that systems for auditing practice in social care did not adequately address all areas of practice. The Council has responded promptly and positively to the recommendations made.

The audit of the accounts and value for money

25 As your appointed auditor, I have reported separately to the Audit Panel and to the Urgency Sub Committee of the Council on the issues arising from our 2006/07 audit and have issued:

- my audit report, providing an unqualified opinion on your accounts and a qualified conclusion on your VFM arrangements due to the improvements required in the Council's internal audit provision; and
- my report on the best value performance plan confirming that the Plan has been audited.

The key issues arising from the audit of the accounts

26 I issued my Annual Governance report to both the Audit Panel and the Urgency Sub Committee of the Council in September 2007. My report highlighted the following.

- The final accounts audit went well this year with continued improvements in the communications between the Council and Audit Commission staff. The key issues from last year's audit related to fixed assets and whilst we still found issues this year, they were reduced in number and of less significance. Improvements were also made in the areas of SORP compliance and the processing of amendments to the accounts.
- A material adjustment to the accounts. The accounts submitted for audit included a £29.4 million provision relating to a loan guarantee and a transfer of properties at the St Johns housing estate. However, although this was a material amendment, we accepted that the accounts were closed using the best information at the time and that subsequent information became available which required the change.
- The need to maintain the current focus on internal audit and ensure that the Council's internal audit function operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government.

Use of resources

- 27** The findings of the auditor are an important component of the CPA framework described above. In particular, the use of resources score is derived from the assessments made by the auditor in the following areas.
- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support council priorities).
 - Financial standing (including the strength of the Council's financial position).
 - Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 28** For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 2

Element	Assessment
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	3 out of 4
Value for money	3 out of 4
Overall assessment of the Audit Commission	3 out of 4

(Note: 1 = lowest, 4 = highest)

29 The 2007 key lines of enquiry raised the standard required for level 2 and level 3 assessments. Our review found that the Council had responded well to these new requirements. At the same time, the Council has consolidated and continued to embed the arrangements in place in 2006 and is now in a stronger position than last year. Moving forward, key areas for the Council to focus on include the following.

- The 2008-2013 medium-term financial strategy was issued after the year end and will be relevant for the 2008 assessment. It describes in financial terms joint plans agreed with partners and other stakeholders. The Council needs to demonstrate how its financial plans and strategies have contributed to the achievement of its corporate objectives.
- Risk management needs to be embedded within all directorates' service planning processes. Although improvements have been made in this area, embedding still appears to be inconsistent, as confirmed by an internal review.
- Improve the internal audit function so that it is compliant with CIPFA standards.
- Demonstrate that there are procedure notes in place for all key financial systems.
- Ensure that business continuity plans are in place and that these are reviewed on a regular basis.
- Deliver service improvements in areas where performance indicators and user surveys highlight performance issues.

30 We recognise that a number of these issues have already been addressed.

Data quality

31 Stage one of this audit examines the management arrangements around data quality. The overall result from this audit was that good arrangements are in place and some improvements could be seen from last year.

32 The good practice identified included:

- improved format of monthly and quarterly performance management report;
- evidence of top management commitment to data quality with various data quality committees and groups, ie Data Quality Review Programme;
- well-managed implementation of the new Performance Plus performance management system;
- training programme in place to ensure staff have the necessary skills and knowledge in relation to data quality;
- detailed Corporate Performance Data Quality Risk Register in place and maintained to ensure that efforts are targeted on specific performance indicators where risks to data quality exist;

- a data quality survey was undertaken in 2007 to provide benchmarking information in relation to data quality issues in systems, user manuals and quality manuals; and
 - accessibility of policies, procedures and guidance on the Council's intranet sharepoint sites for data quality and performance.
- 33** Although good arrangements were found at the management arrangements level, when we came to do spot checks on selected performance indicators we identified a number of weaknesses:
- BV165 Pedestrian Crossings: Disabled People. Incomplete data and poor data quality (wrong assessment of kerb height);
 - BV183b Temporary Accommodation: Hostels. Poor audit trail and poor data quality (system not agreeing to source records);
 - BV184a Proportion of Non-Decent Homes. Despite the Council being aware that the indicator would be audited well in advance, we did not receive the required reports until the day before the submission deadline; and
- 34** The weaknesses identified indicate that although the Council's management arrangements for data quality are good, they are not embedded at the directorate level.

Your Business at Risk

- 35** Lewisham undertook a staff awareness survey using the Audit Commission's 'Your Business at Risk' (YB@R) tool in September 2007. This was in response to an audit risk relating to growing reliance on IT systems and the need for sound IT and governance controls. YB@R was a web-based survey aimed at all members of staff in Lewisham which was designed to gauge staff awareness of ICT security policies and identify areas of weakness covering risks such as major business disruption, financial loss as a result of failures in basic controls and reputation damage, for example inappropriate use of the internet.
- 36** There was a low response rate with only 73 staff members in total completing the survey. The results suggest that for those that did respond, employee perceptions of ICT controls within the Council are good in some areas such as virus protection and the use of internet facilities at work. However, the survey identified some areas for improvement, in particular relating to the communication of the anti fraud strategy, staff awareness of policies relating to key legislation and the information security policy.

National Fraud Initiative (NFI)

- 37 The NFI is a computerised data matching exercise designed to identify overpayments to suppliers and to detect fraud perpetrated on public bodies. The referrals from the current exercise were released to participating bodies in January 2007. The Council has been reasonably proactive in reviewing the output from NFI. The Anti Fraud and Corruption team co-ordinates the follow up of matches but has been hindered by staff absences. As at the end of December 2007, the Council had identified over £115,000 of potential savings arising from the exercise.

Grants

- 38 The audit of grant claims is undertaken in accordance with instructions agreed with government departments. The number of claims submitted for audit during 2006/07 reduced. The Council's performance in submitting claims by the deadlines improved. However, there remains further scope for improvements in accuracy, as the majority of claims were amended and qualification letters issued.
- 39 There were significant issues identified with two claims

Learning and Skills Council Funding of Further Education

- 40 Learning and Skills Council Funding of Further Education claim (EDU23). We were unable to conclude that the claim was fairly stated due to the number of errors in the supporting guided learning hours data.

Housing and Council Tax Benefits

- 41 Housing and Council Tax Benefits (BEN01). We issued a lengthy qualification letter and were unable to conclude that all entries were fairly stated due to the significant number of errors. These were, in the main, caused by the change in system during the year. In response to our qualification letter, the Department for Work and Pensions has asked the Council to undertake some further work. We have completed our review of this work and are satisfied that the Council is committed to maximising the accuracy of its subsidy data for 2007/08 by taking action to remedy the issues highlighted in our qualification letter. It is important that the Council continues to ensure that adequate resources are directed to addressing the weaknesses and errors raised and that all transitional system issues are resolved.

Looking ahead

- 42 The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 43 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual Direction of Travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 44 The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

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Closing remarks

- 45** This letter has been discussed and agreed with the Executive Director for Resources and the Executive Director for Customer Services. A copy of the letter will be presented at the Audit Panel on 19 March 2008. Copies need to be provided to all Council members.
- 46** Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 3 Reports issued

Report	Date of issue
Audit and Inspection Plan	April 2006
Annual Governance Report	September 2007
Opinion on Financial Statements	September 2007
Value for Money Conclusion	September 2007
Corporate Assessment Report	October 2007
Final accounts and Whole of Government Accounts Memorandum	November 2007
Data Quality Report	November 2007
Use of Resources Judgement 2007	December 2007
Your Business at Risk Report	January 2008
Annual Audit and Inspection Letter	March 2008

- 47** There is some use of resources local risk work that was included in the 2006/07 plan that has not yet been reported. This is summarised in Table 4.

Table 4 Work from 2006/07 plan not reported

Local risk work included in 2006/07 plan	Why has this not been reported
Access to Services	<p>This work was originally scheduled for Autumn 2007 as Lewisham had developed a baseline assessment and action plan with the help of the Improvement and Development Agency (IDeA). This assessment and action plan was drawn up in the Autumn of 2006 and it was agreed that it would be useful for the Council to have a year to implement this plan, prior to our review. When we met with officers in the Autumn of 2007, it was clear that the Council was progressing well in implementing its Customer Services Strategy which addresses the access issues that we originally identified as a risk. We consider that the Council has mitigated the risk that we originally identified and as a result we have not undertaken any work in this area.</p>
On-going review of PFI schemes and Building Schools for the Future project	<p>The 2005/06 audit plan included work on the Council's approach to Private Public Partnerships. This work was reported at the end of 2006 and an action plan was agreed with officers in March 2007.</p> <p>This planned work was to follow up on that report. A specification for this follow up work was agreed in October 2007 and fieldwork started in January 2008. We expect to report by 31 March 2008.</p>

- 48 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

Availability of this letter

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

Philip Johnstone
Relationship Manager and District Auditor

February 2008

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