

Progress --- Report

London Borough of Lewisham

Audit 2009/10

June 2010



Contents

Audit progress	3
2010/11 audit planning	8
Contact details	9
Appendix 1 – Progress against the 2009/10 audit plan	10

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

Audit progress

- 1 The purpose of this report is to keep the Audit Panel informed of progress against our 2009/10 audit plan, originally reviewed by the Audit Panel in June 2009. Appendix 1 sets out the intended outputs for the 2009/10 audit. More details of current pieces of work are set out below.
- 2 If you require any additional information regarding the issues included within this briefing, please contact the District Auditor or Audit Manager using the contact details in Table 1 below.

Opinion audit 2009/10

- 3 Our interim audit is underway. As part of this we are meeting with officers regularly to monitor progress against the final accounts closedown plan and to ensure that any potentially complex areas are discussed at an early stage. In particular we have had detailed discussions with officers on accounting for changes in relation to the implementation of International Financial Reporting Standards, especially in relation to the Council's private finance initiative (PFI) schemes. These need to be evaluated as to whether the assets and liabilities need to be included on the balance sheet as they were previously recorded off balance sheet.

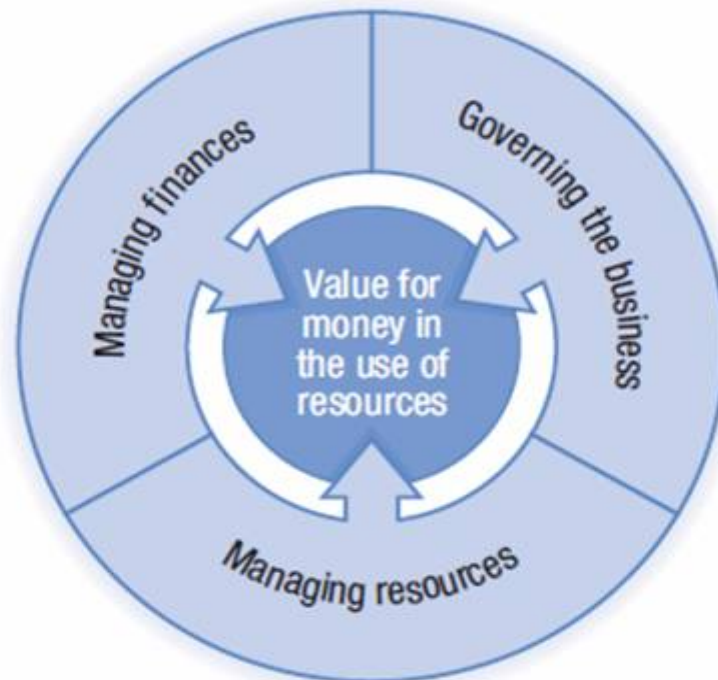
2009/10 supplementary opinion audit plans

- 4 The initial audit plan for 2009/19 was reported to the Audit Committee in June 2009 and set out the work proposed to satisfy our responsibilities under the Audit Commission's Code of Audit Practice. It was not possible to specify the detailed risks we would need to consider as part of the opinion audit at that stage. We are now in a position to do this and have written to the Executive Director of resources setting out the significant audit risks we have identified and the work we plan to carry out to address them.
- 5 Having considered these risks, we are satisfied that the original fee estimate for the opinion audit remains appropriate. Our supplementary opinion plans are attached at Appendix 2 (main audit) and Appendix 3 (pension fund) for reference.

Use of resources 2009/10

- 6 The use of resources assessment considers how well organisations are managing and using their resources to deliver value for money and better and sustainable outcomes for local people. The assessment is structured into three themes that focus on the importance of sound and strategic financial management, strategic commissioning and good governance, and the effective management of natural resources, assets and people. The three themes are illustrated below.

Use of resources framework 2008/09



- 7 The Council provided us with its detailed self-assessment in early January 2010 and our work was nearing completion when the Government's announcement that it will abolish Comprehensive Area Assessment (CAA). As a result all work on area assessments, organisational assessment and use of resources has ceased. The results of this work will feed into the Value for Money conclusion which is issued at the completion of the audit of the financial statements.

Data Quality Review of Partnership Activities

- 8 The Council has the collective accountability for data supplied and reported for National Performance Indicators. As a lead accountable body it is keen to take active steps to improve the range of tools it has available to ensure the quality of third party data.
- 9 Our review found that the Council and its partners have an excellent understanding of their individual and collective responsibility for the quality of locally produced data. The Council and its partners work well together to ensure a shared understanding of the collective responsibility for robust quality assurance and validation of data. Data quality is championed by the Mayor and the BPG leads on operational issues on data quality as well as wider performance management issues. A consistent set of protocols have been produced by the BPG which all key members have adopted. Good practice is shared effectively, with the BPG providing a sound platform for improving knowledge management. The BPG has helped to raise the profile of the information governance and made significant progress since its inception a year ago. However, there is now a need to review its terms of reference and scope to further the agenda and develop performance management including the development of a unified information base, a process that has already started.

Certification of claims and returns 2008/09

10 We have issued a report summarising the findings and recommendations from our certification of the Council's 2008/09 claims and returns. This has been agreed with management. The full report is available from the Executive Director for Resources. The key messages from it are summarised below.

Quality of claims submitted

11 In 2008/09 we certified grant funding of £225m from various grant-paying departments and a further £62m in respect of non-grant earning activities, principally housing capital receipts (£2m), teachers' pensions return (£17m) and non-domestic rate receipts (£43m). We certified 13 claims in total, of which:

- three claims (pooling of housing capital receipts, housing subsidy and Childcare Affordability Programme were not amended or qualified, indicating these claims had been prepared well;
- we identified errors resulting in the Council amending 9 claims;
- we qualified 5 claims. A claim is qualified where we identify one or more instances where the grant terms and conditions have not been complied with, and where simply amending the claim does not resolve the issue; and
- of these 6 claims, four were both amended and qualified (teachers' pensions, housing benefits subsidy, EU Life-funded Quercus and Lewisham Youth Offer).

12 The Council's overall performance in 2008/09 represents a deterioration in improvement from 2007/08, when 5 of 11 claims were amended and 4 of 11 claims were qualified. We also identified scope to improve the quality of supporting working papers, more details of which are provided in the detailed section of this report. Where issues are identified resulting in amendment or qualification, or where working papers are not adequate, this has a direct impact on the amount of audit time required to complete certification work, and the fee charged to the Council as a result.

Claims where most audit time spent

13 The three claims requiring the most time to certify this year were:

- housing benefits subsidy;
- EU Life-funded Quercus; and
- the teachers' pensions return.

Housing benefits subsidy

14 The value of the Council's housing benefits subsidy (£185m) and the number of cells subject to audit testing are the main factor in the time required to certify this claim, and this is consistent with previous years. Certification work went well this year, with effective liaison between audit and the Council's benefits team. We nevertheless recommend the Council seek to minimise the occurrence of the types of errors reported in this year's qualification letter, particularly the misclassification of overpayments and backdates which was also a qualification issue in 2007/08.

- 15 Where errors are identified this requires additional testing of 40 cases in each cell in the claim form where errors are identified. In 2008/09, this 40+ testing was carried out on 18 cells, resulting in the testing of 720 cases in total. This work was shared between the audit team and the Council's benefits team and required significant additional audit and officer time.

EU Life-funded Quercus

- 16 The EU Life-funded Quercus claim was for around £3.2m of subsidy incurred by the Council and two other local authorities over a four year period ending 31 March 2009. The size and complexity of the scheme and the errors identified resulting in qualification of the claim were the factors resulting in the audit time spent. This is a one-off claim as the project has now come to an end. We will therefore not be carrying out further certification work in 2009/10.

Teachers' pensions return

- 17 We carried out more detailed testing of the teachers' pensions return this year than in previous years as we concluded we were not able to place reliance on the Council's control environment for preparing the return. We identified five errors resulting in amendments to the return and the claim was qualified because evidence was not provided to support the treatment of 6 of 10 full-time teachers and 7 of 10 part-time teachers tested. We were also not provided with an itemised audit trail until the last day of certification work, and until this point were not able to confirm that teachers included in our sample were in fact included in the right cells in the return. It is therefore important that improvements are secured in these areas if the time required to certify the return in 2009/10 is to be reduced.

Recommendations

- 18 The report makes seven high priority recommendations which management have agreed to implement, including:

Recommendations
Ensuring all claims are submitted to audit by the due date as stated in the Certification Instruction.
Ensuring that working papers for all claims meet the standards set in our working paper requirements document.

Recommendations

For the Teachers' Pensions return, ensuring evidence is available (for example, through in-house spot checks, internal audit testing or securing certificates from the external auditor of the payroll providers) to confirm the following:

- that the deduction of pension contributions and the calculation of employer contributions in accordance with the Regulations;
- that the status of part-time and supply teachers has been verified and that rules around opting in/out of the scheme have been adhered to; and
- that additional voluntary contributions have been calculated and deducted correctly.

This recommendation was also made in our 2007/08 grant claims report and should be implemented if we are to place reliance on the control environment for the Teachers' Pensions claim in future years

Providing an itemised audit trail for all cells included in the Teachers' Pensions return as part of the working papers supporting the draft return.

Continuing to focus housing benefits quality control arrangements to minimise the occurrence of errors reported in our 2008/09 qualification letter to the DWP, in particular to ensure that:

- overpayments and backdated awards are correctly classified;
- the correct income figures are identified and used when calculating benefit entitlement; and
- the correct start date is used when awarding extended payments so that normal benefits are not underpaid.

2010/11 audit planning

- 19 We are currently completing our risk based planning for 2010/11. The Audit Commission has agreed the 2010/11 scale of audit fees following consultation and has agreed that there will be no inflation uplift applied to audit fees in 2010/11. The scale fee for local authorities, including police and fire authorities will however be increased by 6 per cent in 2010/11 to cover the audit of first-time adoption of International Financial Reporting Standards. In the work programme and scales of fees 2010/11 consultation response the Commission confirmed it will subsidise the one-off costs of the transition to new International Financial Reporting Standards. The Council will thus receive a rebate of £18,500. Changes in international auditing standards will increase the audit procedures I need to carry out, however the Audit Commission will absorb the cost of the additional requirements within the fee.
- 20 For more details, please refer to the information on 2010/11 fees on the Audit Commission's website at <http://www.audit-commission.gov.uk/pressoffice/pressreleases/Pages/91030newscalesofaudit.aspx> .
- 21 We have discussed and agreed our proposed fees with the Executive Director of Resources. However in light of the Government's announcement that it will abolish Comprehensive Area Assessment (CAA) all work on area assessments, organisational assessment and use of resources has ceased. The Audit Commission is thus reviewing its audit fees in the light of these changes and I will report to you the results of this evaluation.

Contact details

Name	Telephone	Email
Susan Exton District Auditor	0844 798 2307	s-exton@audit-commission.gov.uk
Geoffrey Banister Audit Manager	0844 798 2434	g-banister@audit-commission.gov.uk
Jayne Rhodes Audit Manager	0844 798 2673	j-rhodes@audit-commission.gov.uk

Appendix 1 – Progress against the 2009/10 audit plan

Area of audit plan	Timetable	Final report date	Comments
2009/10 Audit Plan	January - April 2009	June 2009	2009/10 Audit Plan reported to Audit Panel on June 2009.
Opinion			
Supplementary opinion audit plan	Spring 2010	June 2010	Supplementary plan summarising key risks and audit approach to the audit of the 2009/10 financial statements. We reported our supplementary opinion plan to the Audit Panel in June 2010.
Annual governance report	December 2009 - September 2010	September 2010	Report summarising significant issues identified by audit work prior to issuing our opinion on the 2009/10 financial statements and our 2009/10 value for money conclusion. We expect to report this to the Audit Panel at its September 2010 meeting.
Opinion audit report	October 2010	November 2010	Detailed report on findings from audit of 2009/10 financial statements, addressed to MPA/S finance officers.
Use of resources			
Use of resources	February - July 2010	N/A	The results of this work will feed into the Value for Money conclusion which is issued at the completion of the audit of the financial statements.

Appendix 1 – Progress against the 2009/10 audit plan

Area of audit plan	Timetable	Final report date	Comments
Data Quality Review of Partnership Activities	March - May 2010	June 2010	Final report issued.
Overall			
Annual Audit Letter	October - November 2010	November 2010	Summary of the 2009/10 audit work

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, audio, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2010

For further information on the work of the Commission please contact:

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

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk
