



AGENDA AUDIT PANEL

Date: WEDNESDAY, 23 NOVEMBER 2011 at 7.00 pm

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

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

COUNCILLORS

Councillor Michael Harris
Councillor Philip Peake
Councillor Jenni Clutten
Councillor Suzannah Clarke
Councillor Jim Mallory
Councillor Alan Till

Independent Members

Paul Dale
Richard King
Mike Robinson
David Webb

Members are summoned to attend this meeting

Barry Quirk
Chief Executive
Lewisham Town Hall
Catford
London SE6 4RU
Date: 15 November 2011



INVESTOR IN PEOPLE

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: 23 November 2011

Recommendation

It is recommended that the Panel agrees the Minutes of the meeting, which was open to the press and public, held on 20 September 2011.

LONDON BOROUGH OF LEWISHAM

Minutes

MINUTES of a meeting of the AUDIT PANEL, which was open to the press and public, held on TUESDAY 20 SEPTEMBER 2011 at LEWISHAM TOWN HALL, CATFORD, SE6 4RU at 6.15p.m.

Present

Councillor Harris (Chair) Councillor Peake (Vice Chair) Councillors Clutten, and Mallory

Also Present, Councillor Maslin

Apologies were received from Councillors Clarke and Till

Independent Members

David Webb
Richard King

Audit Commission

Sue Exton - District Auditor

Geoffrey Banister - Audit Manager

RSM Tenon Ltd

Chris Harris - Director of Internal Audit

Officers

Janet Senior - Executive Director for Resources
Conrad Hall - Head of Business Management and Service Support
David Austin - Interim Head of Audit & Risk
Richard Lambeth - Group Manager - Accounting

Observer

Mike Robinson

Minute No.	Action
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1.	MINUTES (page
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	RESOLVED that the Minutes of the meeting of the Panel held on 22 June 2011, which was open to the press and public, be confirmed and signed.
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2.	DECLARATIONS OF INTERESTS (page
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- 2.1 The Chair declared a personal non prejudicial interest as a member of the Board of Lewisham Park Housing Association.
3. EXTERNAL AUDITOR'S REPORT ON THE 2010/11 ACCOUNTS
- 3.1 Sue Exton, District Auditor, Audit Commission introduced the report. She highlighted that an update of the Annual Governance report had been tabled. She added that work was ongoing on the financial statements and the highlighted amendments had been agreed with officers. Sue Exton informed members that she was currently working on the property plant and equipment report, which she received in September, to support the financial statements. She said she was in discussion with the Executive Director for Resources about the timetable for completion.
- 3.2 Sue Exton said that the report included a list of amendments agreed up to 12 September and the supplementary summary report circulated at the meeting included further adjustments agreed since the report was prepared. Work was ongoing on property plant and equipment, PFI schemes, the cash flow statement financial instrument and investments. The Chair asked Sue Exton if the issues she had highlighted would make any material difference to the accounts and was told that there were some, but the audit team were focusing their attention to these. She added that there was a risk that the 30th September deadline might not be met.
- 3.3 The Chair asked what the consequences of not meeting the deadline were, and how many other Councils were likely not to meet the deadline. Sue Exton advised that the Audit Commission would publish a list of those bodies who did not meet the deadline. The Executive Director for Resources said that they were working towards meeting the 30th September deadline, but the Audit Commission might not be able to audit the figures that had been provided by the Council because of the timeframe. Sue Exton added that to ensure everything was in place, they would need to have received the final statement by this time. The Executive Director for Resources informed members that there were a number of things outstanding, but most of them were straightforward and could be resolved quite easily. She added that issues might arise on gains and losses on assets as this was a complex issue, but both teams would try their best to resolve this or reach a compromise.
- 3.4 Sue Exton said that she was pleased to report that both teams had made very good progress on the audit provision to the pension funds and all issues had been resolved. She added that

Lewisham has yet to use a separate Bank Account for the Pension Funds. The Executive Director for Resources said this had been done. Sue Exton added that the Pension Fund should remain separate from the Council's Accounts and the Council should ensure that transfers were made in keeping with regulations. The Chair asked when the final sign off would take place and was told that it would be in a week's time. It was noted that the final report would be agreed by the Executive Director for Resources and the Chair of the Audit Panel, and this would be circulated to members of the Audit Panel for information. The Executive Director for Resources said that it had been a difficult time. Changes to the reporting systems and significant re-organisation within the finance team had all added to the complexity of the audit.

- RESOLVED
- i. that the Annual Governance Report, and the covering officer's report be noted.
 - ii. that the Chair of the Audit Panel and the Executive Director for Resources agree the final report; this report to be circulated to other members of the Audit Panel.
- ED
Resources

4. INTERNAL AUDIT UPDATE REPORT

- 4.1 The Interim Head of Audit & Risk introduced the report. He informed members that there was one outstanding report from last year to be completed. The delay was because of additional testing being requested. Members noted that the 2011/12 audit plan was in progress. The Chair asked whether Lewisham Park Housing had been given time to provide the necessary information. The Interim Head of Audit & Risk said that default notices had been issued in line with the conditions of the contract, and the contract could be terminated if issues were not addressed. The Executive Director for Resources said that the Council would continue to work with the Housing Association to support them to achieve compliance.
- ED
Resources
- 4.2 The Chair said he had noticed that the ICT Infrastructure was still high risk, as in the previous year. The Interim Head of Audit & Risk said that the risk was being closely monitored, and it was expected to come down once the telephone system was assessed as stable. The Chair asked why Employee Relations and Litigation were red. The Interim Head of Audit & Risk said that this was because of the uncertainties created by re-structuring and organisational changes within the Council, and recognising the wider pressures in respect of public sector employment terms and conditions, and pensions currently being

negotiated.

RESOLVED that the report be noted.

5. ANTI FRAUD & CORRUPTION TEAM UPDATE

5.1 The Interim Head of Audit & Risk informed members that the levels of cases were rising and to cover the additional caseload the team's risk assessment arrangements were improving. The Chair asked what Lewisham's performance was in uncovering fraud in comparison with other London Boroughs. The Interim Head of Audit & Risk said that Lewisham was third of 27 in terms of the number of benefit sanctions per officer for 2010/11. They expected this to be slightly lower because the Council has reduced the service and was considering fewer cases but targeting the bigger issues.

5.2 The Chair asked if officers were still working with local papers to raise awareness of these cases. It was noted that officers were working closely with the local media. At the request of the Chair, the Interim Head of Audit & Risk confirmed he would forward the June Audit Panel Counter Fraud discussion paper to Councillor Maslin for information. The Chair said he was aware of 3 subletting cases. The Interim Head of Audit & Risk said he did not know the details of the cases but confirmed more cases than this were under investigation in Lewisham. The Chair then asked what steps the Council would take against perpetrators. It was noted that if the investigation provided sufficient evidence to assert sub-letting then the Council, (or their managing agent, often Lewisham Homes) would sought recovery of the tenancy. Members were reminded that because subletting was a civil offence and not a criminal offence prosecution via the courts was not an option.

Interim
Head of
Audit &
Risk

RESOLVED that the report be noted.

The meeting ended at 7.15p.m.

Chair

Agenda Item 2

AUDIT PANEL		
Report Title	DECLARATIONS OF INTERESTS	
Key Decision		Item No. 2
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 23 November 2011

Declaration of interests

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

Personal interests

There are two types of personal interest :-

- (a) an interest which you must enter in the Register of Members' Interests*
- (b) an interest where the wellbeing or financial position of you, (or a "relevant person") is likely to be affected by a matter more than it would affect the majority of inhabitants of the ward or electoral division affected by the decision.

*Full details of registerable interests appear on the Council's website.

("Relevant" person includes you, a member of your family, a close associate, and their employer, a firm in which they are a partner, a company where they are a director, any body in which they have securities with a nominal value of £25,000 and (i) any body of which they are a member, or in a position of general control or management to which they were appointed or nominated by the Council, and (ii) any body exercising functions of a public nature, or directed to charitable purposes or one of whose principal purpose includes the influence of public opinion or policy, including any trade union or political party) where they hold a position of general management or control,

If you have a personal interest you must declare the nature and extent of it before the matter is discussed or as soon as it becomes apparent, except in limited circumstances. Even if the interest is in the Register of Interests, you must declare it in meetings where matters relating to it are under discussion, unless an exemption applies.

Exemptions to the need to declare personal interest to the meeting

You do not need to declare a personal interest where it arises solely from membership of, or position of control or management on:

- (a) any other body to which you were appointed or nominated by the Council
- (b) any other body exercising functions of a public nature.

In these exceptional cases, unless your interest is also prejudicial, you only need to declare your interest if and when you speak on the matter .

Sensitive information

If the entry of a personal interest in the Register of Interests would lead to the disclosure of information whose availability for inspection creates or is likely to create a serious risk of violence to you or a person living with you, the interest need not be entered in the Register of Interests, provided the Monitoring Officer accepts that the information is sensitive. Where this is the case, if such an interest arises at a meeting, it must be declared but you need not disclose the sensitive information.

Prejudicial interests

Your personal interest will also be prejudicial if all of the following conditions are met:

- (a) it does not fall into an exempt category (see below)
- (b) the matter affects either your financial interests or relates to regulatory matters - the determining of any consent, approval, licence, permission or registration
- (c) a member of the public who knows the relevant facts would reasonably think your personal interest so significant that it is likely to prejudice your judgement of the public interest.

Categories exempt from being prejudicial interest

- (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)

Effect of having a prejudicial interest

If your personal interest is also prejudicial, you must not speak on the matter. Subject to the exception below, you must leave the room when it is being discussed and not seek to influence the decision improperly in any way.

Exception

The exception to this general rule applies to allow a member to act as a community advocate notwithstanding the existence of a prejudicial interest. It only applies where members of the public also have a right to attend to make representation, give evidence or answer questions about the matter. Where this is the case, the member with a prejudicial interest may also attend the meeting for that purpose. However the member must still declare the prejudicial interest, and must leave the room once they have finished making representations, or when the meeting decides they have finished, if that is earlier. The member cannot vote on the matter, nor remain in the public gallery to observe the vote.

Prejudicial interests and overview and scrutiny

In addition, members also have a prejudicial interest in any matter before an Overview and Scrutiny body where the business relates to a decision by the Executive or by a committee or sub committee of the Council if at the time the decision was made the member was on the Executive/Council committee or sub-committee and was present when the decision was taken. In short, members are not allowed to scrutinise decisions to which they were party.

Annual Audit Letter

London Borough of Lewisham

Audit 2010/11



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Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Key audit risk

Unqualified audit opinion



Our findings

Proper arrangements to secure value for money



1 → Audit opinion and financial statements

I issued unqualified opinions on the Council's financial statements and on the pension fund accounts on 21 October 2011.

I issue an audit certificate when the audit is formally closed and all of the work has been completed. I also issued this on 21 October 2011 to close my audit.

At the 20 September 2011 Audit Panel I presented annual governance reports and a progress report to the Audit Panel on the financial statements and the pension fund accounts. The reports highlighted a large number of errors that the Council agreed to adjust within the financial statements. I also brought to the Audit Panel's attention that

my audit had encountered significant delays, that a number of material areas of the audit were in progress and that as a consequence the target date of the 30 September 2011 for issuing the audit opinion was at risk. I issued a final report, listing further agreed amendments, to the Executive Director for Resources and Chair of the Audit Panel on 19 October 2011.

As required, the Council produced International Financial Reporting Standards (IFRS) compliant financial statements for the first time in 2010/11. The Council were unable to prepare for the IFRS transition in line with its timetable which meant that all the audit work was concentrated into the summer adding to my staff and officer's workload.

Value for money

I issued an unqualified value for money conclusion. I am satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011. The conclusion is based on my assessment of the Council against the two criteria specified by the Audit Commission.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

- 1** This has been a long and difficult audit with a significant number of amendments made to the draft financial statements. I issued an unqualified opinion on the Council's financial statements and pension fund accounts on 21 October 2011, three weeks after the target date of 30 September 2011. The level of errors in the draft financial statements has significantly increased from the previous year.
- 2** The implementation of International Financial Reporting Standards (IFRS) for the first time had an impact on both the accounts preparation and audit process. The application of IFRS, requiring review of accounting policies and practice, restatement of prior year comparators and other changes, considerably increased the workload of officers. There was considerable slippage in the work plan timetable, mainly due to problems with the implementation of the property, plant and equipment register. I reported to the March 2011 Audit Panel that I assessed the Council's IFRS preparations as at high risk of not completing the transition on time. I did not receive any further IFRS information to review until I received the financial statements on the 30 June 2011, which increased the work load for my team and the Council during the audit.
- 3** The Council submitted its accounts for audit by the deadline of 30 June 2011. Although the financial statements were generally complete not all areas were adequately supported by working papers. Most significantly the Council's implementation of its new property, plant and equipment asset register was delayed and these working papers were provided to me on 2 September 2011. Improvements are needed to ensure that a comprehensive set of working papers are provided to us promptly on production of the draft accounts.
- 4** During the course of the audit I met regularly with the Executive Director for Resources and my audit team had weekly meetings with officers to discuss queries and amendments and agree a revised audit timetable. My team and I would like to thank officers for their help and cooperation throughout the audit.

5 My audit identified a large number of amendments to the financial statements which were agreed with officers. Accounting for property, plant and equipment and the associated disclosures, cash flow, reserves and financial instruments were particularly weak areas. Before giving my opinion I reported to those charged with governance, the Audit Panel, on the issues arising from the 2010/11 audit. Two detailed reports were presented to the Audit Panel on 20 September 2011 and I issued a final report to the Executive Director for Resources and Chair of the Audit Panel on 19 October 2011.

Recommendation
R1 To review arrangements for the timely production of financial statements, working papers and dealing with audit queries.
R2 Include appropriate quality control procedures in the final accounts closedown process to review both the draft financial statements and the supporting working papers.

Significant weaknesses in internal control

6 The council was unable to complete the implementation of its new property, plant and equipment register (Real Asset Management), listing of £1,654m of assets at net book value, in time to support the preparation and audit of the financial statements. The plan was to have the RAM system operational by February 2011. As a result, in mid August 2011 the Council had to revert to spreadsheet records which were provided to me on 2 September 2011.

Recommendation
R3 Implement and test the RAM system to ensure that all data has been transferred from manual records and that the system is capable of providing accurate and timely information to support the entries made in the financial statements.

Pension Fund

7 The Council provided the pension fund financial statements earlier than the main council financial statements, on 7 June 2011. I found that the draft pension fund financial statements contained four material errors, three material omissions in the notes, and several non trivial and trivial errors. There were also two material disclosures missing that related to the transition to International Financial Reporting Standards. A complete set of working papers to support the financial statements was not available at the start of the audit and the Council's key officer left at the end of June, delaying completion of audit work until October 2011. I issued unqualified opinions on the Council's financial statements and on the pension fund accounts on 21 October 2011.

Recommendation

R4 Use the working paper requirements document agreed with the auditors to prepare the working papers before the audit begins.

Significant weaknesses in internal control –Pension Fund

8 As reported in the Annual Governance Report presented to the September 2011 Audit Panel my audit identified three significant weaknesses in internal control relating to the pension fund:

Pension Fund 2011/12 Bank Account

9 Under revisions to legislation, the Pension Fund must from 1 April 2011 have a separate and dedicated bank account rather than have its funds within the Council's banking arrangements. The Council confirmed that a new bank account has been open from 1 April 2011 but the Council has not yet used this bank account for the pension fund transactions in the 2011/12 year.

Page 14

Recommendation

R5 The Council should take action to ensure that it is complying with legislation in relation to the operation of its pension fund bank account.

Whole of Government Accounts

10 As a result of delays to the issuing of the audit opinion I was not able to certify the Council's Whole of Government Accounts (WGA) return before the submission deadline of 30 September 2011. As outlined above a significant number of amendments were reported due to changes between the draft return and audited financial statements. The review of the WGA is currently in progress

Other matters

11 At the time of writing this report, my audit of the Council's 2010/11 grant claims and returns is in progress. Of the eleven which require audit certification, four have been certified and submitted on time to the appropriate grant paying body, one was certified late. For the remaining six claims and returns, four are on course for being certified within the required timeframes and two were provided to me after the grant paying body's deadline.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

12 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources. I issued an unqualified value for money conclusion on 21 October 2011

My conclusion on each of the two areas is set out below.

Page	Value for money criteria and key messages	Key messages
15	<p>Criterion</p> <p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>I am satisfied that the Council has robust systems and processes to manage effectively financial risks and opportunities and to secure a stable financial position.</p> <p>The Council is stable both in terms of finances but also culturally, with a low turnover of key staff. There are good arrangements in place to lead the organisation and deal with financial risks and opportunities. Good use is made of benchmarking information (such as the Audit Commission Value For Money Profiles) to highlight areas where there is potential for improvement, either by reducing costs or improving services. Councillors are informed of emerging financial risks through regular briefings.</p>
	<p>2. Securing economy efficiency and effectiveness</p>	<p>The Council has prioritised its resources within tighter budgets and has secured economy, efficiency and effectiveness, for example by achieving cost reductions and by improving efficiency</p>

Criterion

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key messages

and productivity.

The Chief Executive and Mayor, supported by the senior management team, have taken a clear lead on prioritising resources and spending reductions. This is reflected in the budget report 2011/12 which sets out the financial strategy, the action taken to consult with staff and the public, the savings proposals and overall financial position for 2010/11. Members were also consulted and the plans were approved at the Cabinet meeting in February 2011.

The Council challenges the way activities are delivered and explores new ways of delivering activities. The Council has good arrangements to monitor efficiency savings and the impact on service quality and provision. It uses the Performance Plus performance monitoring system to monitor performance. Cabinet and the senior management team monitor the impact of the savings via regular budget monitoring reports.

Current and future challenges

The Council faces considerable challenges in the coming years as a result of the economic situation, as shown in the following table:

Issue	Findings
Economic downturn and pressure on the public sector	<p>The wider financial outlook continues to be challenging for the public sector. The Local Government financial settlement announced in February 2011 reduced funding available to the Council by 10.6% in 2011/12 and 7.8% in 2012/13. These cuts amount to a total reduction of £56 million over the two years.</p> <p>The Council has been working to manage the impact of the financial settlement and has developed a strong plan to identify savings in order to meet the funding gap. This plan has been successfully implemented. Additional pressures such as increasing inflation levels and volatility in the financial markets which will impact on investment returns for the Council also need to be managed.</p>
Income streams	<p>The Council's main income streams are the revenue support grant (RSG), schools grant, housing and council tax benefit subsidy, and housing subsidy. Other key income sources include non-domestic rates and council tax. The Council is facing significant reductions in a number of its income streams.</p> <p>The Council's charges for some areas of miscellaneous income were below the London average. The Council has taken action to bring fees and charges in line with the rest of London.</p>
Reform of local government finance	<p>The Housing Revenue Account (HRA) subsidy system comes to end from April 2012 and HRA self financing will be introduced which will result in changes to capital financing and accounting arrangements.</p> <p>The Council has developed a 30 year business plan in which it considers</p>

future rent levels. The Department of Communities and Local Government (DCLG) allows a transitional period of up to five years with authorities able to move across to full depreciation accounting beforehand should they wish.

This transitional period will allow the Council to deal with the short term affordability issues as a result of the introduction of the new model.

Consultation is currently underway for the proposal to repatriate business rate income to local authorities, and allow them to borrow against future growth of this income, from 2013/14.

Closing remarks

I have agreed this letter with the Chief Executive and the Executive Director for Resources. I presented this letter at the Audit Panel on 23 November 2011.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit opinion plan	June 2011
Annual governance report	12 September 2011
Summary audit progress update	20 September 2011
Summary audit progress update	19 October 2011
Auditor report	21 October 2011
VFM conclusion	21 October 2011
Final accounts memorandum	(Planned) December 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Susan M. Exton
 District Auditor
 November 2011

Appendix 1 - Fees

	Actual	Proposed
Total audit fee *1	£472,360	To be finalised
Pension Fund audit fee	£35,000	To be finalised

*1 the total audit fee is shown gross of a rebate of £ £43,148 from the Audit Commission

Appendix 2 - Glossary

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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



AUDIT PANEL		
Report Title	REVIEW OF HALF YEAR FINANCIAL POSITION – 2011/12	
Key Decision	NO	Item No. 4
Ward	ALL	
Contributors	EXECUTIVE DIRECTOR FOR RESOURCES	
Class	PART 1	Date: 23 NOVEMBER 2011

1. SUMMARY AND PURPOSE

- 1.1. This report provides information to Audit Panel Members on the latest overall financial position of the Council for the 2011/12 financial year. This enables them to prepare to scrutinise the full year accounts at year end. External audit have also recommended that it is reported to Members of the panel.

2. RECOMMENDATION

- 2.1. The Audit Panel is asked to note the contents of the report.

3. DIRECTORATE REVENUE MONITORING

- 3.1. There was an underspend of £1,717k on Directorate budgets at the end of 2010/11. This was transferred to earmarked reserves and thus had no effect on the Council's overall General Fund balance, which remained at £11.511m at the year end.
- 3.2. The council set the budget for 2011/12 at its meeting on 1 March 2011, and agreed a managerially challenging package of savings as part of this. In delivering this programme there are inherent risks of delay, which would show as an overspend in the current year, and that some savings any prove unachievable, which would also create a budget pressure in 2012/13.
- 3.3. The revenue budget is monitored during the year to ensure that the impact on the overall financial position is assessed and action can be taken where necessary. It is regularly reported to the Public Accounts Select Committee and Mayor and Cabinet.
- 3.4. Directorate Expenditure Panels (DEPs) have continued to operate during 2011/12 in order to maintain financial control. The impact to date of these controls and the future anticipated impact is built into the forecast outturn for the directorates.

- 3.5. The latest directorate revenue budget monitoring shows that there is a projected year-end overspend of £0.725m, an improvement of nearly £1.4m on the position at the end of May, when there was a projected overspending of £2.1m. This is summarised in Table 1.

Table 1 – Forecast Directorate Revenue Budget position for 2011/12

Directorate	Net Budget (£000)	Forecast Outturn (£000)	Forecast Variance (£000)
Children & Young People	49,649	49,908	259
Community Services	118,215	118,350	135
Customer Services	38,940	39,327	387
Regeneration	12,715	13,007	292
Resources	28,387	28,039	(348)
Total	247,905	248,630	725

- 3.6. The proportion of agreed savings which are estimated to be delivered is currently 94.7% of the total programme of £23.8m, as summarised in Table 2. Any variances are included in the overall forecasts in Table 1.

Table 2 – Proportion of Directorate Savings Estimated to be Delivered

Directorate	Savings Agreed for 2011/12 (£000)	Forecast Delivery (£000)	Forecast Variance (£000)
Children & Young People	7,106	7,006	100
Community Services	5,868	5,868	0
Customer Services	3,886	3,561	325
Regeneration	3,883	3,135	748
Resources	3,071	2,986	85
Total	23,814	22,556	1,258

4. DEDICATED SCHOOLS GRANT

- 4.1. The total amount available for school funding is £242.6m in 2011/12, which comprises Dedicated Schools Grant (DSG) of £229.3m, Young Peoples' Learning Agency (YPLA) grant of £9.6m and Pupil Premium grant of £3.7m. Of this amount, £200.1m has been delegated to schools by way of the funding formula, with the balance of £42.5m being used to fund centrally managed school and pupil related services.
- 4.2. The current budget forecast shows no overspends against DSG budgets. However, there is a potential risk on the independent school fees budget.

5. HOUSING REVENUE ACCOUNT

- 5.1. The Housing Revenue Account (HRA) is a ring fenced account in that only expenditure and income in relation to its landlord functions are charged to this account. The net expenditure within the account is expected to be contained within budget.
- 5.2. The latest budget monitoring for 2011/12 shows a forecast underspending of £0.9m. This results mainly from additional major works income and improvements to debt collection. It should be noted however, that significant health and fire safety works are currently being commissioned which will reduce this underspend by the year end.
- 5.3. The DCLG has proposed significant changes for the housing finance system from nationally redistributed housing subsidy to local self-financing, with some flexibility to borrow. These changes will take effect from April 2012 with the impact on the council currently being modelled. However, these proposals will generally provide more resources to the council than the current HRA subsidy system. There will be a significant financial impact on the council's accounts, specifically in regards to the adjustment of debt levels.
- 5.4. As part of the 2012/13 budget therefore, significant decisions will be required on the housing stock investment strategy, borrowing levels and other matters, on which the council presently has little control.

6. CAPITAL PROGRAMME MONITORING

- 6.1. The latest Capital Programme monitoring shows a number of increases in budget due to extra resources being identified, particularly for the CYP and Lewisham Homes programmes. The forecast outturn is on budget at this stage.

Table 3 – Directorate Capital Expenditure forecast

DIRECTORATE	Budget (May 11) (£m)	Budget (Sept 11) (£m)	Forecast (Sept 11) (£m)
Community Services	10.0	10.0	10.0
Resources	0.8	0.8	0.8
Children & Young People	62.0	64.8	64.8
Regeneration	28.5	29.1	29.4
Customer Services	12.4	12.2	12.2
Directorates' Total	113.7	116.9	117.2
Lewisham Homes	26.1	29.1	29.1
Grand Total	139.8	146.0	146.3

- 6.2. Overall the projects in the Council's capital programme have spent 18.4% of their forecasts for the year as at the end of September (£27m against a forecast of £146.3m). This compares with 33% spend at the same stage of 2010/11. This decrease results from a lower number of projects being underway compared to the first half of 2010/11, and in particular the Lewisham Homes 2* programme of £14m being scheduled for the second half of the year. Expenditure is monitored carefully throughout the year, with particular emphasis on projects over £0.25m, to ensure that significant under/over spends are avoided.
- 6.3. At the end of 2010/11, the Council's non current assets were valued at just under £1.7bn, as shown in the Statement of Accounts. During the year, this value will increase due to capitalisation of expenditure, however, by the end of the year this figure will have changed due to the impact of the annual depreciation charges, and the revaluation, impairment and disposal of fixed assets.

7. COLLECTION OF COUNCIL TAX

- 7.1. Collection of Council Tax improved significantly in 2010/11 compared to 2009/10, with a collection rate of 94.1% compared to 92.7%. As at 31 August 2011, this improvement has been sustained, with 43.3% of the total due being collected this year compared to 42.7% at the same point last year.

8. CREDITORS

- 9.1 A crucial factor in the level of creditors is the amount of time the Council takes to pay suppliers. The current target for paying invoices within 30 days of receipt of invoice is 100%. In 2010/11, the actual percentage achieved was 86.4% (89% in 2009/10). The Council also has a target of 10 days for paying Small and Medium size Enterprises (SME's). The current position is as follows

Type of Invoice	Actual 2009/10 %	Actual 2010/11 %	June 2011 %	Sept 2011 %	Average for 2011/12 so far %
Commercial	89.0	86.4	88.9	88.0	88.4
SME's	41.0	32.0	42.1	50.8	45.2

9. EXTERNAL AUDIT ISSUES

- 9.1. As reported to the Panel's last meeting on 20 September 2011, the external audit by the Audit Commission had not been completed at that date. An initial Annual Governance Report (AGR) was included on that meeting's agenda and an updated AGR was tabled at the meeting.

- 9.2. The accounts were approved and signed by Council on 21 September 2011, subject to the Chair of the Audit Panel and the Executive Director of Resources being satisfied that the accounts have been amended as agreed. They were also granted delegated authority to approve and sign an appropriate Letter of Representation (LOR) on behalf of the council when this had been done. This letter was signed on 19 October 2011.
- 9.3. The Audit Commission completed the external audit on 21 October 2011 and issued an unqualified opinion on the financial statements and signed and issued the audit certificate on the same date.
- 9.4. A final updated Annual Governance Report was issued by the Audit Commission and is attached to this report at Appendix A. The Audit Commission's Annual Audit Letter is included as a separate item on this agenda.
- 9.5. The Audit Commission will again issue a Final Accounts Memorandum report, which is a working document for officers that highlights the issues identified during the recent audit and contains detailed recommendations for further improvements in the Council's financial processes. Although the report has not been issued yet, officers have agreed the draft content and recommendations.

10. 2011/12 STATEMENT OF ACCOUNTS AND TIMETABLE

- 10.1. The Statement of Accounts is produced in accordance with the Code of Practice on Local Authority Accounts, developed by CIPFA. From 2010/11 onwards, the Council was required to produce its Statement of Accounts fully in accordance with International Financial Reporting Standards (IFRS).
- 10.2. The 2010/11 financial year will end on 31 March 2012. The Pre-Audit Statement of Accounts is required to be produced by the end of June 2012 and the Audited Statement of Accounts by the end of September 2012. Both of these Statements will be submitted to the Audit Panel before these deadlines.
- 10.3. The Audit Commission will again be providing the external audit of the 2011/12 Statement of Accounts.

11. FINANCIAL IMPLICATIONS

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

12. LEGAL IMPLICATIONS

- 12.1. There are no legal implications directly arising from this report.

13. CRIME AND DISORDER ACT IMPLICATIONS

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

14. EQUALITIES IMPLICATIONS

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

15. ENVIRONMENTAL IMPLICATIONS

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

16. CONCLUSION

16.1. The Council's financial position is continually monitored during the year, and this report summarises this in-year monitoring at the half year stage. The report also confirms that plans and procedures are in place to enable a timely and accurate set of accounts to be produced at year end.

APPENDICES

Appendix 1 – Audit Commission Final Updated AGR

BACKGROUND PAPERS

Short Title of Document	Date	File Location	Contact Officer	Exempt Information
PAC and M & C Reports – Financial Monitoring	12 and 26 October 2011	1 st Floor, Town Hall	Selwyn Thompson	
2010/11 Statement of Accounts		1 st Floor, Town Hall	Richard Lambeth	
Revenue Budget Monitoring reports		1 st Floor, Town Hall	Selwyn Thompson	
Capital Programme Monitoring reports		1 st Floor, Town Hall	Richard Lambeth	

For further information on this report please contact:

Conrad Hall, Head of Business Management and Service Support on 020 8314 8379
Richard Lambeth, Group Finance Manager, Accounting on 020 8314 3797
Selwyn Thompson, Group Finance Manager, Budget Strategy on 020 8314 6932

Summary Audit Progress Update

London Borough of Lewisham
Audit 2010/11

DRAFT

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Contents

Summary2

DRAFT

Summary

The audit of the financial statements is substantially complete. My audit testing has identified further errors, since those reported to the Audit Panel on 20 September 2011 other than those of a clearly trivial nature, and I have reported these to management.

Based upon my work I plan to issue an:

- **unqualified audit opinion,**
- **unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in your use of resources,**
- **audit closure certificate.**

1 The purpose of this paper is to provide the Chair of the Audit Panel who has been given delegated responsibility by the Council to represent those charged with governance with a report on progress in delivering my responsibilities as your external auditor. This report provides an update on progress on the audit of the financial statements following the draft Annual Governance Report submitted on 12 September 2011 and included on the Audit Panel's agenda explaining nine agreed amendments to the financial statements. I also presented a further report at the Audit Panel on 20 September 2011 explaining five further agreed amendments to the financial statements. This document does not repeat the findings from the two earlier reports.

2 Since the Audit Panel my team has been carrying out audit work on property plant and equipment and related capital reserves, International Financial Reporting Standards (IFRS) restatement exercise, investments, financial instruments, private finance initiative (PFI) schemes, the cash flow statement, and review and clearance of queries.

3 Since the Audit Panel on 20 September 2011 audit testing has identified further errors, other than those of a clearly trivial nature, and I reported these to management. The agreed amendments to the draft financial statements are detailed below.

Assets held for sale (note 19)

4 An amount of £14,229k was classified as assets held for sale. Following discussions with Officers it was agreed that these items should be disclosed as land and buildings within property, plant and equipment. This adjustment also impacts on the 2009/2010 comparatives. (EX65)

Other gains and losses

5 The Comprehensive Income and Expenditure Statement (CIES) includes 'other gains and losses' of £29,650k. The Council had previously identified an amendment of £(41,537k) relating to the double counting of the overhanging debt grant. The Council has further investigated the remaining balance of £(11,887k) and has reallocated £10,858k to the following headings in the CIES:

- Debit: other gains & losses £10.8m
- Credit: interest payable £1.6m
- Credit: housing services £2.4m
- Credit: Gains/losses on disposal of non current assets £6.8m

There is a remaining balance of £1m which the Council has not identified. (EX70)

Cash equivalents

6 The 2009/10 restatement figures relating to cash equivalents have been amended by removing items totalling £8,001k of short term investments which were incorrectly classified and treated inconsistently between years. (Ex79)

Leases (note 37)

7 A detailed review of finance leases on dwellings was conducted during the IFRS restatement process. It was agreed that all these were not finance leases as defined by the Code. Therefore the amounts of £565k in 2010/11 and £1,010k in 2009/10 have been removed from the disclosure. (Ex85).

8 In its IFRS restatement exercise for leases the Council incorrectly made adjustments in 2009/10 instead of the balance at 1/4/2009 and also did not recognise a debtor for the finance lease (lessor). The Council has adjusted the accounts to recognise the transaction at 1 April 2009 by increasing the value of investment properties by £422k as well as including a debtor for the amount due as follows £213k 2010/11, £246k 2009/10, £278k at 1 April 2009. (Ex.60, 86, 99,100)

Cash Flow Statement

9 As in previous years the council has continued to have problems producing a timely and accurate cash flow supported by adequate working papers. An updated cash flow was received on 14 October 2011 which has been substantially amended to comply with the Code and provide additional disclosures on investments. Please see the final cash flow in the updated financial statements for amendments. (Ex.91, 123, 127)

Financial Instruments (Note 13a)

10 This note includes an amount of £6.2m described as contract financial liabilities which related to HM Revenue and Customs (HMRC) creditors and £6.1m in financial assets relates to HMRC debtors (VAT). These amounts should not be disclosed as contracted financial assets and liabilities. A note has been added disclosing this matter rather than making the adjustment. (Ex93)

Adjustments between accounting basis and funding basis under regulation.(Note 7)

11 This note has been subject to substantial changes with 23 of the figures being amended. Please see the final note 7 in the updated financial statements for amendments. (Ex96) (Ex98) (Ex109) (Ex129)

Housing rents aged analysis (Note 17d)

12 The aged analysis of the housing rents debtors has been corrected.

Group accounts

13 On consolidation the loan of £11,916k to Catford Regeneration Partnership Ltd was eliminated against investment property instead of long term debtors in the 2009/10 comparatives. (Ex97)

Private finance initiative schemes

14 The draft financial statements required a number of amendments in relation to the private finance initiative schemes:

- Downham - reversal of capitalisation and impairment £143k.
- Brockley - to apply the prepayment to the deferred liability immediately instead of over the life of the scheme £2,000k.
- Grouped Schools - to correct treatment of the PFI liability £184k.
- Northbrook / Trinity - to correct overstated journal £1,636K.
- Northbrook / Trinity - to correct the split between land and buildings £3,600k.

Within the Brockley PFI scheme, part of the health centre is leased to Lewisham Primary Care Trust. The lease of £367k per year had not been disclosed. (Ex104)

Capital adjustment account (Note 24b)

15 Expenditure charged against the general fund and the housing revenue account line is understated by £5,377k and the statutory provision for the financing of capital investment line is overstated by £5,377k (Ex112).

Investments

16 The Council incorrectly classified investments maturing in 2011/12 as long term and therefore understated current assets by £17,857k. (Ex115).

Financial instruments (note 13)

17 The Council incorrectly disclosed £25,593k (£29,126k in 2009/10) of 'available-for-sale financial assets' as loans and receivables at amortised cost. (Ex117).

18 The balance for loans and receivables excluded cash of £2,644 (£1,419 in 2009/10) (Ex 118).

Capital expenditure and financing (Note 36)

19 Revenue expenditure funded from capital under statute was understated by £3,942k. (Ex120)

Related party transactions, (note 35)

20 The Council has added a few disclosures regarding related party transactions, to include previously omitted items. (Ex124)

Revaluation reserve

21 The Council identified an error relating to prior periods when they reviewed the balances within the revaluation reserve for 2010/11. The error relates to debit balances relating to previous impairments that were incorrectly charged to the revaluation reserve instead of the CIES. In the draft financial statements the Council incorrectly amended the accounts as an in year transaction of £58,447k. Under IAS8 and the Code the Council should have accounted for the prior period error by restating the prior period financial statements in the year the transactions arose. Therefore the Council has removed the £58,447k transaction from 2010/11 and restated the relevant 2009/10 comparatives (£51,992k) and the balance at 1 April 2001 by £6,525k. (Ex 126)

Property, plant and equipment (Note10)

22 Capital expenditure of £17,069k was incorrectly included in transfers rather than additions. (Ex 119)

23 There was a difference of £1,619k between the Impairments Revaluation Reserve figure £15,505k in the property plant and equipment note and the corresponding entry in Note 24 a) revaluation reserve £17,124k. (Ex128)

24 Existence testing of properties identified an asset that the Council had sold in year but was still including as an asset. Further work by the Council identified similar properties with a value of £693k. These have been removed from land and buildings. (Ex131)

Uncertainties

25 I have identified the following uncertainties during the course of my audit of the financial statements:

- The Brockley PFI Service Charge of £6m has been charged to Supervision and Management, part of this amount is incorrectly classified and should be classified as Repairs and Maintenance. The Council will undertake a review of the PFI service charge during 11/12 with a view to correctly classifying the amount in future years. (Ex108)
- In note 7 the line shown as 'other adjustments' is a balancing figure used by the Council to reconcile the movements within the financial statements. The amount is a net amount of £344k. (EX113/3)
- There is no listing from schools to support this capitalised expenditure of £1.7m relating to devolved formula capital. As a result there has been no componentisation. I can not verify whether this expenditure meets the Council's accounting policy for recognition of property, plant and equipment. (Ex130)

Pension Fund

26 During the audit the Council revised note 4 (income from investments) to agree the breakdown of income to the custodian report. There remained however a discrepancy of £101k between the total income on the custodian report and the total income disclosed within note 4. The Council has not adjusted for this discrepancy in the accounts.

Letter of representation

27 Please can you approve the letters of representation, provided with this report, on behalf of the Council before I issue my opinion and conclusion. Can you also review the unadjusted misstatement to the financial statements and if you decided not to amend please tell me why in the representation letters.

DRAFT

Core Financial Statements

CASH FLOW STATEMENT

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for both revenue and capital purposes. It has been prepared using the "Direct" method.

2009/10 Restated £000		2010/11	
		£000	£000
	OPERATING ACTIVITIES		
	Cash Inflows		
(72,142)	Council Tax income	(72,354)	
(147,203)	NNDR received from ratepayers and national pool	(160,962)	
(556,665)	Government grants	(607,128)	
(42,992)	Rent received from council housing	(40,063)	
(40,386)	Cash received for goods and services	(39,446)	
(5,008)	Interest received	(2,336)	
0	Dividends received	0	
(11,640)	Other operating cash receipts	(8,480)	
(876,036)			(930,769)
	Cash Outflows		
345,386	Cash paid to and on behalf of employees	343,266	
130,473	Housing benefit paid out	153,617	
1,772	Precepts and Levies	1,787	
0	Contribution to Capital Receipts Pool	483	
19,737	Interest paid	19,593	
368,578	Other operating cash payments	361,103	
865,946			879,849
(10,090)	Net Cash Flow from Operating Activities		(50,920)
	INVESTING ACTIVITIES		
	Cash Outflows		
38,314	Purchase of property, plant, equipment and investment properties	48,301	
7,291	Revenue Expenditure Funded from Capital Under Statute	3,942	
788	PFI Prepayments	3,342	
11,981	Long-Term Debtors	(12)	
58,374			55,573
	Cash Inflows		
(8,525)	Sale of property, plant, equipment and investment properties	(19,679)	
(33,748)	Capital grants and other capital cash received	(22,576)	
(42,273)			(42,255)
	Net Cash Flows		
(83,931)	Net increase in short term investments	30,617	
0	Net increase in long term investments	16,092	
3,728	Net increase in other liquid resources	3,234	
(80,203)			49,943
(64,102)	Net Cash Flow from Investing Activities		63,261
	FINANCING ACTIVITIES		
	Cash Inflows		
(30,000)	New loans raised	0	
(250,268)	New short term borrowing	(38,685)	
(280,268)			(38,685)
	Cash Outflows		
250,391	Repayments of short and long term borrowing	43,685	
250,391			43,685
(29,877)	Net Cash Flow from Financing Activities		5,000
(104,069)	NET (INCREASE)/DECREASE IN CASH AND CASH EQUIVALENTS		17,341
(41,537)	CASH AND CASH EQUIVALENTS - BEGINNING OF THE PERIOD		(145,606)
(145,606)	CASH AND CASH EQUIVALENTS - END OF THE PERIOD		(128,265)

Core Financial Statements

CASH FLOW STATEMENT

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for both revenue and capital purposes. It has been prepared using the "Direct" method.

2009/10 Restated £000		2010/11	
		£000	£000
	OPERATING ACTIVITIES		
	Cash Inflows		
(72,142)	Taxation - council tax income	(72,354)	
(147,203)	NNDR received from national pool	(160,962)	
(556,665)	Government grants	(607,128)	
(42,992)	Rent received from council housing	(40,063)	
(40,386)	Cash received for goods and services	(39,446)	
(5,008)	Interest received	(2,336)	
0	Dividends received	0	
(11,640)	Other operating cash receipts	(8,480)	
(876,036)			(930,769)
	Cash Outflows		
345,386	Cash paid to and on behalf of employees	343,266	
130,473	Housing benefit paid out	153,617	
1,772	Precepts and Levies	1,787	
0	Contribution to Capital Receipts Pool	483	
19,737	Interest paid	19,593	
325,067	Cash paid to suppliers of goods and services	310,551	
39,228	Other operating cash payments	45,649	
861,663			874,946
(14,373)	Net Cash Flow from Operating Activities		(55,823)
	INVESTING ACTIVITIES		
	Cash Outflows		
38,314	Purchase of property, plant, equipment and investment properties	48,301	
7,291	Revenue Expenditure Funded from Capital Under Statute	3,942	
788	PFI Prepayments	3,342	
11,981	Long-Term Debtors	(12)	
202,924	Purchase of short-term and long-term investments	184,871	
261,298			240,444
	Cash Inflows		
(8,525)	Sale of property, plant, equipment and investment properties	(19,679)	
(33,748)	Capital grants and other capital cash received	(22,576)	
(278,854)	Proceeds from short-term and long-term investments	(146,163)	
(321,127)			(188,418)
(59,829)	Net Cash Flow from Investing Activities		52,026
	FINANCING ACTIVITIES		
	Cash Inflows		
(30,000)	New long term borrowing	0	
(250,268)	New short term borrowing	(38,685)	
(280,268)			(38,685)
	Cash Outflows		
4,283	Cash payments for reduction of outstanding liability relating to finance leases and on-balance sheet PFI contracts	4,903	
250,391	Repayments of short and long term borrowing	43,685	
3,728	Other payments for financing activities	3,234	
258,402			51,822
(21,866)	Net Cash Flow from Financing Activities		13,137
(96,068)	NET (INCREASE)/DECREASE IN CASH AND CASH EQUIVALENTS		9,340
(41,537)	CASH AND CASH EQUIVALENTS - BEGINNING OF THE PERIOD		(137,605)
(137,605)	CASH AND CASH EQUIVALENTS - END OF THE PERIOD		(128,265)

Notes to the Core Financial Statements

2010/11	Usable Reserves						Movement in Unusable Reserves £'000
	General Fund Balance £'000	Earmarked GF Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	
Adjustments primarily involving the Capital Adjustment Account:							
Reversal of items credited or debited to the Comprehensive Income and Expenditure Statement:							
Charges for depreciation and impairment of non-current assets	76,534		343,317				(419,851)
Revaluation losses on Property, Plant and Equipment							
Movements in the market value of Investment Properties	94						(94)
Capital grants and contributions applied	(75,238)		(41,537)			1,120	115,655
Revenue expenditure funded from capital under statute	3,942						(3,942)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	1,822		(1,047)	13,135			775
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:							
Statutory provision for the financing of capital investment	(7,202)		(3,078)				10,280
Voluntary provision above MRP	(1,959)						1,959
Capital expenditure charged against the General Fund and HRA balances	(1,689)						1,689
Adjustments primarily involving the Capital Grants Unapplied Account:							
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement							
Application of grants to capital financing transferred to the Capital Adjustment Account							
Adjustments primarily involving the Capital Receipts Reserve:							
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement							
Use of the Capital Receipts Reserve to finance new capital expenditure							
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals							
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	688				(688)		0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash							
Adjustments primarily involving the Major Repairs Reserve:							
Reversal of Major Repairs Allowance credited to the HRA			(19,004)		19,004		0
Use of the Major Repairs Reserve to finance new capital expenditure			1,627		(1,627)		0

Notes to the Core Financial Statements

2010/11 Continued	Usable Reserves						Movement in Unusable Reserves £'000
	General Fund Balance £'000	Earmarked GF Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	
Adjustments primarily involving the Financial Instruments Adjustment Account: Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	10,062		(1,601)				(8,461)
Adjustments primarily involving the Pensions Reserve: Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(85,598)		154				85,444
Employer's pensions contributions and direct payments to pensioners payable in the year Adjustments primarily involving the Collection Fund Adjustment Account: Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	(30,385)		(177)				30,562
Adjustments primarily involving the Accumulated Absences Account: Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	3						(3)
Other Adjustments Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(820)		(1,627)				820
Total Adjustments	1,284	0	277,027	12,447	17,377	1,120	(14,342)
	(108,462)						(199,509)

Notes to the Core Financial Statements

2010/11	Usable Reserves						Movement in Unusable Reserves £'000
	General Fund Balance £'000	Earmarked GF Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	
Adjustments primarily involving the Capital Adjustment Account:							
Reversal of items credited or debited to the Comprehensive Income and Expenditure Statement:							
Charges for depreciation and impairment of non-current assets	73,728		341,581				(415,309)
Revaluation losses on Property, Plant and Equipment							
Movements in the market value of Investment Properties	94						(94)
Capital grants and contributions applied	(23,801)		(41,537)				65,338
Revenue expenditure funded from capital under statute	3,942						(3,942)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	890		(6,943)				6,053
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:							
Statutory provision for the financing of capital investment	(9,160)		(3,078)				12,238
Voluntary provision above MRP							
Capital expenditure charged against the General Fund and HRA balances	(1,689)						1,689
Adjustments primarily involving the Capital Grants Unapplied Account:							
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement						1,120	(1,120)
Application of grants to capital financing transferred to the Capital Adjustment Account							
Adjustments primarily involving the Capital Receipts Reserve:							
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement				25,054			(25,054)
Use of the Capital Receipts Reserve to finance new capital expenditure				(11,919)			11,919
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals							
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	688			(688)			0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash							
Adjustments primarily involving the Major Repairs Reserve:							
Reversal of Major Repairs Allowance credited to the HRA			(13,670)		13,670		0
Difference between Major Repairs Allowance and HRA depreciation			(5,335)		5,335		0
Use of the Major Repairs Reserve to finance new capital expenditure			1,627		(1,627)		0

Revised

LEWISHAM STATEMENT OF ACCOUNTS 2010/11

Notes to the Core Financial Statements

2010/11 Continued	Usable Reserves						Movement in Unusable Reserves £'000
	General Fund Balance £'000	Earmarked GF Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	
Adjustments primarily involving the Financial Instruments Adjustment Account: Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(1,439)		(1,601)				3,040
Adjustments primarily involving the Pensions Reserve: Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(85,598)		154				85,444
Employer's pensions contributions and direct payments to pensioners payable in the year Adjustments primarily involving the Collection Fund Adjustment Account: Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	(30,385)		(177)				30,562
Adjustments primarily involving the Accumulated Absences Account: Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	3						(3)
Other Adjustments	(820)		(1,627)				820
	1,283						344
Total Adjustments	(72,264)	0	269,394	12,447	17,378	1,120	(228,075)

Agenda Item 5

AUDIT PANEL		
Report Title	Internal Audit update report	
Key Decision	No	Item No. 5
Ward	ALL	
Contributors	Executive Director for Resources	
Class	Part 1	Date: 23 November 2011

1. Purpose of the Report

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

- Internal audit progress since the last Audit Panel report
- Performance of the Internal Audit contractor, 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. The client side of Internal Audit comprises an Interim Head of Audit and Risk and an Internal Audit Contract Manager.
- 3.2. They contract and supervise the Council's internal audit service, which has been provided by RSM Tenon since September 2008. In October, following a competitive tendering exercise, the contract was renewed for a further three years.
- 3.3. The contractor is responsible for completing all the internal audit reviews for the Council (non-schools and schools) and any consultancy or grant certification work as directed.
- 3.4. Under a service level agreement the internal audit service also undertake audits for Lewisham Homes and occasionally when requested for some of Lewisham Council's partners.

4. Internal Audit progress update

2010-11

- 4.1. The audit plan for 2010/11 is completed to final report stage with the exception of one report :
- Procurement and Purchasing of Goods and Services – this is at the draft review stage
- 4.2. This review was commissioned at the end of the previous financial year to look in at some potential concerns around the use of manual ordering, receipting of goods and matching of credit notes identified from an Anti-Fraud and Corruption Team investigation. The delay arises because initial audit testing did not cover the audit scope so additional work was requested.

2011/12 Audit Plan

- 4.3. The Regeneration Directorate has now been disbanded and with the exception of parking enforcement and transport, and their Divisions are now merged into the new Resources and Regeneration Directorate. The Resources and Regeneration Directorate is referred to in shorthand in this report as RRE.

4.4. The table below summarises the number of audits by Directorate for the audit plan for 2011/12 up to the 31/10/11.

Lead Dir.	Original Audit Plan	Audit Work Added	Audits Pulled	Current Audit Plan	Final Reports Issued	Report at Draft Stage	Work in Progress	Work Not Yet Due
RRE	28	4	1	31	2		3	26
CUS	12	3	1	14	4		2	8
COM	5	6	1	10	1		3	6
CYP	6	1		7	2		3	2
SCH	32	1		33	8	8	1	16
TOTAL	83	15	3	95	17	8	12	58

4.5. This shows :

- 39% of the plan is now in progress
- 26% of the plan has been completed to draft report stage and
- 18% of the plan has been completed to final report stage.

4.6. Since the last Audit Panel Meeting in August, there have been eight additional audits requested and no cancelled reviews. These are listed below:

Dir.	Audit Title	Comments
RRE	Schools PFI	Part of the Contract and Procurement Review
RRE	Risk Maturity	New testing programme approved.
COM	Younger Adults	Requested by COM management – replaces a cancelled Increased Shared Role with NHS review
COM	Monitoring of Small Grants for Community and Local Assembly	Requested by Community Management
COM	Learning Development Pricing Tool	Requested by Community Management
COM	Learning Development – Shared Lives	Requested by Community Management
SCH	Foster Park Primary School	Requested by Head Teacher as new to the school.
CUS	Housing 21 Contract Review	Part of the Contract and Procurement Review

4.7. Since the last Audit Panel report, there have been seven final reports issued.

Dir.	Audits title	Final Issued	Assurance Level
CUS	Trading Standards	27/06/11	Substantial
CUS	Complaints, Compliments & Suggestions	01/07/11	Substantial
CYP	Play Capital Determination Grant	22/06/11	N/A – Grant
CYP	Provision of School Places	22/06/11	Substantial
SCH	Brockley Primary School	27/05/11	Substantial
SCH	Chelswood Nursery	21/07/11	Substantial
SCH	St William of York	01/07/11	Substantial

4.8. Since the last Audit Panel report there has been no Limited or No Assurance Reports finalised.

4.9. For a more detailed look at the audits in the audit plan, please refer to Appendix 1. Those audits that have already been reported to the audit panel as finalised do not appear in the table at Appendix 1 which focuses on work in progress and still to be started for 2011/12.

4.10. Overall, and as borne out by the contractor performance indicators below, this position is slightly behind plan as it is taking slightly longer to start and finalise certain reviews than hoped. We are working with the contractor and auditees to help conclude reviews as promptly as possible. Quarter three is key to our plan to avoid too much work being left to the last quarter when we have a full schedule of core systems work booked in.

4.11. It should be noted that this position is comparable to the one we faced a year ago when we delivered over 95% of the audit plan to draft report stage in line with our targets. We, the Council's internal audit team and the contractor therefore remain confident the audit plan can be delivered in the year. Progress in this important quarter will be monitored by the Internal Control Board when they meet on the 20 December.

5. Performance of the contractor

5.1. One of the ways that the performance of the contractor is measured is by Performance Indicators (PIs). These PIs and targets were agreed at the start of the year.

No.	Performance Indicator	Target YTD	Actual YTD to	Variance (+/-)
1	Percentage of all draft reports issued against audit plan	27.4%	26.3%	(1.1)%
2	Percentage of draft audit reports issued within 15 working days of the exit meeting	90%	68%	(22)%
3	Percentage of final reports issued within 10 working days of agreed draft report	95%	94.1	(0.9)%
4	The average level of client satisfaction to be achieved (out of a score of 5)	4%	4.5%	+0.5%
5	Percentage of High & Medium recommendations made agreed by management.	95%	97%	+2%

- 5.2. Two of the five PIs targets have been met or exceeded, with three not met.
- **PI 1** – Overall target missed by 1%. This is a slight deterioration in performance from being 2% ahead at the last audit panel report. The cause of this is the non-schools work where the target was missed the target by 13%. The schools target was exceed by 21%. The contractor has assured us that this target will improve and the audit plan will be met.
 - **PI 2** - The target for this PI was missed by 22%. This is an improvement from the last audit panel meeting where this PI was missed by 27%. See also comments at 4.10 above and 6.3 below for some of the anecdotal pressures influencing this target.
 - **PI 3** - This target was missed by 1% and has declined by over 10% since the last Audit Panel. We have raised this with the contractor and continue to monitor their performance. We are assured the internal audit team are now treating this as a priority.
 - **PI 4** - This has exceeded by 0.5% - this is an improvement on the already exceeded target. That the reception to internal audit work and it's quality remains high, mindful of the comments about delays on PIs above, is important.
 - **PI 5** - This has exceeded its target by 2% - and, and with PI4, provides some assurance that the quality of internal audit work and the relationship with management continues to remain strong despite some of the operational pressures being faced by all.

6. Implementation of internal audit recommendations

- 6.1. All High and Medium recommendations are followed up by internal audit as part of the audit process. Follow-up reviews are normally undertaken within six months of the final report being issued by the contractor.
- 6.2. The table below is a summary the total number of recommendations followed-up by the contractor since the last audit panel report and up to 31/10/11. It shows that 78% of recommendations that were followed up were either implemented, in progress or superseded with 22% not implemented.

	Implemented	In progress	Superseded	Not Implemented	Not Due	Total
TOTAL	39	22	3	17	-	81

- 6.3. This is slightly behind the position previously reported and may, based on anecdotal evidence, reflect a combination of some delays in implementing audit recommendations over the summer holiday period and/or as managers and teams are increasingly occupied with maintaining business as usual and implementing agreed savings plans.
- 6.4. We will continue to ensure a follow-up of High and Medium recommendation is conducted six months after the final report is issued and keep this area under review and report progress to the Audit Panel. Details of the individual follow-up reviews issued since the last audit panel meeting can be found at Appendix 2.

6.5. The table below shows the status of all recommendations made up to the 31/10/11.

Lead Dir	Previous No. of O/Due Recs.	Current No. of O/due Recs	Current No. of Recs with 2+ changes	Previous No. of Open 18/08/11	No of Recs Re-opened since 18/08/11 to 31/10/11	No. of New Recs from 18/08/11 to 31/10/11	Closed Recs from 18/08/11 to 31/10/11	Current Open Recs at 31/10/11
RRE	17	20	13	61	13	13	33	54
CUS	-	-	-	13	5	3	7	14
COM	5	12	4	18	3	11	5	27
CYP	-	1	3	12	-	-	3	9
SCH	13	23	-	20	-	13	7	26
Total	35	56	20	124	21	40	55	130

6.6. A summary table in Appendix 3, shows those audits with recommendations either overdue or with two or more changes of implementation date. As at 31/10/11 there were 56 overdue (11 High and 45 Medium) recommendations. Out of those that are overdue, nine have been overdue since the last audit meeting with no progress update provided as at 31/10/11.

6.7. At the Audit Panel's request, we invite officers to attend the meeting to explain the current position of recommendations overdue or with multiple date changes.

7. Update on Key Risks

7.1. The annual risk management maturity review undertaken by internal audit for 2010/11 concluded that the Authority continues to be 'Risk Managed'. This is the fourth point on a five point scale and is the level Internal Control Board expects to be maintained. This year's risk management audit is schedule for quarter four.

7.2. At the Audit Panel's request we provide below the current status on the key corporate risks, changes and actions being taken to mitigate them. The current red (most significant) risks in the corporate risk register are:

Corporate Risk Register – Extract		
Corporate priority	Risk title	RAG status
Inspiring efficiency effectiveness and equity	Failure of central ICT infrastructure	Red
Inspiring efficiency effectiveness and equity	Litigation risks	Red
Inspiring efficiency effectiveness and equity	Non-compliance with H&S regulations	Red
Protection of Children; Caring for Adults and Older People	Avoidable death or serious injury to client or employee	Red
Inspiring efficiency effectiveness and equity	Employee relations	Red

7.3. This represents no change from the previous Audit Panel report. The corporate risk register is updated quarterly by the Executive Management Team and then reviewed by the Internal Control Board. This happened in September as reported to the Audit Panel and is next scheduled for December.

8. Legal Implications

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

9. Financial Implications

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

10. Equalities Implications

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

11. Crime and Disorder Implications

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

12. Environmental Implications

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

13. Background Papers

13.1. There are no background papers.

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

Appendix 1 – Progress of the Audit Plan for 2011/12

Resources and Regeneration Audits

Sorted by final reports issued, draft reports issued and work started - Key Audits in Bold

Lead Dir.	Audits title	Due	F/W Started	Draft Issued	Final Issued	Assurance Level	Comment
RRE	Public Sector Transparency Board	Q1	08/04/11	31/08/11	01/09/11	Satisfactory	
RRE	Security of Town Hall / Laurence House	Q1	23/03/11	29/07/11	19/09/11	Satisfactory	
RRE	Highways Contract (1) Monitoring of the Contract	Q2	04/07/11				Part of the Con. and Pro. overview report
RRE	Building Security (3) Monitoring of the Contract	Q2	02/08/11				Part of the Con. and Pro. overview report
RRE	Property Asset Management Follow up	Q3	17/10/11				
RRE	Contract and Procurement Overview Report	Q3					Unable to complete until all individual contract reviews have been conducted.
RRE	Fraud	Q3					Awaiting scope from specialist
RRE	Implementation of Fixed Asset System	Q3					
RRE	Implementation of Payroll system (ResourceLink)	Q3					
RRE	Implementation of HR System - PHRIS	Q3					
RRE	HR - Thematic Review	Q3					
RRE	Project Management Monitoring Capacity	Q3					
RRE	Legal Services	Q3					
RRE	Performance Indicators for LA's	Q3					
RRE	Cyber Threats	Q3					
RRE	Mutual Organisations	Q3					
RRE	Information Governance	Q3					

Appendix 1 – Progress of the Audit Plan for 2011/12

Lead Dir.	Audits title	Due	F/W Started	Draft Issued	Final Issued	Assurance Level	Comment
RRE	Review of Major Grants	Q3					
RRE	Pensions	Q3					
RRE	Payroll	Q3					
RRE	Main Accounting / General Ledger	Q3					
RRE	Accounts Payable	Q3					
RRE	Fixed Asset Register	Q3					
RRE	Budget Control and Monitoring	Q3					
RRE	Treasury Management	Q3					
RRE	Capital Programme – Monitoring and Expenditure	Q3					
RRE	Risk Maturity	Q3					
RRE	Consultants Planning Framework (5) Monitoring of the Contract	Q3					Part of the Con. and Pro. overview report
RRE	Regeneration of Lewisham	Q3					
RRE	Croydon and Lewisham Street Lighting PFI	Q3					

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Customer Services Audits – Sorted by final reports issued, draft reports issued and work started - Key Audits in Bold)

Lead Dir.	Audits title	Due	F/W Started	Draft Issued	Final Issued	Assurance Level	Comment
CUS	Street cleaning	Q1	05/04/11	02/09/11	23/09/11	Consultancy	
CUS	Brockley PFI (Major Suppliers)	Q1	11/07/11				
CUS	Green Scene- Contract Monitoring (4)	Q2	15/09/11				Part of the Con. and Pro. overview report
CUS	Implementation of NNDR System	Q3					

Appendix 1 – Progress of the Audit Plan for 2011/12

Lead Dir.	Audits title	Due	F/W Started	Draft Issued	Final Issued	Assurance Level	Comment
CUS	Homesearch	Q3					
CUS	Housing 21 (7) – Monitoring of the contract	Q3					Part of the Con. and Pro. overview report
CUS	Housing and Council Tax Benefits	Q3					
CUS	Council Tax	Q3					
CUS	Accounts Receivable	Q3					
CUS	NNDR	Q3					
CUS	Cash Collection & Banking	Q3					

Community Services Audits – Sorted by final reports issued, draft reports issued and work started - Key Audits in Bold

Lead Dir.	Audits title	Due	F/W Started	Draft Issued	Final Issued	Assurance Level	Comment
COM	Personal Budgets	Q1	05/04/11				
COM	Learning Disabilities (2) – Monitoring of Contract	Q1	07/07/11				Part of the Con. and Pro. overview report
COM	Supporting People Service Plan	Q2	02/08/11				
COM	Learning Development – Pricing Tool	Q3					
COM	Learning Development – Shared Lives	Q3					
COM	Younger Adults	Q3					
COM	Client Contributions for Residential and Domiciliary Care Services	Q3					
COM	Payments to Residential and Domiciliary Care Service Providers	Q3					
COM	Monitoring of Small Grants and Community and Local Assembly	Q3					

Appendix 1 – Progress of the Audit Plan for 2011/12

CYP Audits – Sorted by final reports issued, draft reports issued and work started - Key Audits in Bold

Lead Dir.	Audits title	Due	F/W Started	Draft Issued	Final Issued	Assurance Level	Comment
CYP	CONTROC system - joint review	Q2	25/07/11				
CYP	Children Social Care	Q2	22/09/11				
CYP	School IT Security	Q2	11/09/11				
CYP	School PFI (6) Monitoring of the Contract	Q3					
CYP	Looked After Children	Q3					

School Audits – Sorted by final reports issued, draft reports issued and work started

Lead Dir.	Audits title	Due	F/W Started	Draft Issued	Final Issued	Assurance Level	Comment
SCH	Elfrida Primary	Q1	23/06/11	01/08/11	30/09/11	Substantial	
SCH	Perrymount Primary	Q1	28/06/11	26/07/11			
SCH	Gordonbrock Primary	Q2	04/07/11	02/08/11			
SCH	Holy Trinity Primary	Q2	11/07/11	02/08/11			
SCH	St Bartholomew's Primary	Q2	18/07/11	04/08/11			
SCH	Baring Primary	Q2	20/09/11	25/10/11	25/10/11		
SCH	Childeric Primary	Q2	26/09/11	06/10/11	21/10/11		
SCH	Downderry Primary	Q2	12/09/11	10/10/11	20/10/11		
SCH	St John Baptist Primary	Q2	15/09/11	06/10/11	21/10/11		
SCH	Foster Park School	Q3	18/10/11				
SCH	Ashmead Primary	Q3	11/10/11	21/10/11			
SCH	Brindishe Lee Primary	Q3					

Appendix 1 – Progress of the Audit Plan for 2011/12

Lead Dir.	Audits title	Due	F/W Started	Draft Issued	Final Issued	Assurance Level	Comment
SCH	Coopers Lane Primary	Q3	17/10/11	27/10/11			
SCH	Eliot Bank Primary	Q3	03/10/11	21/10/11			
SCH	Grinling Gibbons Primary	Q3					
SCH	Haseltine Primary	Q3					
SCH	John Ball Primary	Q3					
SCH	St James Hatcham Primary	Q3					
SCH	St Margaret's Lee CE Primary	Q3	05/09/11	14/09/11			
SCH	Brent Knoll (Special)	Q3					
SCH	All Saints Primary	Q4					
SCH	Christ Church Primary	Q4					
SCH	Kelvin Grove Primary	Q4					
SCH	Sir Francis Drake Primary	Q4					
SCH	St Saviours Primary	Q4					
SCH	St Winifreds Juniors	Q4					
SCH	Greenvale (Special)	Q4					
SCH	Meadowgate (Special)	Q4					
SCH	New Woodlands (inc Primary PRU)	Q4					

Appendix 2 - Follow Up Reviews Conducted Since the Last Audit Panel

Dir.	Audit Name	Audit Opinion	Final Report date	Rec Cat.	Implemented	In Progress	Superseded	Not Implemented	Not Due Yet	Total Recs
RRE	Taxation (VAT)	Consultancy	21/02/11	H						5
				M	3	2				
RRE	Treasury Management	Substantial	18/03/11	H						1
				M	1					
RRE	Pensions (10/11)	Substantial	16/03/11	H						1
				M		1				
RRE	Capital Programme Monitoring & Expenditure	Satisfactory	23/03/11	H	1					3
				M				2		
RRE	Benefits Realisation for the Early Change Project	Satisfactory	16/02/11	H						3
				M	2		1			
RRE	Communication – Design and Print	Limited	31/03/11	H		2				10
				M	5	1		2		
RRE	Health & Safety	Consultancy	01/11/11	H	1	1		2		15
				M	1	5		5		
CUS	NNDR (Main Testing)	Satisfactory	16/02/11	H						4
				M	1	1	2			
CUS	Cash Collection and Banking	Satisfactory	10/03/11	H						3
				M	2	1				
CUS	Pre-payment Cards	Satisfactory	01/12/11	H						4
				M	2	2				
CUS	Customer Relationship Management	Satisfactory	08/03/11	H						4
				M	1			3		
COM	Homecare Services	Limited	14/03/11	H		1		1		5
				M	2	1				
COM	Client Monies – Bargery Road	Consultancy	15/02/11	H						1
				M	1					

Appendix 2 - Follow Up Reviews Conducted Since the Last Audit Panel

Dir.	Audit Name	Audit Opinion	Final Report date	Rec Cat.	Implemented	In Progress	Superseded	Not Implemented	Not Due Yet	Total Recs
COM	Event	Satisfactory	11/10/11	H						1
				M	1					
COM	Direct Payments	Limited	29/03/11	H	1			1		6
				M	1	2		1		
CYP	Care Planning Arrangements from Children and Adult	Satisfactory	21/10/11	H						4
				M	3	1				
CYP	CYP Estates Management	Satisfactory	21/12/10	H						4
				M	4					
CYP	Bankline	Substantial	16/03/11	H						1
				M	1					
SCH	Lee Manor School	Satisfactory	22/02/11	H						3
				M	2	1				
SCH	Deptford Park School	Satisfactory	23/03/11	H						3
				M	3					
Total No.					39	22	3	17	0	81
Percentage					48%	27%	6%	22%		

Appendix 3 – Overdue Recommendations and Recommendations Two or More Changes of Date

Dir	Name of Audit	Final Report Date	High O/Due	Medium O/Due	No. Recs 2+ Changes	Comment
RRE	Property Services – Mail Room	15/04/11	2	4		
RRE	Highways – Charging Utilities for Street Works	26/11/10		2		
RRE	Property Services – Repairs and Maintenance	20/04/11		6		
RRE	Security of Town Hall and Laurence House	19/09/11		2		
RRE	Information Security Management	24/03/11		1		
RRE	SharePoint	25/01/10		1	2	Date changed 2 times
RRE	DPA/ FOI	09/10/09			1	Date changed 4 times
RRE	Health & Safety	01/11/10		1	5	Date changed 2 times
RRE	Risk Management – Operational Risk Registers	01/10/11			1	Date changed 2 times
RRE	Communication Design & Print	31/03/11		1		
RRE	Occupational Health Referrals	13/08/10			3	Date changed 2 time
RRE	Schools Outsourced Pension	16/09/10		1		IA did not remind department
RRE	Highways Maintenance	03/05/08			1	Date changed 9 times.
COM	Community Mental Health (SLAM)	Pre 2009		1	1	Overdue since last Audit Panel Date changed 5 times
COM	Review of Financial Management of Public Funds Held by LPHA	06/09/11	9	1		
COM	Direct Payments 10/11	29/03/11		1	*1	Overdue since last Audit Panel * This rec is not overdue (changed 2 times)
COM	Client Contributions to Res & Dom Care (10/11)	16/12/10			1	Date changed 3 times
COM	Client Contributions to Res & Dom Care (pre 2009)	29/05/10			1	Date changed 4 times
CYP	Family Support and Intervention	04/12/09			2	Date changed 5 times
CYP	ICS Application Security Controls	16/07/10			1	Date changed 2 times
SCH	Horniman Primary School	24/06/10		1		Overdue since last Audit Panel
SCH	Myatt Garden School	25/06/10		3		Overdue since last Audit Panel
SCH	Rangefield School	21/03/11		1		
SCH	Torridon Junior School	08/07/10		1		Overdue since last Audit Panel

Appendix 3 – Overdue Recommendations and Recommendations Two or More Changes of Date

Dir	Name of Audit	Final Report Date	High O/Due	Medium O/Due	No. Recs 2+ Changes	Comment
SCH	Chelswood Nursery	21/07/11		2		
SCH	Turnham Infant School	08/02/11		2		Overdue since last Audit Panel
SCH	Baring School	25/10/11		2		Finalised in October
SCH	Lucas Vale School	01/12/11		1		
SCH	Elfrida School	30/09/11		1		
SCH	St Augustine's School	03/12/11		3		
SCH	Downderry School	20/10/11		1		Finalised in October
SCH	Childeric School	21/10/11		3		Finalised in October
SCH	Brockley Primary School	27/06/11		1		
SCH	St John the Baptist	21/10/11		1		Finalised in October
			11	45	20	

AUDIT PANEL		
Report Title	ANTI FRAUD AND CORRUPTION TEAM (A-FACT) UPDATE	
Key Decision	NO	Item No. 6
Ward	ALL	
Contributors	Interim Head of Audit & Risk A-FACT Group Manager	
Class	Part 1	Date: 23 November 2011

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 quarter.

2. Recommendations

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

3. Special Investigations

- 3.1. During the period August to October 2011 the Special Investigations section received 64 new allegations or enquiries relating to fraud and/or irregularity, an average of 21 per month. This is slightly up on the period April to July which averaged 19 per month.
- 3.2. During the period August to October 2011 the section completed 95 cases, an average of 31 cases per month. This compared to an average of 28 cases per month being closed in the previous four months. A further 71 cases are still in progress. These figures include Lewisham Homes cases but exclude pre-employment checks undertaken (see 3.5 below).
- 3.3. Examples of cases recently been brought to a conclusion include:
 - The Council's Web monitoring software has been used to identify two cases where non-productive use was suspected. Informal warnings were issued to staff which resulted in a significant improvement in usage.
 - A former claims based Youth Worker was prosecuted for benefit fraud and resigned from her post when challenged about her conduct.
 - Day Service Officer at Leemore Day Centre found to be working for Lewisham Council and the London Borough of Richmond-upon-Thames at the same time. Immediately following her interview with Special Investigations she tendered her resignation, which was accepted.
- 3.4. Regular reports continue to be issued quarterly to each Executive Director with a summary of all cases being dealt with by Special Investigations in their Directorate. This ensures that the risk of fraud is considered in the context of the demands of the service, priorities are agreed and progress on investigations communicated.

Pre-employment Checks

- 3.5. A-FACT support Human Resources by undertaking a part of the recruitment checks. Each potential employee of the Council is required to complete a pre-employment check form which focuses on any issues relating to benefits, council tax, rent and personal business interests which may cast doubt on the individuals integrity. In the

period August to October 113 checks were undertaken, including 28 for Lewisham Homes. This compared to 73 in total for the period April to July.

- 3.6. These checks found three cases where the applicant had other business interests or company directorships, and one with rent arrears. All these applicants went on to be recruited once the Council's requirement for whole time service had been confirmed or agreement to pay the arrears as part of their probation terms had been confirmed.

4. Benefit Investigations

- 4.1. During the period August to October the Benefit Investigation section has secured 5 sanctions, 4 of which have been prosecutions. Prosecution action is only taken against the most serious cases and take significantly longer to prepare. The total value of the overpayments for the period, including Income Support, is £112,829. On recovery this represents a saving to the public purse.
- 4.2. The teams level of referrals increased slightly during the period from August to October 2011 with 71 new referrals accepted for investigation. This is an average of 24 per month compared to an average of 19 per month in the period April to July. They completed 31 cases in the period August to October, an average of just over 10 per month compared to 32 per month in the previous period. This can partially be explained by the impact of annual leave at this time of year and that we have chosen to target more serious cases. A further 366 investigations are in progress.
- 4.3. In the last Audit Panel report it was reported that the Councils Benefit Investigation Team would be moving to the DWP Single Fraud Investigation Service as from April 2013. The DWP have now indicated that this is likely to be postponed until at least 2015. The DWP have stated an intention to confirm their position in November.

5. Housing Investigations

- 5.1. The team's Housing Investigation Practitioner investigates allegations of Housing and Homelessness application fraud and Cash Incentive Scheme payments against the London Borough of Lewisham. The investigation of tenancy fraud has been the responsibility of Lewisham Homes since October 2008.
- 5.2. During the period August to October 14 cases were passed for investigation, which was a slight decrease on the previous four months. The officer dealing with these cases completed has completed 41 cases in the year to date, compared to 35 cases for the whole of last year. There are currently 69 cases under investigation.
- 5.3. Of the 41 cases concluded 13 have resulted in successful outcomes. These include six cases where decant applications contained false information, one false application for housing on the basis of Homelessness, 6 six cases of sub-letting investigated and proved on behalf of Lewisham Homes, and one relating to the false succession of a tenancy.

6. DCLG Housing Bid funding

- 6.1. As reported previously, the DCLG has, as part of the Government's commitment to tackling social housing fraud, allocated Lewisham Council £100,000 in both 2011/12 and 2012/13 for tackling social housing fraud. Work is being directed by Strategic Housing (Customer Services) and delivered by A-FACT working in Lewisham and with the South East London Housing Partnership (SELHP). The DCLG have indicated that future funding may also be available for this work in 2013/14 and 2014/15.

- 6.2. Following discussions between Strategic Housing, SELHP and A-FACT, Lewisham has committed the first years funding of £100,000 to support two housing providers Pinnacle/Regenta and London & Quadrant in tackling housing fraud
- 6.3. The recruitment of a Housing Investigator to undertake this work has now moved forward with a provisional offer of employment having been made. Subject to satisfactory references the candidate is available to start immediately.

7. Publicity

- 7.1. A-FACT continues to publicise successful cases in the local press and the BBC programme Saints and Scroungers featuring Lewisham A-Fact has also been re-run on the Sky "Crime" channel.
- 7.2. A press release was issued on a benefit fraud case where the claimant had failed to declare her savings resulting in overpaid benefit of over £19,000. She was convicted on the 30 September of four charges of dishonesty and was sentenced to eight weeks in prison per charge to run concurrently suspended for 12 months. She was also ordered to attend a Structured Supervision programme and comply with a three month curfew between the hours of 8.30pm and 6.00am.
- 7.3. The team is planning to relaunch it's Stamp Out Fraud campaign and will be working with Communications on this project.

8. Fraud Awareness Training

- 8.1. In the period August to October A-FACT has provided two days fraud awareness training for Lewisham Homes.
- 8.2. Training is due to be provided to the new Decant team that will be dealing with Milford Towers. This will help ensure that only genuine tenants are considered for rehousing under this scheme.
- 8.3. A-FACT reissued a Fraud Alert reminding finance staff to be aware of attempts to fraudulently alter creditors bank details. Other local authorities have received forged documents claiming to be a supplier who needed their bank details changed. In one instance a Scottish Council lost £102,000 to this fraud. A-FACT will continue to issue reminders to remind staff to make independent checks into any such request.

9. Metropolitan Police Seconded

- 9.1. Detective Constable Norris who is on secondment from the Metropolitan Police continues to effectively contribute and enhance the work of the A-FACT by providing advice, assistance and applying Police powers where appropriate. His access to Police systems and intelligence and as an Accredited Financial Investigator continue supplement and enhance the skills of the team.

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 for this report.

If there are any queries on this report, please contact:

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

AUDIT PANEL		
Report Title	Exclusion of the Press and Public	
Key Decision		Item No. 7
Ward		
Contributors	Chief Executive	
Class	Part 1	Date: 23 November 2011

Recommendation

It is recommended that under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 3, 4 and 5 of Part 1 of Schedule 12(A) of the Act, as amended by the Local Authorities (Executive Arrangements) (Access to Information) (Amendments) (England) Regulations 2006:-

- 1 Update Report to the Cost and Use of Consultants and Senior Interim Managers at London Borough of Lewisham

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted