

LONDON BOROUGH OF LEWISHAM

MINUTES of a meeting of the AUDIT PANEL, which was open to the press and public, held on MONDAY, 23 JUNE 2008 at LEWISHAM TOWN HALL, CATFORD, SE6 4RU at 7 p.m.

Present

Councillors Bennett, Hall, Ibitson, Michel Peake and Till

Independent Members

Mr King, and Mr Tucker

Apologies for absence were received from Mr Webb.

Officers

Janet Senior	-	Executive Director for Resources	
Ray Gard	-	Audit and Risk Manager	
Sally Anne Eldridge	-	Audit Manager, Audit Commission	
Sue Exton	-	District Auditor, Audit Commission	
Luke Webster	-	Trainee Accountant	
Steve Mace	-	Group Manager Accounting	
Nigel Mascarenhas	-	Capital and Treasury Group Manager	
Anthony Russell	-	Accountant	
Jesse Simans	-	Trainee Accountant	-

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1 ELECTION OF CHAIR AND VICE CHAIR

It was moved and seconded that Councillor Hall be elected Chair. It was then moved and seconded that Councillor Peake be elected Chair. With 4 members voting for Councillor Hall and two for Councillor Peake it was agreed that Councillor Hall be elected Chair. It was then moved, seconded and agreed that Councillor Michel be elected Vice Chair.

Councillor Peake wished to record his concern that two and a half months ago members had agreed that he would be appointed Chair of this Panel for the 2008/9 municipal year.

RESOLVED that Councillor Hall be elected Chair and Councillor Michel elected Vice Chair of the Panel for the municipal year 2008/9.

2 MINUTES (page

Councillor Bennett said that at the last meeting he had asked for a sample audit report on special investigations. The Head of

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Audit and Risk agreed to send him the information.

RESOLVED that the Minutes of the meeting of the Panel held on 19 March 2008, which was open to the press and public, be confirmed and signed.

3 DECLARATIONS OF INTERESTS (page

There were no declarations

4 INTERNAL AUDIT PROGRESS REPORT

4.1 The Head of Audit and Risk then presented the report. He said that at the end of the year not all of the audits had been finalised. There had been improvements on last year; less audits had been cancelled. There had been some variation during the year including unplanned work but this was expected in any authority. There was still room for improvement and that was why the service would be outsourced later in the year. He referred to the second table in the appendix and said that he had received updated information from Community Services; progress in implementing the recommendations from the Direct Payments audit had improved significantly.

4.2 Councillor Michel referred to paragraph 4.3. She was concerned that Oracle Account Receivable did not have the facility for recording debt recovery actions against individual invoices and directorates have to maintain separate edit recovery records. The Head of Audit and Risk said that this functionality was now in a separate module of Oracle Financials and there were plans to put this in place.

4.3 Councillor Bennett said that with regard to collections and refunds residents were not advised when direct debt payments had failed and 4 out of 20 pro formas did not include names. The Head of Audit and Risk said that it was because of these reservations that it was submitted as a limited assurance. Councillor Bennett asked how long this situation had existed. He was advised that it was in excess of 3 months but officers agreed to send him details. Councillor Bennett had concerns that management appeared to require a lot of chasing before information was received and questioned whether they were taking their responsibilities seriously. The Executive Director said that the process was new. Each action is monitored and a statement sent to Executive Directors on a regular basis. Monitoring is taken very seriously.

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- 4.4 Councillor Peake asked for an update on the Sydenham 2 and 3 reviews. The Head of Audit and Risk said that there had been issues around housing refurbishment projects. He said that it had been brought to their attention by Lewisham Homes that they had some issues with contractors. The dispute with Sydenham 3 was around variation of works. Lewisham Homes alleged that the main contractor had requested payment for additional work that was done. There was no evidence in support of this claim and the contractor and the Council's project management consultants need to resolve the matter themselves. Sydenham 2 review concerned a different contractor. Works were paid for under contract but had not been delivered to the specification. Payment had been made in respect of certain properties where there was no evidence of work being done. Lewisham Homes were working with Lewisham to resolve the matter. Lewisham's Legal team were also involved with the discussions because of the possibility of fraud.
- 4.5 Councillor Till asked whether there was a back up for the Pension Data that was held in unsecured cabinets on a fire route. He was advised that there was back up. The problem was testing the continuity plan and the storage of the manual files. The situation had improved since the refurbishment of the Town Hall and the pensions section. The files were now locked away; they were still kept on a fire route but it was not considered to be a problem.
- 4.6 Councillor Ibitson asked whether there was a deadline for school audits. The Head of Audit and Risk said that there was no deadline but there were targets of 40% by the end of this year, 80% at the end of next year and 100% by 2010. Schools were putting back audit visits claiming that they were not ready for the FMSiS assessment. It had been raised as an issue at the Internal Control Board, and subsequently at the Schools Forum. One course of action would be to fail schools that refused the assessment because they have not complied with the inspection programme but there would be little to gain from this approach. A total of 5 of the outstanding schools have now made arrangements to allow Internal Audit to carry out the FMSiS assessment.

RESOLVED that the report be noted.

5. PRE-AUDIT STATEMENT OF ACCOUNTS 2007/8 AND ANNUAL GOVERNANCE STATMENT (page

Pre-Audit Statement of Accounts 2007/8

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- 5.1 The Group Manager Accounting introduced the report with the aid of powerpoint. (copies of which are attached to these minutes) He said that the report was late because it could not be produced until the accounts from Lewisham Homes had been received and they had been received late. Officers, therefore, had limited time to produce these accounts. The Financial Instruments paper was circulated at the meeting. It was late because the rules and regulations from CIPFA were not received until well into April and the document was very technical.
- 5.2 Councillor Michel asked what happens to the £176,000 profit made by Lewisham Homes. The Executive Director for Resources said that the money is retained by the company and Lewisham has no control over how the money is spent unless the company is made bankrupt. The money is used for housing purposes. There are no specific guidelines on how the money should be spent but there is some negotiation between Lewisham and the Chief Executive of Lewisham Homes.
- 5.3 The Group Manager Accounting referred to the Lewisham Homes Reserves of £201,000 on the Group Balance sheet. Mr King asked why the figures for the Pensions Reserve on that sheet and the Pension Liability on the summary Group Balance Sheet were different. The Group Manager Accounting said that he would double check and advise Mr King accordingly.
- 5.4 The Chair asked about the increase in the General Fund Balance. He was advised that £298,000 was in line with budget policy. He also asked about tenant arrears. He was advised that there were issues with rent collection from Lewisham Homes. There had been an improvement in the collection rate but the bad debt provision had to be increased. The Executive Director said that the reason for the drop in collection rate was due to management issues during the transition of the properties to Lewisham Homes. A new manager had been appointed and matters had improved.
- 5.5 Councillor Michel asked about the pension fund that was 87% funded. The Executive Director for Resources said that the funding had increased from 74%. The fund is reviewed every 3 years and the last review had just been completed. Officers look at achieving 100% funding over a 20 year period by increasing the employers rate. Councillor Bennett asked why Lewisham has to have 100% funding. The Executive Director said that the Audit Commission require this rate and it is also a legal requirement. Councillor Michel said that the markets can be volatile. The Executive Director agreed and said that returns to the fund depend on market forces.
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5.6 Councillor Bennett asked how officers felt about increasing debt in this economic climate. The Executive Director said that rent arrears had been due to the transfer of properties to Lewisham homes, management and the start up of the Brockley PFI. The Council Tax system was changed and the data was not in place to chase arrears. Collection rates going forward to next year should stabilise but the debts that go back a long time are more difficult to retrieve. The situation had improved since the beginning of the year and she agreed to give details to Councillor Bennett. She said that officers review Council tax at the year end along with budgeting and they will come to a view about what the collection rate should be.

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5.7 Councillor Michel asked who was ultimately responsible for rent arrears. The Executive Director said that the collection rate is monitored and this ensures that they are collected but there is no financial penalty if rents are not collected. This was the way the agreement was set out with the ALMO's

5.8 The Chair asked about St John's housing estate. The Accountant said that Lewisham took on the housing stock and loan. The loan was redeemed to take advantage of a better rate of interest but it cost the council £11m. The benefits of this new loan will be obvious over the next 20-30 years. Councillor Peake expressed his concern that the loan had nearly doubled. The Group Manager Accounting said that there was £28.937m on the balance sheet. The original loan agreement was entered into in 1996.

Annual Governance Statement

5.9 The Head of Audit and Risk presented the report.

5.10 Councillor Bennett asked whether there was much choice when producing the Annual Governance Statement or whether guidelines we laid out in statute. The Head of Audit and Risk said that there was choice. Officers had looked at best practice from CIPFA Solace and followed this but there are certain topics that must be covered. He said that there is a good system which is well scrutinised through the Internal Control Board who considered that the process is robust and they were pleased with Lewisham's first efforts at producing the Annual Governance Statement.

RESOLVED that the Pre-Audit Statement of Accounts 2007/8 and the Annual Governance Statement be noted and referred to Council for approval .

6. AUDIT COMMISSION AUDIT AND INSPECTION PLAN

- 6.1 Sally-Anne Eldridge, the Audit Manager from the Audit Commission said that they rotate District Auditors every 4-5 years. She said that the current District Auditor, Phil Johnstone, would sign off the 2007/8 statement of accounts and then in the Autumn he would be replaced by Sue Exton. Ms Exton would be responsible for all audits in South East London and was introduced to the panel.

The Audit Manager from the Audit Commission then presented the report.

- 6.2 Councillor Bennett asked about the fees charged for auditing the pension fund. He said that the pension scheme had its own audit and asked why district audit carried out a further check. The Audit Manager said that it was the responsibility of the audit commission to audit the pension fund. The fees had been separated out in the audit and Inspection table this year. There had been an additional fee for 2008/9 because of the enhanced requirement for auditors with regard to the pension fund. The commission had set the fee at £38,000 but would be reviewed in future. The Audit Commission hoped that the additional work would improve overall accountability.

- 6.3 Councillor Michel referred to paragraph 23 on page 14. She said that the Commission was concerned about one person leaving from the Capital & Treasury Team. She asked whether this implied that the system was complex. The Audit Manager said that the system was not complex but that there was a possible risk as this person was a key worker.

- 6.4 The Executive Director for Resources said that the report would be published on Lewisham's web site with the Inspection report. The Audit Manager said that they would also be on the Audit Commission's web site.

- 6.5 Councillor Bennett said that this Panel's dissatisfaction with the fees for auditing the pension fund should be recorded. The Chair asked for more details about the fee of £38,000 charged and what additional work has been commissioned to justify these fees.

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RESOLVED that

(i) the report be noted; and

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(ii) members receive more details about the additional work that is to be undertaken with regard to the pension fund audit and the justification for the £38,000 fee.

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The meeting ended at 8.50 p.m.

Chair