



# AGENDA AUDIT PANEL

**Date: WEDNESDAY, 22 JUNE 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 Suzannah Clarke  
Councillor Jenni Clutten  
Councillor Michael Harris  
Councillor Jim Mallory  
Councillor Philip Peake  
Councillor Alan Till

## Independent Members

Richard King  
David Webb

**Members are summoned to attend this meeting**

Barry Quirk  
Chief Executive  
Lewisham Town Hall  
Catford  
London SE6 4RU  
Date: 14 June 2011



INVESTOR IN PEOPLE

The public are welcome to attend our committee meetings, however occasionally committees may have to consider some business in private. Copies of reports can be made available in additional formats on request.

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# Agenda Item 1

AUDIT PANEL		
<b>Report Title</b>	<b>ELECTION OF CHAIR AND VICE CHAIR</b>	
<b>Key Decision</b>		<b>Item No. 1</b>
<b>Ward</b>		
<b>Contributors</b>	<b>CHIEF EXECUTIVE</b>	
<b>Class</b>	<b>Part 1</b>	<b>Date: 22 June 2011</b>

## **Recommendation**

It is recommended that a Chair and Vice Chair of the Audit Panel be appointed for the municipal year 2011/12

# Agenda Item 2

AUDIT PANEL		
Report Title	MINUTES	
Key Decision		Item No. 2
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 22 JUNE 2011

## Recommendation

It is recommended that the Panel agrees the Minutes of the meeting, which was open to the press and public, held on 23 March 2011.

# LONDON BOROUGH OF LEWISHAM

## Minutes

MINUTES of a meeting of the AUDIT PANEL, which was open to the press and public, held on WEDNESDAY 23 MARCH 2011 at LEWISHAM TOWN HALL, CATFORD, SE6 4RU at 7p.m.

## Present

Councillor Harris (Chair) Councillor Peake (Vice Chair) Councillors Mallory and Till.

## Independent Members

Mr King  
Mr Webb

## Audit Commission

Geoffrey Banister - Audit Manager, RSM Tenon Ltd  
Chris Harris - Director of Internal Audit, Lewisham Homes  
Adam Barrett - Director for Resources

## Officers

David Austin - Interim Head of Audit & Risk  
Conrad Hall - Head of Business Management & Service Support  
Richard Lambeth - Group Manager - Accounting  
Carol Owen - Anti Fraud & Corruption Team Manager  
Andreas Ghosh - Head of Personnel & Development

Apologies for absence were received from Councillors Bonavia and Clutten.

Minute No.		Action
1	MINUTES (page  RESOLVED that the Minutes of the meeting of the Panel held on 22 December 2010, which was open to the press and public, be confirmed and signed.	
2	DECLARATIONS OF INTERESTS (page	
2.1	None.	
3	INTERNAL AUDIT UPDATE REPORT(Page	
3.1	The Interim Head of Audit & Risk presented the update. He informed members that one of the 2009/10 reports was yet to be completed but he was confident this would be done by the end of March. The full year 2011/12 audit plan was also on schedule	

to be delivered with three agreed exceptions by the end of March. This was a significantly improved position on prior years. Following the presentation Councillor Till asked if the second box of the table on page 14 should have read -10% as it was a negative variance this was noted to be an error. Mr King commented that the Key Performance Indicators had not improved since the last report. Officers agreed this was the case and confirmed they were working closely with the contractor to improve them. The Chair said that if they fall again officers might want to reconsider their targets as they might be unrealistic or there might be other issues they may want to investigate.

- 3.2 The Head of Personnel & Development informed members that they were in the process of getting the information on the salaries of high earning interim, agency and consultant staff. With their consent this would be published by the Council. He added that the difficulty would be trying to get the exact salaries of individuals from organisations that provide services to the Council. The Chair asked if figures shown would be those paid to individuals that work for us via agencies or if it would be the figure we pay the agencies. It was noted that the published figure would be that paid to the agency as this is what the cost to the Council would be.
- 3.3 The Head of Personnel & Development noted that another challenge could be figures for individuals who work part-time. Councillor Mallory said this should not be difficult as their salaries should be worked out on a pro-rata basis, adding that members would want to see the list of people who were paid an equivalent of a £100k salary.
- 3.4 Mr King asked if it would be easier to identify the amount of hours paid for a job, if identifying the individual becomes a challenge. The Head of Business Management and Service Support said that this would depend on the service provision, but this would be looked at. The Chair said that it would be useful to have a separate list for contractors who refuse to co-operate. The Head of Personnel and Development said that he was aiming to produce an aggregate report with various categories that would list the high earners of the Council. Head of  
Personnel  
& Develop.
- 3.5 The Chair said that at the last meeting they had requested a report on the use of consultants, because concerns were raised about compliance with the process for procuring consultants. The Interim Head of Audit & Risk updated the Panel on progress since the previous meeting. A follow-up report on the original internal audit findings was completed in December. This identified that all but one recommendation have been superseded by the work currently underway as outlined above

by the Head of Personnel & Development. The one outstanding recommendation relates to maintaining a comprehensive register of all interim, agency and consultant staff employed by the Council. This was expected to be resolved by June 2011 as part of the exercise to update the Council's records on people employed in this manner. Councillor Mallory suggested that it would be practical to wait for the report from the Head of Personnel and Development, if this was not comprehensive then they could request further information. Members also emphasised that all the concerns they had raised in the past should be addressed.

- 3.6 The Panel reviewed the draft 2011/12 Audit Plan presented in the Interim Head of Audit & Risk's report. Mr King sought clarification on what the scope for audits identified as 'post implementation reviews' would be. The Interim Head of Audit & Risk confirmed that these would be reviews of the risks and internal controls for these systems once the post implementation has been completed by management, and not post implementation reviews. The scope for these reviews would be clarified accordingly in the 2011/12 Audit Plan.
- Interim  
Head of  
Audit &  
Risk

RESOLVED that

- (i) the report be noted;
- (ii) the Audit plan 2011/12 be approved.

#### 4. ANTI FRAUD AND CORRUPTION TEAM (A-FACT) UPDATE (Page

- 4.1 The Interim Head of Audit and Risk introduced the report. It was noted that up 160 Lewisham Homes tenancies identified for investigation on suspicion of illegal sub-letting had been recovered in the last 18 months. Councillor Till asked if there had been a lot of whistle blowing, and was told that there were some cases. In particular following publicity on successful cases, a hotline provided for whistle blowers, has proved successful.
- 4.2 Councillor Mallory asked if someone could be convicted of fraud if they were caught sub-letting Council property. It was noted that sub-letting was not a criminal offence but a civil breach of the tenancy agreement. Councillor Mallory said that he assumed that successful cases would be of benefit to the community and the advantages of this should be made more public. He added that the more incentive offered to the community the more cases would be reported to officers. This would save the Council money, and provide homes for people who need it. The Anti-

Fraud and Corruption Team Manager said that in cases where prosecution was achieved the informer would be offered financial reward, but the downside was that this could encourage malicious calls. Mr Webb asked if the Anti Fraud team worked with police officers and was told this was the case.

- 4.3 Councillor Mallory suggested that it would be useful if figures were included in a report that show potential loss and gains. The Interim Head of Audit & Risk said that he was already working on this report on the Council's counter-fraud work and that this would be brought to the Audit Panel. Interim Head of Audit & Risk
- 4.4 The Chair asked if officers felt that Lewisham had adequately invested in Housing investigation. The Director for Resources of Lewisham Homes said that additional resources had been made available over the last 2 years, this investment would be maintained, and an additional specialist post would be funded to combat fraud. The Chair then asked if Lewisham has less problems in comparison to other authorities or housing providers. It was noted that Lewisham has good processes in place which was helpful, Lewisham Homes worked very closely with the Council, and their objectives were closely aligned to ensure good partnership working.
- 4.5 Councillor Peake asked if the level of illegal sub-letting in Lewisham was high. It was noted that although the national figure was 5-8%, it may be higher in London because of demand. The Chair asked if there was a way of mapping out high rates of sub-letting and was told that this was not formally done. It was noted that an anti-fraud campaign would be done in May 2011. The Chair suggested that the mapping should be prepared and used as part of the Council's proactive counter fraud work. The Head of Business Management and Service Support said that this would need to be considered carefully to ensure that it could be done legally.
- 4.6 Councillor Mallory commented that it would be beneficial to publicise the positive impact of reclaiming these properties as this would encourage members of the public to report offenders and raise awareness. It was noted that one positive impact would be that Bed and Breakfast bills would be lower which could result in a lower council tax for residents.
- 4.7 The Chair asked if officers found guilty of fraud were only disciplined, and not prosecuted. It was noted that if necessary criminal prosecution could ensue plus confiscation of the proceeds of crime.

RESOLVED that the report be noted.



## 5. RISK MANAGEMENT UPDATE

5.1 The Interim Head of Audit & Risk introduced the report. The Chair said that it would be useful to have a probability and risk scenario within the Risk Management Policy and Strategy. The Chair said that he was concerned that Audit Panel being the scrutiny body for the risk management process was not alerted of occasions when high risks were identified. The Head of Business Management and Service Support informed members that the Internal Control Board look at the detailed risk register of the Council. The Chair said that he was concerned that the Internal Control Board that check the risk register has no Council Member in its membership. He asked where high risks were reported. The Interim Head of Audit & Risk explained that the Monthly Management performance report was reviewed by the Executive Management Team, taken to Mayor & Cabinet and published online for all members to see. The Monthly Management report highlights the key risks from the risk registers and updates on significant changes.

5.2 The Chair asked what would happen if a lot of staff go off sick, asking whether the Internal Control Board would report this to the Mayor. The Interim Head of Audit & Risk stated that the Internal Control Board would enquire what had been done to address the problem, and the relevant Executive Director(s) would put in place any additional contingency work identified as needed. This would be recorded in the risk registers and picked up by the Mayor & Cabinet via the Monthly Management report. Mr King said that other authorities he had worked for usually have a paragraph in all their reports similar to financial implications to address potential risk. The Chair said that he would require some clarity about the current system in place to report high risk situations. Mr King highlighted that some of the information on the risk register were illegible. The Interim Head of Audit & Risk apologised for this, and said the information would be re-circulated to members.

Interim  
Head of  
Audit &  
Risk

RESOLVED that

(i) the Risk Management Strategy 2011-13 be approved.

(ii) the progress made in reporting and managing risk be noted.

## 6. AUDIT COMMISSION PROGRESS REPORT

6.1 Geoffrey Banister, Audit Manager, Audit Commission introduced

the report. He highlighted that arrangements have been assessed using a traffic light system of red, amber and green, green being the highest achievement. He added that the Council's IRFS arrangements have been given red which was mainly because of slippage on target dates. He said that he had arranged to review the Council's work in January, but had to postpone it to March as it was not completed. He stated that he had been meeting with Council officers on a monthly basis to discuss a number of issues. Mr Banister informed members that as announced in August 2010 the Audit Commission was to be abolished and if confirmed this would be the last time it would publish a work programme and set scales of audit fees for local authorities.

6.2 The Head of Business Management and Service Support informed members that officers had recognised that their initial timescale was unnecessarily optimistic and have made significant progress since the assessment. He added that they would deal with this issue and were now on track with the current deadlines, and would deliver as promised. The Group Finance Manager said that they were very close to completing the 2009/10 accounts restatement and were now in the process of compiling the 2010/11 figures. He added that they had just installed a new asset management system as the previous one was not effective, stating that the new system would enable officers to complete the job more effectively and on time.

6.3 Members were informed that it had been a very busy time for finance officers because of the budget process and the finance restructuring. The Chair asked how many Councils achieved red for IFRS and was told 7 out of 32. He then asked when officers were aware of the timescale for the change to IFRS. It was noted that this was originally in 2009/10, it was then changed to 2010/11. The Chair also asked why the timetable that officers put together was so tight even though they were aware of their other commitments. Members were informed that although notification was given, the guidance about getting information ready was delayed and took longer than expected. It was also noted that although the CIPFA Code of Practice was published in the Summer, the CIPFA Guidance on how it should be done was not available until late December. Officers stated that on hindsight they should have set their deadlines for later dates. The Chair then asked if the 7 Councils that have been assigned red had been hit by a large budget reduction similar to Lewisham. Mr Bannister said they had not analysed that information. The Chair said he would like to know what the Councils that have been awarded green had done, that Lewisham had not done.

6.4 The Head of Business Management and Service Support said that officers had addressed the 7 recommendations listed on page 77, and have even surpassed some of them. Councillor Peake asked if officers were confident that they would achieve the new timetable, the Group Finance Manager said they were confident. The Chair said that he was still concerned that other Councils were able to deliver and Lewisham was not, and asked why officers were not prepared. It was noted that unlike Lewisham some councils do have engaged external consultancy to support them in completing the work. Councillor Mallory said that he could accept a red for Lewisham if it meant that some resources have been put towards a worthy cause like Adult Social Care.

6.5 The Chair said that this issue of support for officers was a concern as officers seemed to be under a lot of pressure, he added that he would not want to be in a similar position in June. The Chair said that he was worried about the pressures officers would be in over the next 12 months when the next round of cuts have to be implemented, as this might result in another slippage. The Head of Business Management and Service Support said that officers would ensure things were done differently. The Chair then asked if the fees and rebates for 2009/10, 2010/11 and 2011/12 set by the Audit Commission could be circulated to members.

Executive  
Dir.  
Resources

RESOLVED that

- i. it be noted that the Audit Commission recommended reduction in Audit fees was in line with the Council's for the current year.
- ii. the Audit Panel recommend that Council's Audit fees for year 2 and 3 be in line with the Audit Commission.

The meeting ended at 9.43p.m.

Chair

# Agenda Item 3

AUDIT PANEL		
Report Title	DECLARATIONS OF INTERESTS	
Key Decision		Item No. 3
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 22 JUNE 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.

**Progress report**

**Audit Panel June 2011**

**London Borough of Lewisham**

**Audit 2010/11**

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

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

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



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## Introduction

1 The purpose of this paper is to provide the Audit Panel with a report on progress in delivering our responsibilities as your external auditors.

## Opinion on the 2010/11 financial statements

2 I have discussed and agreed audit opinion plans with the Council setting out the work that I propose to undertake for the audit of the financial statements and the value for money conclusion 2010/11.

3 There are two plans included on the agenda:

- LB Lewisham: audit opinion plan
- LB Lewisham Pension fund: audit opinion plan

## Certification of claims

4 The Council receives funding from various grant paying departments which the Audit Commission review and certify. There are conditions attached to these grants by the paying departments. The Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions were met.

5 In 2009/10, my audit team certified 13 claims and returns, of these:

- I carried out a limited review of four claims and a full review of nine claims;
- I amended three claims requiring full certification for errors;
- for four claims (BEN01 Housing and Council Tax Benefit Scheme, RG31 London Thames Gateway Park: Waterlink Way and Deptford Loop, Pen05 Teachers' Pensions Return and HOU02 HRA Subsidy Base Data), I was unable to certify fully the claim and issued a qualification letter to the grant-paying body;
- of these four, three were both amended and qualified (HOU02 HRA Subsidy was not amended).

6 At a high-level the Council's overall performance in 2009/10 represents an improvement from 2008/09, when the Council amended five of 13 claims and I qualified another five. However this year, of the 13 claims the Council provided six for audit after the deadline. The longest of which (RG31 – London Youth Offer) the Council made ready for audit five months after its April deadline. I have also identified scope for improvement in the quality of working papers. Where issues arise because of inadequate working papers or which result in amendment or qualification, the required audit work increases. This has a direct impact on the fee charged to the Council.

7 I have prepared a report which I have discussed and agreed with officers summarising the results of my work. Additionally I have run a workshop for grants officers to present the significant findings from the report and also explain a list of the tests which I carry out on all grants and returns received. If the work done by officers for these tests were completed prior to submission it would reduce the number of amendments needed.

8 Finally, if you require any additional information regarding the issues included within this briefing, please feel free to contact me or Geoffrey Banister using the contact details at the end of this update.

**Susan Exton**

District Auditor

June 2011

# Audit Opinion Plan

London Borough of Lewisham

Audit 2010/11

DRAFT

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

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DRAFT

# Introduction

## **This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.**

- 1 The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:
  - audit work specified by the Audit Commission for 2010/11;
  - current national risks relevant to your local circumstances; and
  - your local risks.
- 2 The audit planning process for 2010/11, including the risk assessment will continue as the year progresses and I will keep the information and fees in this plan under review and update it as necessary

DRAFT



# Responsibilities

**The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.**

3 The Audit Commission's [Statement of Responsibilities of Auditors and of Audited Bodies](#) sets out the respective responsibilities of the auditor and the audited body. The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

4 I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

DRAFT

## Fee for the audit

### The fee for the audit is £472,360, as indicated in my letter in April 2010.

5 In my April 2010 letter I proposed an audit fee of £472,360 based on my initial assessment of audit risks. The Audit Commission scale fee for the Council is £459,960. The Commission sets scale fees using several characteristics, including the type, size and location of the audited body as set out in the [2010/11 fee scales](#) document. The fee proposed for 2010/11 is three per cent above the scale fee and is within the normal level of variation specified by the Commission. This takes into account the size, nature and complexity of the Council and our risk assessment.

6 In recognition of the extra work and hence increased audit fee required by International Financial Reporting Standards the Audit Commission agreed to bear that cost in-house and rebated £27,049 in April 2010.

7 The impact of stopping Comprehensive Area Assessment (CAA), including the cost of making several hundred staff redundant, has limited the rebate the Commission can afford to give bodies. However the Commission has rebated 3.5 per cent of the 2010/11 for single-tier and county councils. The Council thus received a £16,099 rebate in January 2011 (3.5 per cent of the scale fee). The Commission will also not charge inspection fees for work already carried out in this financial year on the managing performance part of the organisational effectiveness assessment. This is because there was no value to the work once CAA ended. The fee for the Council is set out below:

Table 1: **Audit Fee at LB Lewisham 2010/11**

Audit Area	Fee letter 28 April 2010	IFRS rebate	VFM rebate	Total fee 2010/11	Total fee 2009/10
Financial statements	£358,568	£27,049		£331,519	£348,900
Value for money conclusion	£113,792		£16,099	£97,693	£113,456
<b>Total opinion fee</b>	<b>£472,360</b>	<b>£27,049</b>	<b>£16,099</b>	<b>£429,212</b>	<b>£462,356</b>

Source: Audit fee letter and fee scales

8 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit.

- The Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and
- Internal Audit undertakes appropriate work on all material systems and this is available for our review by 30 April 2011.

9 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Executive Director of Resources and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

### **Specific actions Lewisham Council could take to reduce its audit fees**

10 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. I will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support. Experience from the 2009/10 audit showed that there was scope for the Council to improve the quality of financial reporting, and the timeliness of working papers and response to audit queries.

DRAFT

# Auditors report on the financial statements

## **I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).**

**11** I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

**12** This year's audit will be the first under changed auditing standards known as the 'clarity' standards. I have summarised the differences you will see in Appendix 1. The Audit Commission has committed to absorbing extra costs arising from increased audit procedures.

### **Materiality**

**13** I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

**14** The new audit standards introduce 'performance materiality'. This does not affect how I report to you, but will affect how I conduct my audit. The change is likely to increase testing as it lowers the numerical threshold for my testing of in the financial statements. My team will discuss in detail with the Council's finance department our testing approach to ensure it remains efficient and proportionate.

### **Identifying opinion audit risks**

**15** I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council information systems.

### **Value for money conclusion**

**16** I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

**17** I base this on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

**18** I will plan a programme of VFM audit work based on my risk assessment. I will no longer provide an annual scored judgement of my local value for money audit work. Instead I will report the results of all my local audit work and the key messages for the Council in my annual governance report and annual audit letter.

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# Identification of specific risks

**I have considered the additional risks that are appropriate to the current opinion audit and the Value For Money conclusion and have set these out below.**

Table 2: **Specific and significant risks identified**

Risk area	Audit response
<b>International Financial Reporting Standards</b>	
<p>Local Authorities must prepare their financial statements under International Financial Reporting Standards from 2010/11 onwards. While this presents many presentational changes there will also be issues of classification or recognition for several significant areas, including leases, PFI schemes, Government grants deferred and accruals.</p>	<p>In line with the Council's timetable I planned for an early review of the Council's restated balances and continuing discussion with Council officers on key accounting judgements. Unfortunately the Council has only provided limited IFRS information to date.</p> <p>There is a risk that if significant issues emerge during the audit, the Council will only have limited time available to address any issues. This may result in additional audit time being needed to audit any outstanding issues during my final accounts audit. Later emerging issues may affect the timeliness and nature of my audit opinion on the accounts.</p>
<b>Managing finances and the Value For Money conclusion</b>	
<p>The current economic climate is having a significant impact on public finances with public bodies expected to deliver major efficiencies. It is likely that there will be reductions in staffing levels.</p> <p>The Council will need to keep financial performance under scrutiny and take necessary action to correct adverse trends.</p>	<p>Continuing review of the Council's spending plans and its reactions to changes in financial circumstances.</p>

Risk area	Audit response
<b>Large scale voluntary transfers</b>	
<p>In the 2009/10 accounts impairments arising from large scale voluntary transfers (LSVTs) were presented incorrectly as losses on disposal. There were also problems in previous years relating to the accounting treatment. Three transfers (Chrysalis) have taken place in 2010/11.</p>	<p>My team will review the accounting treatment relating to new LSVTs in 2010/11. We will also ensure any disclosures relating to LSVTs are in accordance with the Code of Practice.</p>
<b>New financial systems</b>	
<p>The Council has introduced new financial systems during 2010/11.</p> <ul style="list-style-type: none"> <li>- Asset register</li> <li>- NNDR (business rates) system.</li> </ul>	<p>My team will review the new systems to obtain sufficient assurance that information from the old system has been transferred into to ensure no material error exists. I will also document the systems, walk through and test the key controls as appropriate.</p>
<b>Lewisham Homes Limited pension indemnity</b>	
<p>Differing interpretations of the Council's letter of indemnity in respect of pension costs has led to an inconsistency in the Council's group accounts.</p>	<p>We are in discussion with the Council to ensure the differing interpretations of the indemnity are clarified. In particular whether the post transfer costs should be treated as a provision or contingent liability in the Council's accounts.</p>
<b>Cash Flow Statement</b>	
<p>The cash flow is one of the primary statements, which the Council has had problems with in past years producing an accurate and timely version supported by working papers.</p>	<p>On receipt of the financial statements my team will prioritise the cash flow statement for early attention in order to identify any problems at an early stage.</p>
<b>Whole of Government Accounts</b>	
<p>In previous years the Council has not been able to produce timely and accurate Whole of Government Accounts in order to achieve the deadline.</p>	<p>My team will liaise with the Council to take steps to improve WGA procedures.</p>

# Testing strategy

**On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.**

**19** My main objective as your appointed auditor is to plan and carry out an efficient opinion audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code).

**20** I recognise that to achieve these objectives, we need to work together effectively. We need good communication throughout the year to identify and resolve issues early and are flexible enough to manage developments as they arise.

**21** To support effective joint working I want you understand my approach to delivering your audit. Table 3 shows a summary of my approach and my timetable.

Table 3: **Summary of my audit approach**

I adopt a two-stage approach

Stage	Procedures	Timing
1. Pre-statements	Documenting and walking through your material information systems. Where applicable, testing of key controls within these systems, including where possible, reviewing the work of internal audit. Evaluating your control environment including assessing general information technology (IT) controls. Where applicable, carrying out testing before the year-end on balances that you expect to be included in the financial statements.	From February to June.
2. Post-statements	Testing the material balances and notes within your financial statements.	From July to September

**22** My team will work closely with you throughout the opinion audit.



## Pre-statements audit

### Documenting and walking through your systems

**23** I use the pre-statements stage of the audit to gain an understanding of the information systems that you use to produce the material figures within the financial statements. I am required to do this by auditing standards - ISAs (International Standards on Auditing in the UK and Ireland). However, this understanding enables me to focus my audit on relevant matters. It also enables me to highlight to you any significant weaknesses in how these systems produce materially accurate figures for the financial statements.

**24** To achieve this I document my understanding of your material information systems and undertake a 'walk through test'. The walk through test entails tracing a single transaction through the system, from initiation to completion. I am required by auditing standards to do this each year. However, where I have gained an understanding of a system in one year and you have confirmed that there have been no changes to that system I simply walk through the system to confirm my understanding.

### Identifying and testing key controls

**25** Having documented my understanding of your material information systems I then consider the controls within each system that are key to ensuring the outputs are materially accurate. I call these key controls.

**26** Where appropriate I will test that these key controls are operating effectively which provides me with assurance that there is a reduced risk that your financial statements are free from material error. It also enables me to report to you any deficiencies in your system of internal control.

**27** Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities and we have agreed a protocol to achieve this. My team meets regularly with internal audit to discuss the scope and timing of our respective audit plans. If I do seek to place reliance on internal audit I will review and evaluate their work.

### Control environment and Information Technology (IT) controls

**28** I consider the strength of your control environment and general IT controls in assessing the risk that your financial statements are free from material misstatement.

**29** As part of the pre-statements audit, I consider and document the control environment in which you operate. For example, I will discuss with management and the Audit Panel (as those charged with governance) the arrangements that the Council has in place for issues including fraud, governance and complying with laws and regulations.

**30** In addition, I also evaluate and test your general IT controls, such as access controls within your material information systems.

## Early testing of material balances and notes

**31** I am aware that the post-statements stage of my audit falls during a busy period for your finance team. Therefore, I know that you are keen that I reduce, as far as possible, the extent of audit work I need to carry out on your financial statements at that time.

**32** During the pre-statements audit, I will agree with your finance team, any aspects of your financial statements that will be known before the year end.

## Post-statements audit

**33** At the post statements stage of the audit I focus my work on testing of the material balances and notes within your financial statements. The extent of this testing is determined in part by the results of the pre-statements testing.

**34** My assessment will also take into account a number of factors including the materiality of the item, political sensitivity, known problems from previous years, any findings from Internal Audit and any changes in accounting practice and CIPFA Code. As a result the work undertaken and the requests for information may differ year on year.

**35** I also plan to rely on the work of experts in assessing the Council's valuation of its non-current assets (Principal Valuer) and pension liabilities (Hymans Robertson). Additionally I will place reliance on KPMG, the external auditor, for Lewisham Homes Limited.

**36** The 2009/10 audit did not go as smoothly as I would have hoped, although the 2009/10 financial statements were complete they were not adequately supported by working papers on a timely basis. I also noted that the Council did not fully utilise the working paper checklist supplied by my audit team. Using the checklist helps working paper files to be compiled whilst preparing the draft financial statements and ensures all key areas are covered.

**37** The weaknesses in supporting information and audit trails meant that my audit team had to raise a large number of audit queries last year. Although I believe officers responded to queries as quickly as possible, this led to significant slippage in the 2009/10 audit programme. I will continue to liaise with the Council.

## Whole of government accounts

**38** As in previous years, the government requires the Council completes a return to inform the [whole of government accounts \(WGA\) initiative](#) and that I certify the Council's return. I will liaise with Council officers to ensure that I am able to complete my testing of the return efficiently and in line with government requirements. The council needs to take steps to improve WGA procedures as in previous years the Council has not been able to produce timely and accurate WGA in order to achieve the deadline.

## Engagement with the Audit Panel

**39** International Audit Standards require me to discuss with the Audit Panel certain matters on how it exercises oversight of internal control at the Council. These discussions must include specifically:

- Whether the Panel is aware of any frauds (or potential areas of weakness to fraud) that may result in material misstatement;
- How the Panel gains assurance on compliance with relevant laws and regulations; and
- How the Panel has satisfied itself on the appropriateness of preparing accounts on a going concern basis.

**40** I have written separately to the Chair of the Audit Panel on these matters.

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## Key milestones and deadlines

**The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.**

**41** The key stages in producing and auditing the financial statements are in Table 4.

**42** I have agreed with officers a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

**43** Every week, during the audit, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 4: **Proposed timetable**

Activity	Date
Control and early substantive testing	February to June 2011
Receipt of accounts	By 30 June 2011
Sending audit working papers to the auditor	By 30 June 2011
Start of detailed testing	July 2011
Progress meetings	Monthly during the year but weekly throughout the post statements audit
Present report to those charged with governance at the Audit Panel	21 September 2011
Issue opinion and value for money conclusion	By 30 September 2011

# The audit team

**Table 5 shows the key members of the audit team for the 2010/11 audit.**

Table 5: **Audit team**

Name	Contact details	Responsibilities
Sue Exton District Auditor	<a href="mailto:s-exton@audit-commission.gov.uk">s-exton@audit-commission.gov.uk</a>  0844 798 2307	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Geoffrey Banister Audit Manager	<a href="mailto:g-banister@audit-commission.gov.uk">g-banister@audit-commission.gov.uk</a>  0844 798 2434 0781 587 8145	Manages and coordinates the different elements of the audit work. Key point of contact for the Executive Director of Resources.
Jayne Rhodes Audit Manager	<a href="mailto:j-rhodes@audit-commission.gov.uk">j-rhodes@audit-commission.gov.uk</a>  0844 798 2673	Responsible for day-to-day direction of the audit work. Key point of contact for the chief accountant.

## Independence and objectivity

**44** I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

**45** I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

## Meetings

**46** The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

## Quality of service

47 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

48 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

## Planned outputs

49 My team will discuss and agree reports with the right officers before issuing them to the Audit Panel.

Table 6: **Planned outputs**

Planned output	Indicative date
Audit Opinion Plan	May 2011
Annual Governance Report	September 2011
Auditor's report giving an opinion on the financial statements	September 2011
Annual Audit Letter	November 2011

# Appendix 1 2010/11 opinion audit: changes you can expect to see

In delivering the audit of your financial statements I must comply with the International Standards on Auditing (ISAs). These standards prescribe the basic principles and essential procedures, with the related guidance, which govern my professional conduct as your auditor.

As with all guidance and frameworks, the auditing profession often revises and updates auditing standards, often in a piecemeal fashion. However, in 2009 the auditing profession completed a comprehensive project to improve the clarity of all the ISAs. The audit profession refer to this as the Clarity Project.

One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. The Project achieved this by reducing the ambiguity within existing ISAs and improving their overall readability and understandability.

The [new clarified standards](#) will apply to my audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way my audit team delivers your audit and the information they seek. The purpose of this document is to highlight to you the main changes and how they will impact you.

In summary the main changes you will see concern:

- Journals;
- Related Party Transactions;
- Accounting Estimates;
- Reporting deficiencies in internal control.

## Journals

ISA (UK&I) 330 (The Auditor's response to assessed risks), requires me to review all material year-end adjustment journals. I can do this by using interrogation tools such as CAATs (Computer aided audit techniques), IDEA software or excel, depending on the compatibility of your general ledger software. My Audit Manager will discuss a suitable approach to this work with officers.

## Related Party Transactions

ISA (UK&I) 550 (Related parties) requires me to review your procedures for identifying related party transactions and gain an understanding of the controls that you have set up to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Accounting Estimates

ISA (UK&I) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will ask for a list of these from you. I will need to know in particular:

- the method you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to help you in making the accounting estimates;
- whether you discussed any alternative estimates and why you rejected them;
- how you assess the degree of estimation doubt (this is the doubt arising because the estimate cannot be precise or exact); and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

## Deficiencies in internal control

ISA (UK&I) 265 (Communicating Deficiencies In Internal Control To Those Charged With Governance And Management) is a new standard.

If I identify a deficiency in any of your internal controls during the audit, I will undertake extra audit testing to decide whether the deficiency is significant. If I decide the deficiency is significant, I will report it in writing to the Audit Panel.



## Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fees that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Panel.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as

being 'additional work' and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last 2 years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

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# Appendix 3 Working together

## Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 7: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Executive Director of Resources	District Auditor, Audit Manager	Quarterly	General update plus: <ul style="list-style-type: none"> <li>■ April – audit plan;</li> <li>■ July/August – accounts progress; and</li> <li>■ September – annual governance report</li> <li>■ November - annual audit letter</li> </ul>
Accounts team	Audit Manager and Team Leader	Monthly during the year but weekly throughout the post statements audit	Update on audit issues
Audit Panel	District Auditor, Audit Manager	As determined by the Panel	Formal reporting of: <ul style="list-style-type: none"> <li>Audit Plan</li> <li>Annual governance report</li> <li>Annual audit letter</li> <li>Other issues as appropriate</li> </ul>

## Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

# Audit opinion plan

London Borough of Lewisham Pension fund

Audit 2010/11

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

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

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

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# Introduction

## **This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.**

- 1** The plan is based on the Audit Commission's risk-based approach to audit planning, which assesses:
  - current national risks relevant to your local circumstances; and
  - your local risks.
- 2** I will discuss and agree this plan, and any reports arising from the audit, with the Audit panel, as those charged with governance of the pension fund.
- 3** The audit planning process for 2010/11, including the risk assessment will continue as the year progresses and I will keep the information and fees in this plan under review and update it as necessary.

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# Responsibilities

**The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.**

4 The Audit Commission's [Statement of Responsibilities of Auditors and of Audited Bodies](#) sets out the respective responsibilities of the auditor and the audited body. The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

5 I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

6 Specifically, the work of auditors on pension fund accounts is defined by the Auditing Practices Board practice note 15 on the audit of pension fund accounts.



# Fee for the audit

## The indicative fee for the audit is £35,000.

7 As set out in my fee letter in June 2010 the fee is £35,000. The Audit Commission sets out the details of the structure of scale fees in its [work programme and fee scales for 2010/11](#). The Audit Commission scale fee for a single employer pension fund is £35,000.

8 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10 save those specific risks identified in Table 1;
- you will inform me of significant developments that affect the audit;
- you will provide good quality, accurate working papers at the start of the financial statements audit;
- you will provide good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and
- you will provide prompt responses to draft reports and reasonable requests for information.
- Internal Audit undertakes appropriate work on all material systems and this is available for our review by 30 April 2011.

9 Where I am not able to rely on these assumptions and must undertake extra work this may result in an increased audit fee. Where this is the case, I will discuss this first with the Executive Director of Resources and will issue replacements to the plan to record any revisions to the risk and the impact on the fee.

## Specific actions the Pension Fund could take to reduce its audit fees

10 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions that the Pension Fund could take and to provide ongoing audit support.

# Auditors report on the financial statements

## **I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).**

**11** I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Pension Fund as at 31 March 2011.

**12** I will carry out the audit of the financial statements under [International Standards on Auditing \(UK and Ireland\)](#) issued by the Auditing Practices Board (APB). This year's audit will be the first under changed auditing standards known as the 'clarity' standards. I summarise the differences you will see in Appendix 1. The Audit Commission has committed to absorbing extra costs arising from increased audit procedures.

**13** I am also required to review the pension fund annual report as per the LGPS regulations 1997.

## **Materiality**

**14** I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

**15** The new audit standards introduce 'performance materiality'. This does not affect how I report to you, but will affect how I conduct my audit. The change is likely to increase testing as it lowers the numerical threshold for my testing in the financial statements.

## **Identifying opinion audit risks**

**16** I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Pension Fund, including assessing your own risk management arrangements;
- considering the financial performance of the Pension Fund;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Pension Fund information systems.

# Identification of specific risks

**I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.**

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
<p><b>Separate bank account required for the Fund</b></p> <p>Under revisions to legislation, the Fund must from 1 April 2011 have a separate and dedicated bank account rather than have its funds within the Council's banking arrangements. This increases the risk particularly with the year-end closing cash balance that will become the opening balance within a separate bank account.</p>	<p>My team has discussed key issues surrounding the change in banking arrangements with Fund officers over the past year. I will also undertake a specific review of the cash position as part of my year-end financial statements audit.</p>
<p><b>International Financial Reporting Standards</b></p> <p>Some presentational and classification changes will be required due to the implementation of IFRS.</p>	<p>My team will check the accuracy of classification and disclosures made by the Pension fund.</p>
<p><b>Unquoted investments</b></p> <p>The valuation of unquoted investments is potentially a very complex area. The pension fund has a material amount of unquoted investments. There are risks around accurate valuation at year end.</p>	<p>My team will review the valuation and disclosure of investments made by the pension fund.</p>
<p><b>Preparation of the financial statements</b></p> <p>The Council is planning to produce the Pension fund financial statements and working papers one month earlier than last year by producing them on the 27 May 2011. The Council needs to obtain all relevant information to avoid subsequent amendments for example in 2009/10 the Custodian provided late information causing material adjustments to the financial statements.</p>	<p>My team will ensure that the financial statements are prepared using complete and accurate information.</p>

Risk area	Audit response
<b>Reconciliations</b>	
<p>My audit work has identified that the Council is not regularly carrying out reconciliations between the general ledger and</p> <ul style="list-style-type: none"> <li>- contributions (payroll system),</li> <li>- transfers in and out (pension system AXISe).</li> </ul>	<p>My team will review the year end reconciliations for accuracy and completeness with additional substantive testing where appropriate to ensure the financial statements are materially correct..</p>

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# Testing strategy

**On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.**

**17** My main objective as your appointed auditor is to plan and carry out an efficient opinion audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code).

**18** I recognise that to achieve these objectives, we need to work together effectively. We need good communication throughout the year to identify and resolve issues early and are flexible enough to manage developments as they arise.

**19** To support effective joint working I want you understand my approach to delivering your audit. Table 2 shows a summary of my approach and my timetable.

Table 2: **Summary of my audit approach**

I adopt a two-stage approach

Stage	Procedures	Timing
1. Pre-statements	Documenting and walking through your material information systems. Where applicable, testing of key controls within these systems, including where possible, reviewing the work of internal audit. Evaluating your control environment including assessing general information technology (IT) controls. Where applicable, carrying out testing before the year-end on balances that you expect to be included in the financial statements.	From March to June.
2. Post-statements	Testing the material balances and notes within your financial statements.	From July to September

**20** My team will work closely with you throughout the opinion audit.

## Pre-statements audit

### Documenting and walking through your systems

**21** I use the pre-statements stage of the audit to gain an understanding of the information systems that you use to produce the material figures within the financial statements. I am required to do this by auditing standards - ISAs (International Standards on Auditing in the UK and Ireland). However, this understanding enables me to focus my audit on relevant matters. It also enables me to highlight to you any significant weaknesses in how these systems produce materially accurate figures for the financial statements.

**22** To achieve this I document my understanding of your material information systems and undertake a 'walk through test'. The walk through test entails tracing a single transaction through the system, from initiation to completion. I am required by auditing standards to do this each year. However, where I have gained an understanding of a system in one year and you have confirmed that there have been no changes to that system I simply walk through the system to confirm my understanding.

### Identifying and testing key controls

**23** Having documented my understanding of your material information systems I then consider the controls within each system that are key to ensuring the outputs are materially accurate. I call these key controls.

**24** Where appropriate I will test that these key controls are operating effectively which provides me with assurance that there is a reduced risk that your financial statements contain a material error. It also enables me to report to you any deficiencies in your system of internal control.

**25** Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities and we have agreed a protocol to achieve this. My team meets regularly with internal audit to discuss the scope and timing of our respective audit plans. If I do seek to place reliance on internal audit I will review and evaluate their work.

### Control environment and Information Technology (IT) controls

**26** I consider the strength of your control environment and general IT controls in assessing the risk that your financial statements are free from material misstatement.

**27** As part of the pre-statements audit, I consider and document the control environment in which you operate. For example, I will discuss with management and the Audit panel (as those charged with governance) the arrangements that the Council has in place for issues including fraud, governance and complying with laws and regulations.

**28** In addition, I also evaluate and test your general IT controls, such as access controls within your material information systems.

## Early testing of material balances and notes

**29** I am aware that the post-statements stage of my audit falls during a busy period for your finance team. Therefore, I know that you are keen that I reduce, as far as possible, the extent of audit work I need to carry out on your financial statements at that time.

**30** During the pre-statements audit, I will agree with your finance team, any aspects of your financial statements that will be known before the year end.

## Post-statements audit

**31** At the post statements stage of the audit I focus my work on testing of the material balances and note within your financial statements. The extent of this testing is determined in part by the results of the pre-statements testing.

**32** My assessment will also take into account a number of factors including the materiality of the item, political sensitivity, known problems from previous years, any findings from Internal Audit and any changes in accounting practice and CIPFA Code. As a result the work undertaken and the requests for information may differ year on year.

**33** I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of the auditors of the pension fund's Investment Fund Managers and will obtain this assurance separately.

**34** I also plan to rely on the work of the Pension Fund actuary in respect of actuarial assumptions; Hymans Robertson. I will plan to rely on the work of my own experts, namely PWC actuaries, for an assessment of the skills and competence of the pension fund's actuary.

## Engagement with the Audit panel

**35** International Audit Standards require me to discuss with the Audit panel certain matters on how it exercises oversight of internal control at the Council. These discussions must include specifically:

- Whether the Panel is aware of any frauds (or potential areas of weakness to fraud) that may result in material misstatement;
- How the Panel gains assurance on compliance with relevant laws and regulations; and
- How the Panel has satisfied itself on the appropriateness of preparing accounts on a going concern basis.

**36** I have written separately to the Chair of the Audit panel on these matters.

## Key milestones and deadlines

**The Pension Fund is required to prepare the financial statements by 30 June 2011. I am required to complete the audit by 30 September 2011.**

37 The key stages in producing and auditing the financial statements are in Table 3.

38 I have produced and agreed with officers a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

39 Every week, during the audit, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 3: **Proposed timetable**

Activity	Date
System review and preparatory work	March to June 2011
Receipt of accounts	By 27 May 2011
Sending audit working papers to the auditor	By 27 May 2011
Start of detailed testing	June 2011
Progress meetings	Monthly during the year but weekly throughout the post statements audit
Present report to those charged with governance at the audit panel	September 2011
Issue opinion	By 30 September 2011



# The audit team

**Table 4 shows the key members of the audit team for the 2010/11 audit.**

Table 4: **Audit team**

Name	Contact details	Responsibilities
Sue Exton District Auditor	<a href="mailto:s-exton@audit-commission.gov.uk">s-exton@audit-commission.gov.uk</a>  0844 798 2307	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Geoffrey Banister Audit Manager	<a href="mailto:g-banister@audit-commission.gov.uk">g-banister@audit-commission.gov.uk</a>  0844 798 2434 0781 587 8145	Manages and coordinates the different elements of the audit work. Key point of contact for the Executive Director of Resources.
Amy Thorpe Audit Manager	<a href="mailto:a-thorpe@audit-commission.gov.uk">a-thorpe@audit-commission.gov.uk</a>  078 966 84791	Responsible for day-to-day direction of the audit work. Key point of contact for the chief accountant.

## Independence and objectivity

**40** I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

**41** I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

## Meetings

**42** The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

## Quality of service

43 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

44 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

## Planned outputs

45 My team will discuss and agree reports with officers before issuing them to the Audit panel. The Annual Governance Report will also be presented to the September Pensions Investment Committee.

Table 5: **Planned reports**

Showing planned timing

Report	Proposed Audit Panel
Audit opinion plan	May 2011
Annual governance report (including auditor's reporting giving an opinion on the financial statements and report on financial controls).	6 September 2011

Source: *Audit planning 2010/11*

# Appendix 1 2010/11 opinion audit: changes you can expect to see

In delivering the audit of your financial statements I must comply with the International Standards on Auditing (ISAs). These standards prescribe the basic principles and essential procedures, with the related guidance, which govern my professional conduct as your auditor.

As with all guidance and frameworks, the auditing profession often revises and updates auditing standards, often in a piecemeal fashion. However, in 2009 the auditing profession completed a comprehensive project to improve the clarity of all the ISAs. The audit profession refer to this as the Clarity Project.

One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. The Project achieved this by reducing the ambiguity within existing ISAs and improving their overall readability and understandability.

The [new clarified standards](#) will apply to my audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way my audit team delivers your audit and the information they seek. The purpose of this document is to highlight to you the main changes and how they will impact you.

In summary the main changes you will see concern:

- Journals;
- Related Party Transactions;
- Accounting Estimates;
- Audit materiality; and
- Reporting deficiencies in internal control.

## Journals

ISA (UK&I) 330 (The Auditor's response to assessed risks), requires me to review all material year-end adjustment journals. I can do this by using interrogation tools such as CAATs (Computer aided audit techniques), IDEA software or excel, depending on the compatibility of your general ledger software. My Audit Manager will discuss a suitable approach to this work soon.

## Related Party Transactions

ISA (UK&I) 550 (Related parties) requires me to review your procedures for identifying related party transactions and gain an understanding of the controls that you have set up to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Accounting Estimates

ISA (UK&I) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will ask for a list of these from you. I will need to know in particular:

- the method you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to help you in making the accounting estimates;
- whether you discussed any alternative estimates and why you rejected them;
- how you assess the degree of estimation doubt (this is the doubt arising because the estimate cannot be precise or exact); and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

## Deficiencies in internal control

ISA (UK&I) 265 (Communicating Deficiencies In Internal Control To Those Charged With Governance And Management) is a new standard.

If I identify a deficiency in any of your internal controls during the audit, I will undertake extra audit testing to decide whether the deficiency is significant. If I decide the deficiency is significant, I will report it in writing to the Audit Panel.

## Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fees that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit panel.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as

being 'additional work' and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

DRAFT

# Appendix 3 Working together

## Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 6: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Executive Director of Resources	District Auditor, Audit Manager	Quarterly	General update plus: <ul style="list-style-type: none"> <li>■ April – audit plan;</li> <li>■ July/August – accounts progress; and</li> <li>■ September – annual governance report</li> </ul>
Accounts team	Audit Manager and Team Leader	Monthly during the year but weekly throughout the post statements audit	Update on audit issues
Audit panel	District Auditor, Audit Manager	As determined by the Panel	Formal reporting of: <ul style="list-style-type: none"> <li>Audit Plan</li> <li>Annual governance report</li> <li>Other issues as appropriate</li> </ul>

## Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

AUDIT PANEL		
Report Title	DRAFT STATEMENT OF ACCOUNTS 2010/11	
Key Decision	No	Item No. 7
Ward	ALL	
Contributors	EXECUTIVE DIRECTOR FOR RESOURCES	
Class	PART 1	Date: 22 JUNE 2011

## 1 REASONS FOR URGENCY

- 1.1 The final quality control checks required on the draft accounts had not quite been completed by the despatch date, but have been completed to enable a supplementary despatch on the terms set out in this report by 16 June 2011. Whilst not ideal this will still enable Members to have several days to review the draft accounts before the meeting, and to ask detailed questions of officers in advance of that meeting if required. The report needs to be despatched now and is therefore urgent as otherwise Members will not have a proper and realistic opportunity to review the draft.

## 2 SUMMARY AND PURPOSE

- 2.1 To review the draft Statement of Accounts for 2010/11.

## 3 EXECUTIVE SUMMARY

- 3.1 The Council is no longer required by law to obtain elected Members' approval of its draft accounts. However, given the importance of the document, and its complexity, officers are still of the view that it is appropriate to present the draft accounts to the Audit Panel. Accordingly, the draft accounts for 2010/11 are attached as Appendix one to this report.
- 3.2 The summary of expenditure against budgets for 2010/11, known as the outturn, has already been reported to the Public Accounts Select Committee (on 14 June 2011) and is being reported to the Mayor & Cabinet at the same time as this meeting. The outturn should be read as a background paper to this report.
- 3.3 This report seeks to highlight the key issues arising from the council's 2010/11 draft accounts, and to explain these in as practical a fashion as possible, given the technical complexity of the accounts (the format of which is essentially prescribed nationally).

## 4 RECOMMENDATIONS

- 4.1 To note the report.



## 5 UNDERSTANDING THE ACCOUNTS AND THEIR PREPARATION

- 5.1 Preparing the 2010/11 accounts has been challenging for local authorities. Members will be aware that the full application of International Financial Reporting Standards (IFRS) has required officers to undertake significant additional work. It has also had the effect of significantly changing the presentation of the accounts, with the effect that the results for 2009/10 and 2010/11 are not always directly comparable.
- 5.2 Members will also be aware that the Audit Commission has previously reported Lewisham's preparations for this challenge as "red", highlighting the risks to being able to prepare proper accounts in time as a result of slippage against the original IFRS implementation programme.
- 5.3 Officers have prepared the draft accounts so as to be able to despatch them to this Panel by 14 June 2011, slightly earlier than was the case in 2009/10. Officers understand that some other authorities have taken advantage of the new provisions of the Accounts and Audit Regulations 2011 to approve their draft accounts rather later, up to the 30 June 2011 deadline.
- 5.4 It has unfortunately not been possible to finalise the Group Accounts Statement and some notes to the cash flow statement by the date of despatch of this report, although these will be available to this Panel before its meeting. The complete draft accounts will therefore be available well in advance of the 30 June 2011 deadline. The Pension Fund accounts have already been presented to the Pensions Investment Committee and made available to the auditor.
- 5.5 Subject to audit, officers are confident that a professional job has been done in ensuring that the quality of the accounts and supporting working papers is appropriate. This report also indicates areas in which officers, in preparing the accounts, have made what they consider to be reasonable professional judgements as to how certain items should be accounted for. It is possible that an auditor may form a different view on these areas. However, it will be important that Members appreciate, particularly when considering the auditor's later report on the audit, the difference between identified errors (should there be any) and differing interpretations of complex accounting issues where qualified professionals may reasonably come to alternative views.
- 5.6 The format of local authority accounts is generally agreed to be difficult to understand for those without expert knowledge of the sector's accounting conventions. The document is invariably very long, once all the required disclosures are made, and not easy to interpret. There is little that officers can do about the presentation of the accounts themselves, the format of which is largely prescribed. However, the remainder of this section of the report attempts to set out a summary of the key issues that can be identified in the accounts, and to highlight for Members those areas where officers, in preparing the accounts, have made what they consider to be reasonable and professional accounting judgements in complex areas where alternative interpretations could be applied.

- 5.7 Within the accounts four statements are defined as “core financial statements”, which essentially means that they are fundamental to understanding the accounts. A short commentary on each of these is set out below.

***Movement in Reserves Statement (MiRS)***

- 5.8 The MiRS shows the movement in the year on the different reserves held by the Council, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure) and other reserves of a technical nature which cannot be applied to fund expenditure. This is therefore a helpful summary of the resources that the council has available to fund future expenditure and to manage financial risks.
- 5.9 In the MiRS Members will note that the council’s general fund balances remain similar to those held as at 31 March 2010. The Executive Director for Resources has advised that general fund balances of approximately 2.5% of net revenue expenditure are an appropriate and prudent contingency to hold against possible future events. Earmarked reserves are those set aside to pay for future planned expenditure. These include balances required to fund the council’s self-insurance account and to meet future commitments under long-term projects, as well as sums set aside to meet anticipated future costs.
- 5.10 On the face of it earmarked reserves have risen by £6.8m. However, the true underlying position, as disclosed in note seven to the core financial statements, is that the general earmarked reserves (which exclude insurance and schools’ balances) have reduced by £2m, reflecting planned use of funds.

***Comprehensive Income and Expenditure Statement (CI&ES)***

- 5.11 The CI&ES sets out the total expenditure by the authority in the 2010/11 financial year, some £1.2bn. The format of the CI&ES is completely different to council’s management accounts, which present income and expenditure by Directorate. However, a reconciliation between the two is provided by note 24 to the core financial statements, segmental reporting, which discloses net expenditure by directorate in a manner that Members will be familiar with from the Outturn report.
- 5.12 Comparing 2010/11 with 2009/10 the income and expenditure disclosed by the CI&ES is broadly similar, except that:
- Gross expenditure on Housing services has risen by some £280m. This mostly reflects the technical ‘impairment’ charge now required, where reductions in the accounting value placed on the authority’s housing stock as a result of a change in the valuation basis required to be used are now required to be charged to revenue through the CI&ES. The effect of this change is reversed elsewhere in the accounts, so it has no impact on the authority’s available resources.
  - Gross expenditure on ‘non distributed costs’ has reduced by some £130m (to a negative figure of £129m). This largely reflects the change in indexation of pensions from the Retail Price Index (RPI) to the Consumer Price Index (CPI), which has had the effect of reducing the council’s likely

future pension liabilities. Again, this accounting entry is reversed elsewhere in the statements so that it has no impact on the authority's available resources, although the change in the indexation rate will in the future tend to reduce (all other things being equal) the contributions that the council is in future required to make to the pension fund.

- 5.13 The other significant change between 2009/10 and 2010/11 disclosed by the CI&ES is a reduction of some £5m in the charge for interest payable. This is principally the result of the transfer during 2010/11 of the 'Chrysalis' stock from council control to London & Quadrant Housing Association (L&Q) and the associated reduction in long-term debt, rather than any reduction in the interest rate charged on long-term debt, where the profile of debt maturity has not allowed any significant opportunities to reduce interest costs.
- 5.14 Otherwise, the CI&ES discloses a notional deficit of some £177m in the provision of services, after the application of council tax and government grants. This is a notional figure required to be presented this way, and for a more helpful explanation of activities in the year Members may wish to review the Outturn report, which is a background paper to this report.

#### *Balance sheet*

- 5.15 The balance sheet discloses that the 'total equity' of the council has risen to some £0.9bn as at 31 March 2011 compared with some £0.86bn as at March 2010. This is the accounting valuation, and the commentary that follows seeks to explain this in more meaningful terms.
- 5.16 The accounting value placed on council dwellings has fallen by nearly £200m, as a result of the housing stock revaluation, and the change in valuation basis and Chrysalis transfer referred to above. This accounting value does not reflect the true value of the stock, which would be considerably higher if valued on the basis of either their likely worth under right to buy, or as an asset generating income from rents.
- 5.17 The accounting value of assets under construction has risen by some £20m. This reflects the current position in delivering the council's multi-year capital programme, with major investment in Deptford, Forest Hill pools, Loampit Vale and other sites part complete as at the year-end. Fuller details are provided in note 15 to the core financial statements.
- 5.18 'Surplus assets not held for sale' are valued at £30.5m. This is a somewhat unhelpful description. Under IFRS assets can only be classed as held for sale under very tightly defined conditions, essentially that there is a significant likelihood that they will shortly be sold. Given the current uncertainties in the property market this means that a number of assets that the council has declared surplus to requirements cannot meet this strict accounting test, albeit that officers are seeking to dispose of them in accordance with council policy. Assets held for sale are valued at £14.2m.
- 5.19 There are changes throughout the balance sheet, comparing 2009/10 with 2010/11 to the value of long and short term investments, cash and cash

equivalents. The net impact of these changes is broadly neutral, reflecting changes in classification between assets within these categories rather than substantive changes to the council's overall holdings.

- 5.20 Long-term borrowing has reduced by some £41m, essentially as a result of the Chrysalis stock transfer referred to above.
- 5.21 Overall, the balance sheet discloses an authority with current assets in excess of current liabilities, and with reasonable and prudent balances available to fund its future spending plans. Were this not to be the case Members would be rightly concerned as to the council's ability to meet its financial obligations over the 2011/12 year. The liability in respect of future pensions has reduced by some £307m, principally as a result of the change in indexation referred to above.

#### *Cash flow statement*

- 5.22 The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the 2010/11 financial year. This statement is typically more valuable to understanding the financial health of private companies and other organisations that depend on sales in order to avoid financial failure. Given that most local authority funding comes either from government grants, or from local property taxation where there is reasonable certainty of future payments that cash flow is less important to understanding the business of a local authority.
- 5.23 Members' attention is also drawn to the following financial statements, which although not technically defined as "core financial statements" are nonetheless highly important to understanding key aspects of local authority services and financing.
- The Housing Revenue Account (HRA) which presents the financial transactions relating to the provision of council housing; and
  - The Collection Fund which presents a summary of the collection of council tax and national non domestic rates.
- 5.24 The accounts also provide substantial detail by way of notes and other statements. Members, according to their judgement, may be interested in any of these, but possibly those most helpful to understanding the financial position of the authority disclosed by the accounts are:
- Notes 16 and 20 to the core financial statements, which disclose the debtors to and creditors of the council as at 31 March 2011
  - Note 21 to the core financial statements, which discloses the provisions against likely future events held by the authority
  - Note seven to the core financial statements, which discloses the level of earmarked revenue reserves and the purposes for which these are held.
- 5.25 The format of the accounts is essentially prescribed. As a result the document is extremely long and detailed. Members may have questions that they wish to pose to officers on points of detail. Appropriately qualified officers will attend the

meeting and make their best endeavours to answer these. However, given the level of detail contained in the accounts it is likely that some questions of detail may not be capable of being answered at the meeting. If Members are minded to ask questions on points of detail they are respectfully requested to submit them in advance to [Richard.lambeth@lewisham.gov.uk](mailto:Richard.lambeth@lewisham.gov.uk), ideally at least 24 hours before the meeting, in order to facilitate this.

## **6 ISSUES FOR THE ATTENTION OF MEMBERS**

- 6.1 in constructing the accounts the officers concerned have applied professional judgements in the areas set out below. Officers believe that these are the correct judgements to apply, but acknowledge that with the introduction of IFRS these are areas where alternative decisions might have been made, as the appropriate treatment is at least capable of significant professional debate. It is possible that the auditors may, during the course of their audit work, come to a different view, and as a result may recommend a different treatment.
- 6.2 Members are reminded that should such a situation subsequently arise, they should bear in mind the complexities resulting from the introduction of IFRS, the scope for differing opinions between appropriately qualified professionals and to consider, in the event that it proves necessary, the difference between errors by council officers and different judgements that may have been reached had the Audit Commission been responsible for preparing the council's accounts.
- 6.3 The significant accounting judgements made by officers in preparing the accounts, where alternative treatments might have been appropriate, are set out below.
- 6.4 Where future funding is uncertain, IFRS requires that consideration is given to 'impairing' (i.e. reducing) the value of assets that might be affected, for example if services were forced to close as a result. Although future government funding is less certain than may have been the case in previous years officers are of the view that there is sufficient certainty as regards funding in 2011/12 and to a large extent 2012/13 that such impairments are unnecessary.
- 6.5 Under IFRS different tests apply as to whether leases should be classified as finance or operating leases. Officers have conducted a thorough review of the council's leases and made judgements accordingly, but the complex nature of some leases, which can include aspects of finance and operating leases, means that other judgements as to classification could reasonably have been reached. Officers are of the view that the work that has been done is sufficient that any changes that may be required by an auditor forming another judgements are unlikely to be material.
- 6.6 Major contracts have also been reviewed to see if they contain aspects of a lease of equipment, in which case a different IFRS accounting treatment of them would have been required. Officers are of the view that the main contracts where this might be held to apply are for the provision of ICT services and photocopiers, and have reviewed these carefully. On balance this review has shown that they are not lease contracts, but it is a fine and complex judgement and another professional could come to a different view.

- 6.7 The classification rules for 'non current assets' under IFRS (previously known as fixed assets) have also changed, requiring officers to make a series of judgements as to the correct classification to apply. Had different judgements been reached then different values would have been placed on the assets and different depreciation charges would have applied, but these would not have had a material impact on the accounts.
- 6.8 IFRS also introduces different rules for the classification of government grants that have been received and where conditions exist as to how this money is to be used. In theory in this position the money may subsequently need to be repaid, if for example the council fails to meet those conditions. This has always been the case in practice, but IFRS requires different classifications of government grants according to the nature of the conditions that apply to them. The effect of the judgements applied here has been to transfer sums from receipts in advance to earmarked reserves, and in the event that an auditor formed a different view these transfers, which do not impact on the council's total available resources, might need to be reversed in whole or in part.
- 6.9 Also, throughout the accounts, there are areas where officers have been required to make judgements about possible future events. These include issues such as judging the amounts of the debts due to it that may ultimately not be paid and more technical issues such as the actuarial assumptions to apply to value future pension liabilities. Officers have always had to make such judgements in constructing the accounts, although in some cases the factors to be considered in making these judgements have changed as a result of the implementation of IFRS.
- 6.10 Finally, Members' attention is drawn in particular to the accounting treatment for the indemnity granted to Lewisham Homes in respect of pensions costs. This indemnity was agreed by the council when Lewisham Homes was established, and the accounting for it has been a matter of concern to the auditors in recent years, and has been reported to Members as such.
- 6.11 Officers have discussed this closely with the Audit Commission, and presented what they consider to be sound and well-reasoned arguments as to why the treatment they initially adopted in previous years was and remains correct. Members will recall that in last year's audit the matter was raised, and that officers agreed to amend the accounts in the manner proposed by the Audit Commission, in order to avoid a qualification on the accounts being issued.
- 6.12 Officers have therefore continued with this treatment, albeit that they consider it to be wrong and distorting to the financial statements. As at the date of despatch of the accounts the Audit Commission has not provided officers with written explanations from their Technical Advisory service, to whom the matter has been referred, as to why officers' preferred treatment is incorrect, although we understand that it should be received shortly.

## **7 FINANCIAL IMPLICATIONS**

- 7.1 The accounts are a financial document, and present a picture of the council's activities in 2010/11 and its assets and liabilities as at 31 March 2011. However, there are no financial implications directly arising from the Panel considering the draft accounts.

## **8 LEGAL IMPLICATIONS**

- 8.1 Regulation 8(2) of the Accounts and Audit Regulations 2011 (the Regulations) means that local authorities are no longer required to obtain elected Members' approval of their draft accounts. Regulation 8(3)(b) does require local authorities to have elected Members, by way either of a duly constituted committee or by the Full Council, to approve the final accounts, having considered the auditor's report thereon.
- 8.2 The Regulations do require that the draft accounts are approved for issue by 30 June following the year end by the Responsible Finance Officer under s151 of the 1972 Act. In Lewisham, that officer is the Executive Director for Resources.

## **9 OTHER IMPLICATIONS**

- 9.1 There are no direct equalities, environmental or crime and disorder implications arising from this report.

## **APPENDICES**

Appendix 1 – Draft Statement of Accounts 2010/11

## **BACKGROUND PAPERS**

Outturn report 2010/11 (PAC 14 June 2011, M&C 22 June 2011)

**For further information on this report please contact:**

Richard Lambeth, Group Finance Manager – Accounting, on 020 8314 3797

# Agenda Item 8

Committee	<b>Audit Panel</b>	Item No.	<b>8</b>
Report Title	<b>Head of Audit &amp; Risk Annual Assurance Report for 2010/11</b>		
Contributors	<b>Interim Head of Audit and Risk</b>		
Class	<b>Open</b>	Date	<b>22 June 2011</b>

## 1. Reasons for lateness

- 1.1 It was not quite possible to finalise all the details of this report in time for dispatch on 14 June 2011 as work on the annual governance statement (which was dispatched on time) was also required to be completed. Nevertheless it is essential that the report is considered at this meeting, in the context of the annual governance statement and draft accounts.

## 2. Purpose

- 2.1. The purpose of this report is to present members of the Audit Panel with the Head of Internal Audit & Risk's annual assurance opinion and statement on the effectiveness of the Council's system of internal control.

## 3. Recommendation

- 3.1. Members are asked to note the report.

## 4. Introduction

- 4.1. The new Accounts and Audit (England) Regulations 2011 statutory instrument, requires the Council to "undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control". And the Council, "must at least once in each year, conduct a review of the effectiveness of its internal audit".
- 4.2. The proper practices for internal audit are set out in the Chartered Institute for Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the CIPFA Code). The CIPFA code is informed by standards from other professional institutes, including the Institute of Internal Auditors (IIA) and the Government Internal Audit Standards (GIAS) issued by HM Treasury.
- 4.3. This report provides the Head of Internal Audit and Risk's assurance opinion on the adequacy and effectiveness of the London Borough of Lewisham's internal control arrangements for the year April 2010 to March 2011.
- 4.4. The annual assurance statement accompanying this opinion contributes to the annual review of internal control required by the Accounts and Audit (England) Regulations 2011 for the completion of the Annual Governance Statement.
- 4.5. The timing of this report is scheduled to allow it to be considered as part of the Council's annual review of governance and internal control.

## 5. Background

- 5.1. The CIPFA code sets out a number of elements to be included in the annual opinion and statement of the Head of Internal Audit. These are:



- Include an opinion on the overall adequacy and effectiveness of the organisation's control environment
- Disclose any qualifications to that opinion, together with the reasons for the qualification
- Present a summary of the audit work from which the opinion is derived, including reliance on work by other assurance bodies
- Draw attention to any issues the Head of Internal Audit judges particularly relevant to the Annual Governance Statement
- Compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets, and
- Comment on the compliance with these standards and communicate the results of the internal audit quality assurance programme.

## 6. Opinion

- 6.1. The Head of Internal Audit's opinion on the overall adequacy and effectiveness of the Council's risk management systems and internal control environment, including any qualifications to that opinion, is as follows:
- 6.2. *I have considered all of the work undertaken and reported on by the Internal Audit Service and Anti-Fraud and Corruption Team during the year ended 31 March 2011 and work undertaken post year end. In my opinion, **satisfactory assurance** can be placed on the adequacy and effectiveness of internal controls in place in those areas reviewed. Where weaknesses have been identified these have been reported on and are being addressed by management.*
- 6.3. *I have also considered the risk management processes in operation throughout the organisation. The Council's risk management arrangements have also been assessed by the Internal Audit Service contractor – RSM Tenon – maintaining its position as 'Risk Managed'. I'm satisfied that the Council has an established risk management process in operation at the Corporate and Directorate levels, which it continues to challenge and enhance at the operational level.*
- 6.4. *I was part of the Annual Governance Statement working party through 2010/11, a group of senior officers responsible for preparing and reviewing the Council's Annual Governance Statement. I am satisfied that the content of the statement is accurate and its completion has complied with the relevant CIPFA guidance. Issues which I have judged relevant to the preparation of the Annual Governance Statement have been included.*

## 7. Qualifications to the opinion

- 7.1. Overall a lot of good practices were identified as in place and operating effectively in the Council's governance, risk and control arrangements. However, one key system was not reviewed and three areas that will benefit from continued management attention and control improvements were noted. They were; information governance, contract monitoring, compliance with procedures, and the fixed asset system.
- 7.2. The fixed asset system is a key financial system used for the monitoring and reporting of the Council's property, plant and equipment. During 2010/11 the Council implemented a new system to improve the quality and ease of monitoring its fixed assets, in part to facilitate meeting the new requirements for reporting under IFRS. However, the system implementation, uploading of records and cleansing of data was not completed in time for the planned internal audit review. As a key system for

the preparation of the financial statements it was therefore agreed, with management and the Council's external auditors, the Audit Commission, that this review will be conducted by the Audit Commission as part of their year end work.

- 7.3. From over 100 internal audits completed in the year 266 high and medium recommendations were made. Of these identified over 70% were in respect of the application of controls, rather than the design of the controls. Monitoring compliance with agreed policies and procedures is an important part of management assurance, mitigating risk and over time reducing the level of independent assurance needed. The internal audit service is continuing the practice of following up all high and medium recommendations to ensure their implementation and reinforce the messages with managers around the importance of complying with agreed controls.
- 7.4. Review of the Council's procurement arrangements has generally found the controls in place to be good. However, once services are procured there is the risk of managing contractors, both in terms of quality of service delivery and how they use and maintain the Council's assets. This risk is increasing as the Council shares or outsources more services to other private, public or third sector organisations, with different models for resourcing and supporting the delivery of core services. A significant proportion of the 2011/12 audit plan will be focused on this area of risk.
- 7.5. Information governance includes the arrangements for the management of sensitive and confidential information and data in all its forms across the Council's activities. Audit and Risk work in 2010/11 identified the need to better align the Council's policies and procedures to meet legislative and good practice requirements, raise awareness of the risk and monitor compliance with internal controls. The actions to achieve this improvement have been included in the Annual Governance Statement.

## 8. Internal audit

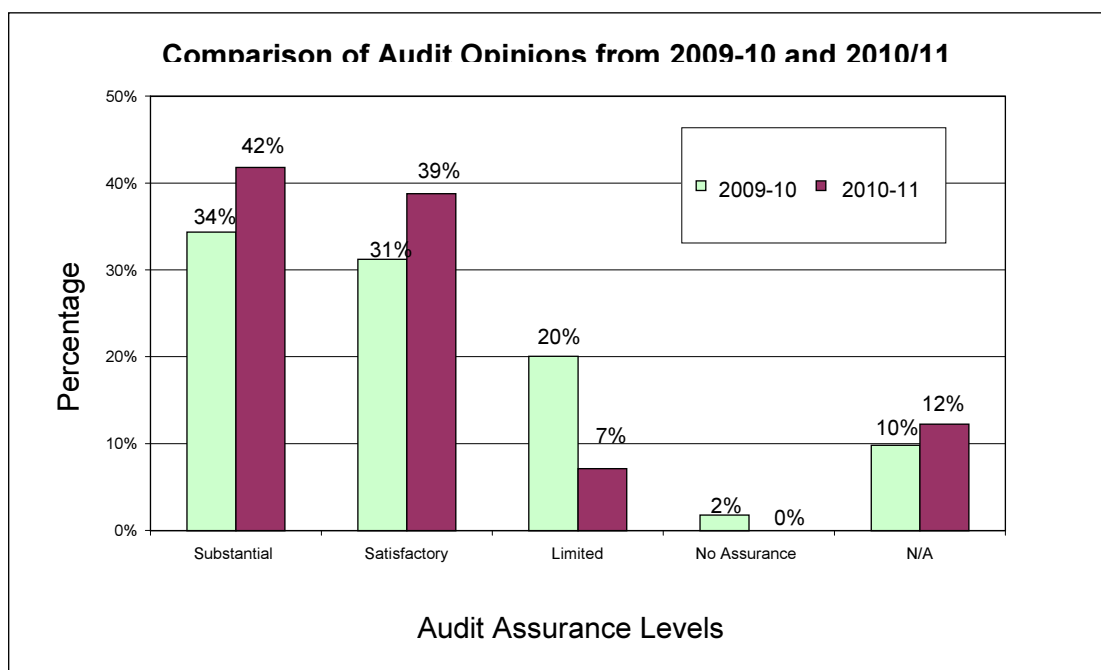
- 8.1. The internal audit plan for 2010/11, approved by the Audit Panel in March 2010, included 100 audits, requiring 1,175 days of audit work (excluding follow-up reviews and contingency). Through the year in response to circumstances and emerging risks 22 additional audits were added and 12 removed from the plan. Of the revised full year plan 95% was completed to draft report stage by the 31 March.
- 8.2. The Council's staff monitor and manage the delivery of the internal audit service by its appointed contractor – RSM Tenon – via an agreed set of performance indicators reviewed monthly. Over the year the contractor has performed, including addressing concerns raised about slippage in the plan, to deliver 95% of the plan by year end.
- 8.3. The full year performance figures for the five key performance indicators are set out in the table below:

<b>Performance Indicators to Q4 (for 2010/11)</b>	<b>Target</b>	<b>Actual</b>	<b>Variance (+/-)</b>
1. Percentage of draft audit reports issued within 15 working days of the exit meeting	90%	83%	<b>(7)%</b>
2. Percentage of final reports issued within 10 working days of agreed draft report	95%	96%	<b>1%</b>
3. Percentage of final reports issued within 30 working days from issue of original draft report	100%	90%	<b>(10)%</b>
4. The average level of client satisfaction to be achieved (out of 5)	4	4.2	<b>0.2</b>
5. Percentage of recommendations agreed with management	100%	100%	-

• High recommendations	90%	98%	<b>8%</b>
• Medium recommendations			
• Low recommendations	80%	100%	<b>20%</b>

8.4. Three of the five targets were exceeded. The reasons behind the two targets were missed have been reviewed and understood. Arrangements to ensure continuity of work to meet deadlines when a key member of the team is away have been strengthened and the targets adjusted to remain challenging but not unrealistic.

8.5. A comparison of internal audit opinions in the finalised audit reports for 2010/11 (91% of the plan) compared to the prior year is presented below. (N/A = those reports that were advisory, grant work, FMSiS or other non-audit assurance work). There were no 'No Assurance' reports issued in 2010/11.



8.6. As part of this work, where recommendations are made to enhance controls or address specific issues these are classified according to their significance – High, Medium or Low. For 2010/11 266 high and medium recommendations were made. This represents 63% of the total compared to 60% for the prior year. A slight decline. Of the recommendations made in 2010/11 70% were in respect of the application of controls (compliance), rather than the design of the controls.

8.7. Internal audit met regularly throughout the year with the external auditors, the Audit Commission. The external auditors review the quality of internal audit's work when deciding whether to place reliance on it to support their financial statements work.

#### 8.8. Key financial systems

8.8.1. The key financial systems are fundamental to the operation of the Council, so it is important that these systems have robust internal control mechanisms and operate effectively. For these reasons internal audit allocates over 20% of the internal audit resource and reviews these systems every year, irrespective of previous assurance opinions.

8.8.2. A total of twelve key financial systems audits were completed from a planned thirteen in the 2010/11 audit plan. The exception being fixed assets. The fixed asset system audit for 2010/11 has been transferred to the external auditors as the system implementation, uploading of records and cleansing of data was not completed in time for the planned internal audit review. The other twelve system audits all received a positive (i.e. substantial or satisfactory) audit opinion. All except two received the same or improved levels of assurance.

8.8.3. A summary of this year's outcomes, with prior year comparisons, is presented below:

Key Audit	2008/09 Opinion	2009/10 Opinion	2010/11 Opinion	2010/11 Direction of Travel
Payroll	Limited	Satisfactory	<b>Substantial</b>	▲
Budget setting & control	Satisfactory	Substantial	<b>Substantial</b>	◀▶
Main accounting / general ledger	Substantial	Substantial	<b>Substantial</b>	◀▶
Council tax	Substantial	Substantial	<b>Substantial</b>	◀▶
Treasury management	Substantial	Substantial	<b>Substantial</b>	◀▶
Housing benefits	Substantial	Substantial	<b>Substantial</b>	◀▶
Pensions	Substantial	Substantial	<b>Substantial</b>	◀▶
Capital programme & expenditure	Satisfactory	Satisfactory	<b>Satisfactory</b>	◀▶
Cash collection & banking	Substantial	Substantial	<b>Satisfactory</b>	▼
NNDR (business rates)	Substantial	Substantial	<b>Satisfactory</b>	▼
Creditors (accounts payable)	Limited	Satisfactory	<b>Satisfactory</b>	◀▶
Debtors (accounts receivable)	Substantial	Satisfactory	<b>Substantial</b>	▲
Fixed assets	Satisfactory	Satisfactory	<b>Deferred</b>	see commentary

#### 8.9. Risk based work

8.9.1. Aside the key financial system work, the majority of the audit plan is guided to assessing the effective governance, risk and control arrangements in operation around identified areas of risk to the Council's objectives. Internal audit supports this objective through a mix of audit and advisory pieces of work.

8.9.2. In 2010/11 internal audit completed 55 audits, ten advisory reports, and four grant claims. These figures exclude the information technology and schools audit conclusion reported separately below. For the 55 reviews resulting in an internal

audit opinion, 52 (95%) received a positive (substantial or satisfactory) level of assurance. This compares to 70% for the prior year.

8.9.3. In addition, internal audit are regularly invited to sit on project boards to advise on possible areas of risk and control for management to consider in the design and implementation of new systems and processes. This work is important to managing the risk of control weaknesses being identified post-implementation when they will be harder and more expensive to correct.

#### 8.10. Information technology

8.10.1. As part of the internal audit contract, the Council retains the services of Information Technology (IT) experts to assist on specialist audits of the Council's IT systems. These experts supported the work of internal audit throughout the year by regularly attending internal audit and IT project meetings and led on eight IT focused internal audit and advisory pieces of work. Of these five received a positive (substantial or satisfactory) level of assurance.

8.10.2. A significant area identified for control improvements was that of information governance. The control risks relate to behaviours and processes as much as the systems themselves. This has been acknowledged by management and incorporated in the Annual Governance Statement.

#### 8.11. Schools

8.11.1. The schools are audited using a three year rolling plan, adjusted for emerging risks and changes to school circumstances (for example, creation of an Academy). During the course of 2010/11 the Department for Education withdrew the FMSiS and related audit requirements. Improving the standard of internal control in schools has been a priority in previous years and strong improvements have been achieved.

8.11.2. From the internal audit conclusions in 2010/11 these improvements have continued. Last year 23 of Lewisham's 80 schools were audited, with all but one (95%) receiving a positive (substantial or satisfactory) level of assurance. This compares to 2009/10 when 80% of schools audited received a positive assurance opinion. From these audits, all high and medium recommendations are followed-up to evidence implementation of agreed control improvements.

### **9. Anti-fraud and corruption**

9.1. In addition to internal audit services, Audit & Risk is responsible for managing fraud investigations across the Council. This work is conducted by the Anti-Fraud and Corruption Team (A-FACT).

9.2. The anti-fraud work in the Council arises from the need for it to ensure confidence in the administration of public funds. As part of which, it must be recognised that the undermining of public confidence that can result from the discovery of a fraudulent or corrupt act can inflict a much greater damage than the act itself.

9.3. To put this risk in context, the level of fraud against the London Borough of Lewisham can be estimated at £33m based on National Fraud Association figures for Local Government. The work of A-FACT is split into four areas the activities for which are summarised below.

#### 9.4. Benefits investigations

9.4.1. During the year to March 2011 the Benefit Investigation Team has secured 181 sanctions against an annual target of 180. The total value of fraudulent benefit overpayments identified was £846,022.

9.4.2. The Benefit Investigation Section also investigate allegations of non-receipt of Housing Benefit cheques. When a Benefit claimant reports the non-receipt of a cheque which has been cashed the team investigates the circumstances of the encashment prior to reissuing payment. In the last year the team has taken action in the seven.

9.4.3. On recovery these amounts represents a saving to the public purse. As the table below shows the team's productivity continues to improve

Year	No of referrals received	No. of closed cases	No. of o/s cases at year end	No. of Sanctions	No of sanctions per officer	Value of fraudulent over payment
2006/07	711	434	568	149	16	£359,404
2007/08	469	483	554	164	18	£455,773
2008/09	561	761	354	159	23	£450,569
2009/10	548	486	416	143	20	£651,827
<b>2010/11</b>	<b>591</b>	<b>626</b>	<b>381</b>	<b>181</b>	<b>25.8</b>	<b>£846,022</b>

9.4.4. The sanctions figure is made up of 23 Administrative Penalties, 137 Cautions and 21 Prosecutions. In the case of the Administrative Penalties a financial penalty of 30% of the overpaid benefit must be paid by the claimant. The total amount of the Administrative Penalties levied in 2010/11 was £32,923.

#### 9.5. Housing investigations

9.5.1. 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.

9.5.2. During the year to the end of March 2011 60 cases were passed for investigation, a similar amount to last year. The officer dealing with these cases completed 47 cases compared to 35 cases last year. There are currently 72 cases under investigation.

9.5.3. Of the 47 cases that were completed 16 resulted in successful outcomes ranging from false Homelessness applications being cancelled, through Housing Register application being withdrawn, to sub-let tenancies being recovered.

#### 9.6. Special investigations

9.6.1. During the year to March 2011 the Special Investigations section received 250 new allegations or enquiries relating to fraud and/or irregularity.

<b>2010/2011 Special Investigations Cases</b>				
Year	Balance	New	Closed	Balance
2007/08	98	92	89	101
2008/09	101	88	109	80
2009/10	80	187	168	97
<b>2010/11</b>	<b>97</b>	<b>250</b>	<b>213</b>	<b>134</b>

9.6.2. During this period the section completed 213 cases/enquiries. A further 134 cases are still in progress. These figures include Lewisham Homes cases but exclude pre-employment checks undertaken.

9.6.3. By far the biggest area of work this year has been with employee related fraud. Within the Council 41 employee related cases were investigated involving 44 people. Of these twenty have concluded with action being taken ranging from disciplinary action up to and including dismissal.

- 9.6.4. A-FACT has been undertaking a significant amount of work for Lewisham Homes under our SLA in the past year. We have concluded 24 investigations, including probity checks on staff and members of the board. A number of complex investigations are still ongoing and will be reported as they are concluded.
- 9.6.5. A-FACT supports Human Resources by undertaking a part of the recruitment checks. Each potential employee of the Council is required to complete a pre-employment form which focuses on any issues relating to benefits, council tax, rent and personal business interests which may put the individuals integrity in doubt. In the year to March 2011 279 checks on staff were undertaken. This compares to 443 in the previous year. These checks identified one case where the applicant was not eligible to work in the UK and twelve cases where arrangements were made to pay off rent or council tax arrears.
- 9.6.6. Other successful activities in the year include eight out of ten Blue Badge fraud investigations, support and information on four attempted cheque and bank account frauds, use of the Proceeds of Crime Act powers to support our own work and that of another London Borough to recover assets, and a range of other alleged frauds ranging from referrals from other organisations to corporate credit card fraud.
- 9.6.7. The team also has a Detective Constable on secondment from the Metropolitan Police who contributes and enhances the work of A-FACT by providing advice, assistance and applying Police powers where appropriate. His access to Police systems and intelligence has proved invaluable. He is currently working on a number of complex cases and was key to four of the prosecutions undertaken this year.

## 9.7. Fraud prevention

- 9.7.1. A-FACT supports internal audit in promoting a strong internal control environment with clear controls and procedures, manages a fraud hotline (important as the majority of referrals come from tip-offs), works with Legal to maintain the fraud and whistle blowing policies and reporting lines, and undertakes data matching, training and promotion of anti-fraud successes.
- 9.7.2. A-FACT responded to 34 requests for information from other agencies to assist with fraud enquiries under the Data Protection Act. In addition the team's Intelligence Officer responded to 1,287 requests for information. These requests were primarily from the Police, Department for Work and Pension, other local authorities and Central Government departments such as UK Borders Agency and HM Revenue & Customs. This is up slightly in the number of requests conducted last year.
- 9.7.3. A-FACT has continued to publicise successful cases in the local press and has also received national television coverage on two episodes of the BBC programme Saints and Scroungers. Feedback from all coverage has been positive. We are also undertaking work with Trading Standards in connection with counterfeiting offences.
- 9.7.4. During the year A-FACT provided training focussing on frontline staff, especially in the area of document verification. This has been aimed at Human Resources, the Housing Options Centre, and Lewisham Homes staff. General fraud awareness training has also been provided to the Lewisham Homes Board of Directors.

## 10. **Risk management**

- 10.1. The Council has a risk management strategy and policy in place. It defines the roles and responsibilities of individuals, directorates and groups, and sets out how the risk management process will be embedded. The strategy and policy were revised in 2010/11 and approved by the Internal Control Board and Audit Panel.

- 10.2. The Mayor and Cabinet and Members are appraised on risk management monthly via the monthly management report. The monthly management report clearly maps risks to the Council's priorities and provides a narrative on changes to existing or emerging key (red) risks.
- 10.3. During 2010/11 the Council's internal audit service undertook their annual risk maturity review of the arrangements in place and their operation. This confirmed that Lewisham has maintained its rating of 'Risk Managed'. This is the second highest level on the Institute of Internal Auditors five point scale.
- 10.4. The Council continues to build on its approach to risk management, improving the quality of reporting on risks to the Executive Management Team and Internal Control Board. While arrangements are strong at the Corporate and Directorate levels a review of operational risk registers identified that practices were not always consistent at the operational level. This is an area for training and improvement.
- 10.5. Evidence for the effective mitigation of identified risks and related focus on strengthening the organisation's internal controls comes from a number of sources. In addition to the work of internal audit these include:
  - reports on the Council's services by other inspectorates (such as the Audit Commission, Care Quality Commission, OFSTED),
  - pieces of commissioned consultancy support (for example, review of preparedness of carbon reduction plans, procurement experts on the Leisure contract), and
  - management assurances (using specialist skills such as those of the counter-fraud, health & safety and insurance teams as well as performance management and exception reporting on core activities).

## **11. Compliance with the code**

- 11.1. The Chartered Institute for Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the CIPFA Code) is a non-statutory code. However, the new Accounts and Audit (England) Regulations 2011 statutory instrument, requires the Council to "undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control". Internal audit is therefore required to comply with the CIPFA Code.
- 11.2. The internal audit service is overseen by the Head of Internal Audit & Risk supported by a contract manager. The service is provided by an external contractor, RSM Tenon. They are a regulated firm approved to provide audit and accounting services. As such they adhere to the industry good practice standards and have a good quality control mechanism. This involves an internal quality review of all audit reports, including comprehensive working papers, and ongoing supervision, training and appraisal of staff.
- 11.3. The Accounts and Audit (England) Regulations 2011 further require that the Council, "must at least once in each year, conduct a review of the effectiveness of its internal audit". In 2009/10 this requirement was met in three ways; self-assessment, peer review and an external review. All three reviews confirmed that internal audit complies with the requirements of the code.
- 11.4. For 2010/11 the internal audit arrangements were reviewed by the Head of Audit & Risk. No significant changes have been made to the working practices and delivery of internal audit services. The work of the internal audit team continues to be subject regular monitoring meetings with the contractor – RSM Tenon – and the Council's



external auditors, and results of their work and progress with the implementation of recommendations reported to the Internal Control Board and Audit Panel quarterly.

**12. Legal Implications**

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

**13. Financial Implications**

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

**14. Equalities Implication**

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

**15. Crime and Disorder Implications**

15.1. There are no specific Crime and Disorder implications arising directly from this report

**16. Environmental Implications**

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

**17. Background Papers**

17.1. Internal audit and A-FACT papers to the Audit Panel through 2010/11

If there are any queries on this report please contact the Head of Audit & Risk on 020 8314 9114.

# Agenda Item 9

AUDIT PANEL		
Report Title	Internal Audit update report	
Key Decision	No	Item No. 9
Ward	ALL	
Contributors	Executive Director for Resources	
Class	Part 1	Date: 22 June 2011

## 1. Purpose of the Report

- 1.1. This report presents members of the Audit Panel with a summary of:
- Internal Audit progress update 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 provided by RSM Tenon. The internal audit contract is currently out to tender. Tenders will be returned in July. Evaluation and interviews will take place in July and August with a recommendation for appointment to the September Mayor & Cabinet Contract meeting. The new contract will therefore be in place from October 2011.
- 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.

## 4. Internal Audit progress update

### 2009-10

- 4.1. The whole of the audit plan was completed to final report stage at the 31/03/11.

### 2010-11

- 4.2. The audit plan for 2010/11 is completed to final report stage with the exception of two reports :
- Procurement and Purchasing of Goods and Services – draft to be issued shortly
  - Use of BACS – draft issued 27/05/11
- 4.3. Further details on of the overview of the 2010/11 audit plan and the can be found in the Head of Audit and Risk Annual Report for 2010/11.

## 2011/12 Audit Plan

The table below summarises the number of audits by Directorate for the audit plan for 2011/12.

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
RES	24			24			1	23
CUS	12	1	1	12	1		3	8
COM	5	2		7			2	5
REG	4	2		6			1	5
CYP	6			6			1	5
SCH	32			32		2	1	29
<b>TOTAL</b>	<b>83</b>	<b>5</b>	<b>1</b>	<b>87</b>	<b>1</b>	<b>2</b>	<b>9</b>	<b>75</b>

4.4. It shows :

- 14% of the plan is now in progress
- 3% of the plan has been completed to draft report stage and
- 1% of the plan has been completed to final report stage.

4.5. Since the Audit Panel approved the 2011/12 audit plan, there have been five additional audits requested and one audit that has been pulled from the plan. These are listed below:

### Additional

Dir.	Audit Title	Comments
CUS	Homesearch	Requested by management for Q3
COM	Lewisham Park - Day Care Provider	Requested by management - to start ASAP.
COM	Learning Difficulties	Part of the Contract and Procurement Review
REG	Building Security	Part of the Contract and Procurement Review
REG	Highways	Part of the Contract and Procurement Review

### Pulled

Dir.	Audit Title	Comments
CUS	Housing Applications	To be conducted in 2012/13

4.6. For 2011/12, there has been one audit finalised:

Dir.	Audits title	Final Issued	Assurance Level
CUS	Pest Control	06/05/11	Substantial

4.7. For a more detailed look at the audits planned for Q1& Q2 in 2011/12, please refer to Appendix 1. All key audits are due to take place in Q3 & Q4.

### Limited and No Assurance Reports

4.8. Since the last Audit Panel report there have been seven Limited reports issued as at 17/05/11.

- Property Asset Management (2009/10)
- Communication Design and Print (2009/10)
- Information Security Management (2010/11)
- Payment Card Industry (PCI) (2010/11)
- Homecare Service (2010/11)
- Direct Payments (2010/11)
- Property Services – Post Room (2010/11).

4.9. For further details of these reports, please see Appendix 2.

### **5. Performance of the contractor**

5.1. One of the ways that the performance of the contractor is measured is by Performance Indicators (PI's). These PI's and their associated targets were agreed with the contractor at the start of the year. They will be reviewed again once the new contract has been awarded (September 2011) to ensure that they are still relevant.

5.2. The 2011/12 results for the PI's are for April and May this year and are shown below.

<b>No.</b>	<b>Performance Indicator</b>	<b>Target YTD May</b>	<b>Actual YTD to May</b>	<b>Variance (+/-)</b>
<b>1</b>	Percentage of all draft reports issued against audit plan	0%	1.1%	+1.1%
<b>2</b>	Percentage of draft audit reports issued within 15 working days of the exit meeting	90%	100%	+10%
<b>3</b>	Percentage of final reports issued within 10 working days of agreed draft report	95%	100%	+10%
<b>4</b>	The average level of client satisfaction to be achieved (out of a score of 5)	4	n/a	n/a
<b>5</b>	Percentage of High & Medium recommendations made agreed by management.	95%	n/a	n/a

5.3. Three of the five PI's targets have been met or exceeded, with two not applicable at this point.

- P1 - has exceeded the target by 1.1% this was based on one report being issued. The target is based on the expected number of draft reports being issued by the end of May which is nil.
- P2 - has exceeded the target by 10%. This is based on one draft report issued.
- P3 - has exceeded the target by 10%. This is based on one final report issued
- P4 - There have been no audit surveys returned for 2011/12 as at 13/06/11
- P5 - There have been no High or Medium recommendations made as at 13/06/11

## 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. A monthly consolidated report is prepared for management to confirm the progress of the recommendations made.
- 6.2. The table below shows a summary the total number of recommendations followed-up since the last audit panel report up to the end of May. Details of the individual follow-up reviews issued since the last audit panel meeting can be found at Appendix 3.

	<b>Implemented</b>	<b>In progress</b>	<b>Superseded</b>	<b>Not Implemented</b>	<b>Not Due</b>	<b>Total</b>
High	-	-	1	-	-	1
Medium	31	3	4	7	1	46
<b>TOTAL</b>	<b>66%</b>	<b>6%</b>	<b>11%</b>	<b>15%</b>	<b>2%</b>	<b>47</b>

- 6.3. We have developed an in-house solution for tracking internal audit recommendations. The advantages of using this site are:
- all High and Medium recommendations made in final reports are recorded not just those judged as open by the final report, leading to more accurate management information
  - officers can access the site directly with no need for log-in and passwords
  - there is no annual cost for an additional software licence and support
  - improvement of exporting and editing the data for reporting purposes
  - the SharePoint format should be familiar to staff, and
  - more control over the information we hold.
- 6.4. At the follow-up review any recommendations that have been closed by management but judged not to be implemented in full by the auditor, will be reopened on the SharePoint site. This is to enable management to continue to monitor the progress of the recommendation until it is implemented in full.
- 6.5. A summary of overdue recommendations that have not been implemented within the agreed timescales by management, or have had their implementation date changed more than twice, can be found in Appendix 4. There are currently 32 overdue recommendations and nine recommendations where the implementation date has changed twice or more.
- 6.6. 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.
- 7.2. At the last Audit Panel when reviewing the Risk Management Strategy the Panel requested to be updated on the key corporate risks, changes and actions being taken to mitigate them.

7.3. The current red (most significant) risks in the corporate risk register are

<b>Corporate Risk Register – Extract</b>		
<b>Corporate priority</b>	<b>Risk title</b>	<b>Current risk status (RAG)</b>
Inspiring efficiency effectiveness and equity	Failure of central ICT infrastructure	Red
Inspiring efficiency effectiveness and equity	Litigation risks	Red
Inspiring efficiency effectiveness and equity	Financial failure & fraud/loss – inability to maintain a balanced budget	Red
Inspiring efficiency effectiveness and equity	Inadequate provision for unforeseen expenditure	Red
Inspiring efficiency effectiveness and equity	Inability to maintain corporate estate	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

- 7.4. The ICT infrastructure risk reflects the cost and service disruption risks. Work to complete the archiving of storage combined with change support for moves to SharePoint 2010 to alleviate demands on server resources continues. The Council also continues to monitor the resolution of issues with regard to the resilience of the telephony system.
- 7.5. The Litigation risk reflects the cost and reputation risk arising from historical events and the risk of legal challenge to savings proposals. The position is constantly monitored.
- 7.6. The level of savings required over the next three years will take considerable leadership focus to deliver. Managing the organisational changes required to achieve these savings while keeping a focus on maintaining performance in service delivery will be challenging. The Council have set a legal budget for 2011/12.
- 7.7. The inadequate provision risk has been raised following the latest actuarial valuation of the Pension Fund. The results of the valuation are being built into the Council's strategic budget planning.
- 7.8. Concerns around the maintenance of the school estate have increased the risk rating.
- 7.9. The risk of avoidable death or serious injury to a client or employee will continually be rated red due to the potential severity should an event occur. Regular and ongoing management action and review continues in respect of safeguarding.
- 7.10. The employee relations risk has been escalated from Amber to Red due to the staffing implications of the savings proposals. The situation is subject to regular and ongoing review, staff consultation processes and engagement with the unions.

## **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 the Interim Head of Audit and Risk on 020 8314 9114 or email at [david.austin@lewisham.gov.uk](mailto:david.austin@lewisham.gov.uk)

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

**Resources 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
RES	Public Sector Transparency Board	Q1	08/04/11				
RES	Control of Expenditure	Q1					
RES	Procurement / Contract VFM	Q1					
RES	Implementation of Fixed Asset System	Q2					
RES	Implementation of Payroll system (ResourceLink)	Q2					
RES	Implementation of HR System - PHRIS	Q2					
RES	HR - Thematic Review	Q2					
RES	Project Management Monitoring Capacity	Q2					
RES	Performance Indicators for LA's	Q2					
RES	Cyber Threats	Q2					
RES	Mutual Organisations	Q2					

**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
<b>CUS</b>	Pest Control	Q1	24/04/11	14/04/11	06/05/11	Substantial	
<b>CUS</b>	Trading Standards	Q1	24/03/11				
<b>CUS</b>	Street cleaning	Q1	05/04/11				
<b>CUS</b>	Complaints, Compliments and Suggestions.	Q1	13/04/11				
<b>CUS</b>	Brockley PFI (Major Suppliers)	Q1					
<b>CUS</b>	Implementation of NNDR system	Q1					



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

**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
<b>COM</b>	Personal Budgets	Q1	07/03/11				
<b>COM</b>	Lewisham Park Housing Association (Day Care Provider)	Q1	18/05/11				(Additional Audit Requested)
<b>COM</b>	Increased shared role with NHS over public health and adult social care	Q1					
<b>COM</b>	Supporting People Service Plan	Q1					
<b>COM</b>	Learning Disabilities Contract	Q1					

**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
<b>REG</b>	Security of Town Hall / Laurence House	Q1	23/03/11				
<b>REG</b>	Croydon & Lewisham Street Lighting PFI	Q1					
<b>REG</b>	Regeneration of Lewisham	Q2					
<b>REG</b>	Highways Contract	Q1					
<b>REG</b>	Building Security	Q1					

**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
<b>CYP</b>	Provision of School Places	Q1	18/03/11				
<b>CYP</b>	Children Social Care	Q1					

**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
CYP	CONTROC system - joint review	Q1					
CYP	School IT Security	Q1					
CYP	Play Capital Determination Grant	Q1					

**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	Brockley Primary	Q1	16/05/11	06/06/11			
SCH	St William of York Primary	Q1	23/05/11	06/06/11			
SCH	Chelwood Nursery	Q1	08/06/11				
SCH	Elfrida Primary	Q1					
SCH	Perrymount Primary	Q1					
SCH	St Margarets Lee CE Primary	Q1					
SCH	Baring Primary	Q2					
SCH	Childeric Primary	Q2					
SCH	Dowderry Primary	Q2					
SCH	Gordonbrock Primary	Q2					
SCH	Holy Trinity Primary	Q2					
SCH	St Bartholomews Primary	Q2					
SCH	St John Baptist Primary	Q2					

## Appendix 2 - Limited and No Assurance Audit Reports

Audit Name, Date of Issue and Opinion	No of Recs. Made		Scope of the Review
Property Asset Management (2009/10 audit plan) Issued 10/03/11 (RES) Limited	High	2	This review covered the following areas :
	Medium	5	System for identifying properties for which the authority is responsible, process & systems in place to maintain properties to an acceptable standard and compliant with property legislation.
	Low	0	<p><b>Key Findings</b></p> <ul style="list-style-type: none"> <li>• The Council does not currently have a comprehensive register of all property for which it has a responsibility to maintain.</li> <li>• There is no uniform or corporate approach to nominating responsible managers to undertake property related management duties within the buildings, or to ensuring that those nominated officers have received training and guidance in undertaking their duties.</li> <li>• There is no single body within the Council with responsibility for ensuring that all Council owned/managed buildings are maintained to an appropriate standard in accordance with property related regulations and legislation</li> </ul>
<b>Managers Comments</b>	<p>The Council currently maintains property asset details on a number of systems, the main ones being for the Corporate and Schools estates. In addition, Directorates, in particular Community Services and part of Customer Services, maintain their own records for assets managed and maintained locally.</p> <p>For the Corporate and Schools estate procedures are in place for identifying responsible managers and ensuring that statutory maintenance responsibilities are met and training is provided where required. Oversight of all the Council's property asset interests is the responsibility of the Director of Programme Management and Property.</p> <p>A property asset management systems project is underway that will rationalise the systems and processes and move to a single system that will provide more effective management of all the Council's property assets. The conclusions and actions from this project will address the control issues raised from this audit.</p>		

## Appendix 2 - Limited and No Assurance Audit Reports

Audit Name, Date of Issue and Opinion	No of Recs. Made		Scope of the Review
Communication, Design and Print Issued 31/03/11 (RES) Limited	High	2	This review covered the following areas :
	Medium	9	Selection of suppliers from the framework agreement, assessments undertaken of the framework contractors and the framework extension period.
	Low	3	<b>Key Findings</b> <ul style="list-style-type: none"> <li>• At the time of the review, neither the original framework, variation to the framework, nor framework criterion could be produced.</li> <li>• Communications need to agree all non framework design and print referrals prior to the contract being placed;</li> <li>• The procurement route and length of contract for the “Home Search” magazine needs to be agreed;</li> <li>• For large orders of printing, a mini competition should be held with framework suppliers to ensure the Council is achieving Best Value;</li> <li>• All information concerning the holding of contract information or detail needs to be in accordance with best practice;</li> <li>• Communications should formally notify each of the suppliers under the Design and Print Framework that the agreement has been extended;</li> <li>• Review of the compliance and document trail related to the design and print framework needs to be undertaken to ensure that relevant documents are held and that the framework is appropriately compliant.</li> <li>• The Council have prepared clear guidance to staff over the placing of print work with external companies. The Communications Department appears not to have sufficient support from the Finance Department - this is evident in that they do not fully understand the available coding parameters available to them and</li> <li>• The procurement process appears to be insufficient in its current state to enable managers to effectively control suppliers used for procurement.</li> </ul>
<b>Managers Comments</b>	The Communication, Design and Print framework contract is currently being relet. This process will conclude over the summer of 2011. The controls for improvement recommended by this audit will be put in place for the new framework.		

## Appendix 2 - Limited and No Assurance Audit Reports

Audit Name, Date of Issue and Opinion	No of Recs. Made		Scope of the Review	Key findings
Information Security Management Issued 24/03/11 (RES) Limited	High	0	This review covered the following areas : The security of data and personal information to unauthorised persons in relation to the Tribal Synergy, Logotech Terrarius assets register, eXpress Election and Management and Trapeze Routewise Transport systems	
	Medium	14		
	Low	0	<b>Key findings</b> <ul style="list-style-type: none"> <li>• Current policies are not published on the intranet accessible to all users</li> <li>• A generic security standard should be defined for business information systems</li> <li>• System Owners should evaluate actual controls against the standard</li> <li>• Network account lockout settings should clearly defined in the Password Security Policy and implemented</li> <li>• Document access control procedures should be produced for Tribal database</li> <li>• Assess the risk of unauthorised use of Tribal School Access Module</li> </ul>	
<b>Managers Comments</b>	The Service responsible for this are of activity has just completed the transition to a new contract and full reorganisation of its structure, including strengthening the Information Management Security team from June 2011. This delayed action on some control improvements and these are now being picked up and addressed.			

## Appendix 2 - Limited and No Assurance Audit Reports

Audit Name, Date of Issue and Opinion	No of Recs. Made		Scope of the Review
Payment Card Industry Issued 14/04/11 (CUS) Limited	High	1	This review covered the following areas: Compliance against the Payment Card Industry security standard.
	Medium	7	
	Low	0	<p><b>Key Findings</b></p> <ul style="list-style-type: none"> <li>• Overstated the degree of compliance to RBS WorldPay requirements in first return</li> <li>• PCI compliance is not integrated into the information management compliance framework and no effective management structure defined</li> <li>• Legacy hardcopy receipts/records and media containing cardholder data from earlier non-PCI compliant systems have not been securely destroyed</li> <li>• No detailed work plan has been produced identifying outstanding tasks, owners and timetable for completing PCI compliance activities.</li> <li>• No detailed records are available to demonstrate compliance with PCI requirements and support the SAQ submission.</li> <li>• Failure to achieve or maintain PCI compliance is not identified in the Customer Services Directorate or Corporate risk registers.</li> <li>• No Council wide PCI awareness training programme has been delivered on the secure handling of payment card data</li> <li>• Current change control procedures do not focus sufficiently on the risk of changes affecting the PCI compliance status for the Council. Enabling of call centre voice recording without the involvement of the PCI Lead indicates this control is not effective.</li> </ul>
<b>Managers Comments</b>	Seeking PCI compliance accreditation is initially a two step process and then a case of continuing monitoring. This review was conducted between steps one and two in the initial compliance process. The second step for PCI compliance is due to be reported on by the end of June 2011. This allows for completion of any gaps identified in step one and implementation of the additional checks for step two. The work is well in hand to meet the June 2011 deadline for achieving the necessary compliance in this area.		

## Appendix 2 - Limited and No Assurance Audit Reports

Audit Name, Date of Issue and Opinion	No of Recs. Made		Scope of the Review
Property Services – Post Room Issued 15/04/11 (REG) Limited	High	3	This review covered the following areas: Adherence to the procedures and processes in place, that the postal policy is used across the authority and personal use of the postal service restricted.
	Medium	3	
	Low	0	<b>Key Findings</b> <ul style="list-style-type: none"> <li>• Limited focus on Pricing in Proportion policy created avoidable increased costs</li> <li>• New drive needed to integrate the Cleanmail System to reduce costs.</li> <li>• No existing organisational policies were found to be in place to determine the use of First Class, Second Class, Recorded, Special Delivery or International Delivery services.</li> <li>• No evidence was provided for a corporate postal policy for users of the mail room service.</li> <li>• Personal mail can be relatively easily submitted into the Council's postal system by both members of the Mail Room staff and employees across the organisation</li> <li>• Franking Machine procedures and controls can be updated to prevent misconduct, and to further mitigate the risks for misconduct</li> </ul>
<b>Managers Comments</b>			

Audit Name, Date of Issue and Opinion	No of Recs. Made		Scope of the Review
Homecare Services Issued 14/03/11 (COM) Limited	High	2	This review covered the following areas: The written procedures for Homecare, the criteria of the service, periodic assessment of users, the homecare visiting roster, risk assessment for service users, signing in and out procedures, CRB checks and budget monitoring.
	Medium	3	
	Low	1	<b>Key Findings</b> <ul style="list-style-type: none"> <li>• The Home Care Staff Guidelines did not reflect all current systems and processes.</li> <li>• Delivery Monitoring Reports, signed Customer Service Agreement documents and risk assessment forms for clients were not consistently held on client's files in the sample reviewed by Internal Audit.</li> <li>• Home Care Workers are not consistently using the CM2000 visiting monitoring system.</li> <li>• In the sample selected by Internal Audit, one Officer did not have the required CRB clearance and management within the Homecare Service were not aware of this fact.</li> </ul>
<b>Managers Comments</b>			

## Appendix 2 - Limited and No Assurance Audit Reports

Audit Name, Date of Issue and Opinion	No of Recs. Made		Scope of the Review
Direct Payments Issued 14/04/11 (COM) Limited	High	2	This reviewed covered the following areas: The take up of direct payments in the borough, procedures for direct payments, assessments for direct payments, service user agreements and financial monitoring.
	Medium	4	
	Low	0	<p><b>Key Findings</b></p> <ul style="list-style-type: none"> <li>• The procedure notes and process maps for the Self Directed Support system including the Direct Payment process have not been updated to reflect best practice.</li> <li>• There is currently no Direct Payment co-ordinating role to ensure that all documentation for the set-up, administration and cessation of current Direct Payment users is checked, securely retained and readily accessible.</li> <li>• It was found that for a sample of Direct Payment users that were tested during this review annual social worker reviews are not always undertaken at the scheduled time.</li> <li>• A database to record the return of financial monitoring returns from clients whose Direct Payments are paid directly into their bank accounts was not being maintained.</li> <li>• Individual Direct Payment client holding accounts have not been monitored from the second quarter of the 2010/11 financial year.</li> <li>• Unused client monies have not been recovered from Direct Payment users with holding accounts in 2010/11.</li> </ul>
<b>Managers Comments</b>			



### Appendix 3 - Follow Up Reviews Conducted Since the Last Audit Panel

Dir.	Audit Name	Original Audit Opinion	Final Report date	Rec Cat.	Implemented	In Progress	Superseded	Not Implemented	Not Due Yet	Total Recs
RES	Schools Outsourced Payroll	Satisfactory	23/09/10	H						6
				M	4	1			1	
RES	Schools Outsourced Pensions	Satisfactory	16/09/10	H						5
				M	2		2	1		
RES	Purchase Cards - Issuing & Mngmt of cardholders	Substantial	09/08/10	H						2
				M	2					
CUS	Licensing, Issue, Review and Enforcement	Substantial	15/07/10	H						1
				M	1					
CUS	Abandoned Vehicles	Satisfactory	11/08/10	H						3
				M	2			1		
CUS	Park Management Contract	Substantial	27/08/10	H						1
				M	1					
COM	Supported Housing - Extra Care	Satisfactory	05/07/10	H						3
				M	3					
COM	Youth Offending Team	Substantial	19/07/10	H						1
				M	1					
COM	Linkline	Substantial	27/07/10	H						1
				M	1					
COM	Drug and Alcohol Action Team	Substantial	13/08/10	H						1
				M			1			
REG	Door-2-Door Changing Mechanism	Satisfactory	01/07/10	H						3
				M	1			2		
CYP	Children's Residence Orders	Substantial	24/09/10	H						2
				M	2					

### Appendix 3 - Follow Up Reviews Conducted Since the Last Audit Panel

Dir.	Audit Name	Original Audit Opinion	Final Report date	Rec Cat.	Implemented	In Progress	Superseded	Not Implemented	Not Due Yet	Total Recs
SCH	Sandhurst Jnr School	Substantial	05/07/10	H						2
				M		1	1			
SCH	Stillness Jnr School	Substantial	08/07/10	H						1
				M	1					
SCH	Myatt Gardens Sch	Satisfactory	09/07/10	H						3
				M	1			2		
SCH	John Stainer School	Substantial	23/07/10	H						1
				M	1					
SCH	Torridon Jnr School	Satisfactory	08/07/10	H						3
				M	2			1		
SCH	Catford High School	Limited	08/07/10	H			1			7
				M	5	1				
SCH	Stillness Infant School	Substantial	24/09/10	H						1
				M	1					
<b>Total No.</b>					<b>31</b>	<b>3</b>	<b>5</b>	<b>7</b>	<b>1</b>	<b>47</b>
<b>Percentage</b>					<b>66%</b>	<b>6%</b>	<b>11%</b>	<b>15%</b>	<b>2%</b>	

Appendix 4 – Overdue Recommendations and Recommendations Two or More Changes of Date

Dir	Name of Audit	Final Report Date	Opinion	High O/Due	Medium O/Due	No. Recs 2+ Changes	Comment
RES	Benefits Realisation for the Early Change Project	16/02/11	Satisfactory		1		
RES	DPA / FOIA	Pre 2009	Limited		1	1	Date changed 3 times
RES	SharePoint	25/01/10	Satisfactory	-	-	2	Date changed 2 times
RES	Information Security Management 09/10	01/10/11	Limited			1	Date changes 2 times
RES	Information Security Management 10/11	24/03/11	Limited		4		
COM	Community Mental Health (SLAM)	Pre 2009	Limited		1	1	Date Changed 5 Times
COM	Direct Payments 10/11	29/03/11	Limited		1		
COM	Client Contributions for Res & Dom Care	29/05/10	Satisfactory	-	-	1	Date changed 3 times
CYP	Youth Service	16/12/10	Satisfactory	2			
CYP	Family Support and Intervention	04/12/09	Satisfactory	-	-	2	Date changed 2 times
REG	Door2Door Charging Mechanism	01/07/10	Satisfactory		1		Reopened after Jan F/up Report
REG	Transport Programme - TFL Funding	26/11/10	Satisfactory		3		
REG	Highway Maintenance	03/05/08	Limited	-	-	1	Date changed 8 Times
SCH	Horniman Primary School	24/06/10	Satisfactory		1		Reopened after Dec F/up report
SCH	Lee Manor School	22/02/11	Satisfactory		3		
SCH	Myatt Garden School	25/06/10	Satisfactory		3		
SCH	Rangefield School	21/03/11	Satisfactory		1		
SCH	Rathern School	09/12/10	Satisfactory		3		
SCH	Rushey Green School	08/12/10	Satisfactory		3		
SCH	St Augustine's School	03/12/10	Limited		3		
SCH	Torridon Junior School	08/07/10	Satisfactory		1		Reopened after Jan F/up report
				2	30	9	

# Agenda Item 10

AUDIT PANEL		
Report Title	ANTI FRAUD AND CORRUPTION TEAM (A-FACT) OVERVIEW	
Key Decision	NO	Item No. 10
Ward	ALL	
Contributors	Interim Head of Audit & Risk A-FACT Group Manager	
Class	Part 1	Date: 22 June 2011

## 1. Purpose

- 1.1. This paper is for information only.
- 1.2. It has been prepared for the Audit Panel in response to recent discussions on the anti-fraud activities of the Council. It is in addition to the annual Anti-Fraud and Corruption Team (A-FACT) report.
- 1.3. The paper:
  - summarises priorities and planned improvements for A-FACT in 2011/12
  - presents the anti-fraud work of the Council in a wider context
  - assesses the focus and success of current A-FACT activities, and
  - considers resourcing needs and matching them to the right priorities.

## 2. Recommendation

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

## 3. Executive Summary

- 3.1. Fraud is an important and significant challenge for the London Borough of Lewisham (LBL) estimated at £33m. The impact of frauds go well beyond the damage of the fraud itself causing loss of money, poorer services, diversion of time, injustice and reputation loss.
- 3.2. Priorities for continuous improvement, assuming core funding and income from grants and joint working can be maintained at the 2011/12 levels, are:
  - keep up the good work in housing and special investigations, supporting management identify and resolve issues where frauds are found
  - continue close joint working on cases with Internal Audit, Human Resources and Legal to maintain the Council's strong internal control arrangements
  - steady as it goes and manage the transition of housing benefit work to DWP
  - consolidate resources and strengthen the work of the special and housing investigations teams
  - refresh the corporate counter fraud strategy and policy to assess and focus on key risks to help support the prioritisation of cases to take on – e.g. contracts

- monitor 'success' rate to evidence effective risk assessment in picking the type and number of cases to investigate. The barometer, based on 2010/11 outcomes, is a one in four strike rate
- carve out some time from current commitments to also plan some targeted campaigns – for example around employment checks and data matching work
- improve the way in which we report and track control improvement recommendations arising from investigations
- with strategic housing, use the grant monies from CLG to tackle social housing fraud with Lewisham housing providers other than Lewisham Homes, and
- strengthen communications to promote the Council's message on counter fraud, both for management purposes and to raise awareness more generally.

#### 4. Anti-fraud context

- 4.1. CIPFA defines fraud as "the intentional distortion of financial statements or other records by persons internal or external to the organisation which is carried out to conceal the misappropriation of assets or otherwise for gain."
- 4.2. The anti-fraud work in the Council arises from the need for it to ensure confidence in the administration of public funds. As part of which, it must be recognised that the undermining of public confidence that can result from the discovery of a fraudulent or corrupt act can inflict a much greater damage than the act itself.
- 4.3. To put this risk in context, the level of fraud against the London Borough of Lewisham can be estimated at £33m. This £33m can be further split - £25m of external fraud and £8m of internal fraud. Or that within the Lewisham social housing stock 312 tenancies will be fraudulent. Details for these estimates are at Appendix A.

Fraud practitioners have identified three common factors when fraud occurs - the fraud triangle. The PwC 2010 report on fraud in the public sector identified the following distribution of reasons for identified frauds.

The consensus is that the contributory factors to fraud are likely to increase in the public sector as a result of the much tougher economic environment now faced. This is borne out in Lewisham through the rising A-FACT caseload.



- 4.4. For fraud to occur a number of organisational conditions will normally exist, for example:
  - Lack of effective internal controls
  - Failure of management information systems
  - Undocumented procedures, or
  - A weak anti-fraud culture and general laxity of attitude by management and employees towards security.
- 4.5. As such the anti-fraud work of the Council is much wider than the work of A-FACT. The Council's systems and procedures work to prevent and detect fraud. The role of

A-FACT is then to investigate and sanction against fraud using the powers available to the Council. The Acts for the conduct of investigations are listed in Appendix B.

- 4.6. A-FACT also supports Internal Audit in promoting a strong internal control environment with clear controls and procedures, manages a fraud hotline (important as the majority of referrals come from tip-offs), performs pre-employment checks for Human Resources, works with Legal to maintain the fraud and whistle blowing policies and reporting lines, and undertakes data matching, training and promotion of anti-fraud successes.
- 4.7. Internally the key areas of fraud risk, identified through the work of internal audit and A-FACT, give rise to the need for a clear corporate policy framework, documented operating models / business procedures and accompanying risk assessments, compliance arrangements to complement performance management, and monitoring of changes within the business that provide new pressures and fraud opportunities.
- 4.8. The areas of national fraud risk in local government assessed by the National Fraud Authority are set out in the table below.

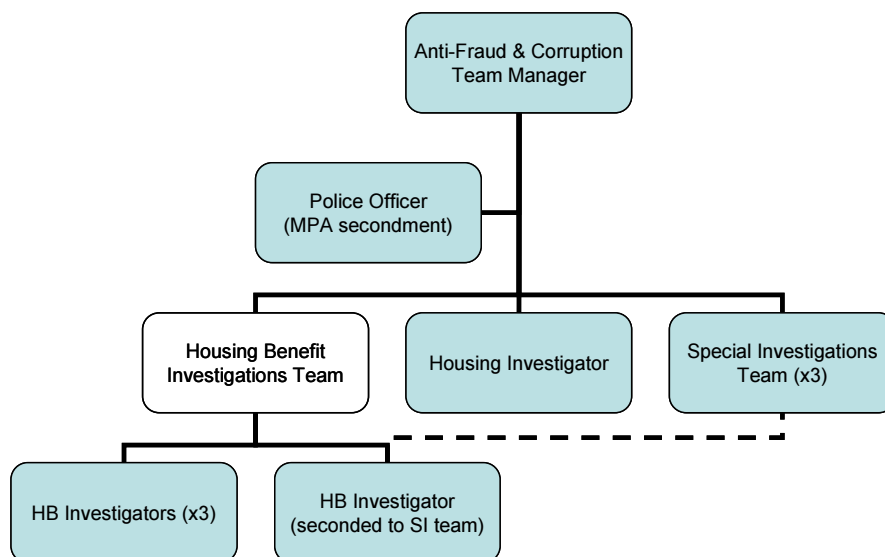
Area of Fraud	Fraud Type	Fraud Loss
Benefits	Benefit fraud	£1,000 million
Local Government	Housing tenancy fraud	£900 million
	Procurement fraud	£855 million
	Payroll and recruitment fraud	£152 million
	Council tax fraud	£90 million
	Blue badge scheme abuse	£46 million
	Grant fraud	£43 million
	Pension fraud	£8 million

- 4.9. In addition to the above fraud risks, the Audit Commission's latest report of the National Fraud Initiative findings – Protecting the Public Purse 2010 – also highlights the risks in personal budgets and council tax single person discounts.
- 4.10. The Communities and Local Government (CLG) Secretary published in May 2011 a list of the top ten tips for tackling local authority fraud - details in Appendix C.
- 4.11. The A-FACT team are supporting all of these with the emphasis in 2011/12 on improvement around measuring the exposure to fraud risk (starting with this paper), moving to pursuing a more preventative strategy (resources permitting), paying particular attention to highlighted risk areas such as procurement and grant awards. These priorities should also help improve compliance with the CIPFA national counter fraud standards (RED Book 2).
- 4.12. The interventions of A-FACT can be at one of three levels:
1. Investigate, provide management support and tidy up issues arising from fraud
  2. Targeted pro-active work around identified key risks; and
  3. General prevention campaigns to raise awareness of fraud and follow up work
- 4.13. Examples of level 2 work would include; data matching exercises, running training courses, undertaking pre-employment checks, and calling in all staff to evidence their identify matches their contract and employment history details (as we now do for all new staff).

- 4.14. Examples of level 3 work would include; undertake sweeps through the office in line with the Council's clear desk policy, produce a regular newsletter or articles on Lewisham News, and ensuring we promote and publicise successes.
- 4.15. In summary, while A-FACT does some examples of level 2 and 3 work, it is primarily working at level 1 at the moment. A-FACT work follows the Lewisham Counter Fraud policy that staff are referred to on induction and is routinely publicised around the Council along with the message of a zero tolerance approach to fraud.
- 4.16. More details of A-FACT's work is presented in the next section.

**5. A-FACT work**

- 5.1. A-FACT have an annual budget of £520,000. This is supplemented with an annual income of approximately £80,000 from Lewisham Homes under an annual service level agreement to support them with their counter fraud work.
- 5.2. The 2011/12 service plan priority for A-FACT is to - *Manage the risk of fraud and corruption against the Council.*
- 5.3. The key areas of action for A-FACT to deliver on this priority are:
  - A-FACT strategy and priorities refreshed and aligned to assurance framework
  - Compliance with the law and regulatory requirements of DWP, Audit Commission
  - Share expertise with partners to develop alternative revenue streams, and
  - Professional innovation and good practice demonstrated.
- 5.4. The A-FACT resources and organisation, following implementation of the agreed year one phase 1 & 2 savings, is set out below



- 5.5. The three main areas of work and annual caseload volumes for 2010/11 are:
  - Housing Benefit Investigations – 626 cases completed and £850,000 of overpayments identified
  - Housing Investigations – 47 cases completed
  - Special Investigations – 213 cases completed plus 279 pre-employment checks

- 5.6. More details of the types of cases in each area and examples of the more notable outcomes are presented in the quarterly report to the Audit Panel)
- 5.7. For each area of A-FACT work – see landscape below - some of the typical costs and benefits are set out by area of A-FACT work. Globally (per Association of Certified Fraud Examiners) the overall level of fraud in any organisation is between three and five percent. However, it is very hard to quantify in cash terms the value of fraud investigation and prevention work on a case by case basis. The exception is Housing Benefits work where recovering money obtained by deception is the focus.
- 5.8. On a case by case basis, the cash cost of investigations will nearly always be more than the funds recovered. The benefits of counter fraud work are more intangible.
- 5.9. The landscape for counter fraud risk in Lewisham is therefore:

Housing Benefit Investigations

- Housing Benefit fraud
- Council Tax fraud

Housing Investigations

- Housing tenancy fraud
- Housing application fraud

All teams

- Training
- Intelligence exchange / joint working
- Communications

Special Investigations

- Procurement and contracts fraud
- Payroll and recruitment fraud
- Theft of assets and resources
- Abuse of access and systems
- Misuse of grants
- Concessions (e.g. Blue Badge)
- Direct payments / Personal budgets
- Cheque and bank account fraud
- Proceeds of crime work
- Pre-employment checks
- Pensions fraud
- Money laundering

Housing Benefit Investigations

- 5.10. The annual cost of the team, management time and resources to undertake this work is currently in the region of £250,000. Lewisham's Customer Directorate administer around 34,000 people on housing benefit and 50,000 claiming single person discount. In addition there are costs associated with those cases that are taken to court – both for Lewisham in terms of legal team support and the cost to the wider justice system.
- 5.11. From the referrals to A-FACT and those cases identified through the National Fraud Initiative (NFI) data matching process in 2011/12, the team achieved 181 sanctions (including 20 prosecutions) from 626 completed cases. This work identified £850,000 of benefit overpayments. Of these overpayments only those that incur an administrative penalty bring any money directly into the Council. For 2011/12 the level of administrative penalties was £33,000, some but not all of which will eventually be collected.
- 5.12. Working with the NFI data matches and the Special Investigations team, A-FACT have recently sifted a sample via Equifax and assessed cases of staff claiming Single Person Discount (SPD). This has resulted in more than 20 claims being corrected with an annual value of £330 x 20 = £6,600. This covers the external data matching costs of doing the exercise. As a result A-FACT is also now supporting a wider piece of work commissioned by the Customer Services Directorate to review the remainder of the 50,000 population.



- 5.13. The current Housing Benefit work is subject to the new central government policy creating a single national fraud investigation service within the Department for Work and Pensions (DWP) from April 2013. The exact terms under which this change will happen have yet to be communicated by DWP. In part, we believe, pending the conclusion of the current consultation on TUPE. While there will inevitably be some loss of knowledge and exchange of case history when this team transfers to DWP, it remains that this is a relatively discrete area of work.

#### Housing Investigations

- 5.14. The annual cost of the team, management time and income from Lewisham Homes to undertake this work is in the region of £150,000. The focus of this work is on preventing false homelessness applications getting through the net and correcting any cases that do slip through. The Lewisham Homes work is in part about pursuing housing tenancy cases but in 2010/11 also involved a significant number of investigations into staff activities, resourced by the Special Investigations team.
- 5.15. In respect of referrals regarding Lewisham's homelessness responsibilities the team completed 47 cases, identifying 16 with irregularities. In the two cases where tenancies were recovered an estimate of the cash saving to the Council is in the region of £7,000 per tenancy. This is estimated on the difference between annual social housing rent (£4,000) and short term homeless accommodation (£14,000) less the cost of returning a reclaimed property/VOID to circulation (£3,000). However, for both these cases and the other rejected false homelessness applications by far the larger benefit is in having done the right thing by those most vulnerable and in need in Lewisham.
- 5.16. Working with the strategic housing team in the Customer Services Directorate, A-FACT is also exploring the opportunity to resource work to tackle social housing fraud in the Lewisham housing stock managed by providers other than Lewisham Homes. This will be based on grants of £100,000 per year for two years from CLG designated for this purpose. The National Fraud Authority estimate just over 1 in a 100 tenancies is fraudulent. Assuming Lewisham has the same profile as the national average, for non Lewisham Homes housing stock in Lewisham this represents about 170 cases.

#### Special Investigations

- 5.17. The annual cost of the team, management time and resources to undertake a wide variety of work is in the region of £200,000. This includes the cost of the seconded Police Officer but not the support to Lewisham Homes on non-housing matters (see Housing above). At present, due to resource constraints, all the team's work is focused on responding to referrals as they arise. Apart from a limited amount of training, the team's workload is completing the investigations of more serious cases as discussed with each of the Executive Directors.
- 5.18. The team completed 213 investigations in 2010/11 and 279 pre-employment checks. As noted in the accompanying update these included twenty cases where employees were found in breach of their employment contracts with Lewisham. The support of the Human Resources (HR) team is critical in these employment cases. While there is no cash benefit, taking action does provide confidence to teams where working closely together and being able to trust colleagues is an important part of public service.
- 5.19. It is worth noting that these investigations take from a couple of weeks up to two years to complete and vary significantly in the time invested to support managers deal with the issues arising where fraud or a breach of the employment contract has been committed. Those that take the longest are most often the cases that are being taken to court. This requires a significant amount of detailed evidence gathering, often from

third parties, and, as with Housing Benefits, draws in the need for the time and cost of support from Lewisham's legal team.

5.20. A-FACT completed a self-assessment against the Audit Commission's 2010 Protecting the Public Purse checklist. In most cases A-FACT is already following good practice.

5.21. The key areas noted where performance could be improved were:

- refresh of counter fraud strategy and policy
- prioritise Council Tax SPD (see Housing above) for 2011
- focus on procurement and contract fraud, and
- monitor expenditure through personal budgets.

5.22. The Special Investigation cases often identify weaknesses in the design, or more commonly, the application of Lewisham's internal controls by individuals. Where this is the case on conclusion of their report A-FACT pass their recommendations onto Internal Audit. Internal Audit then conduct a more general audit of the system, not targeted at individuals, to help identify and make recommendations for improvements to strengthen the Council's overall internal control arrangements.

## 6. A-FACT resources targeted effectively.

6.1. Looking to the identified fraud landscape above, A-FACT are working in most areas to a greater or lesser extent. A self assessment of the current position is

Area of Investigations	Fraud risk	Addressing now (RAG)	Priority for 2011/12
Housing Benefit	Housing Benefit fraud	Green	As in prior year
	Council Tax fraud	Amber	As in prior year
Housing	Housing tenancy fraud	Amber	Yes
	Housing application fraud	Green	As in prior year
Special Investigations	Procurement and contracts fraud	Red	Yes
	Payroll and recruitment fraud	Amber	As in prior year
	Theft of assets and resources	Green	As in prior year
	Abuse of access and systems	Green	As in prior year
	Misuse of grants	Amber	As in prior year
	Concessions (e.g. Blue Badge)	Green	As in prior year
	Personal budgets	Amber	Yes
	Cheque and bank account fraud	Green	No
	Proceeds of crime work	Amber	As in prior year
	Pre-employment checks	Green	As in prior year
	Pensions fraud	Green	No
Money laundering	Green	No	
All teams	Training	Amber	Yes
	Info. exchange / joint working	Amber	As in prior year
	Communications	Amber	Yes

- 6.2. In terms of resource to deliver the 2011/12 priorities identified above
- The level of A-FACT resource is appropriate for Housing Benefit investigations. Not least as responsibility for this work is being prepared for transition to DWP and is therefore not an investment priority for Lewisham
  - The permanent level of A-FACT resource for Lewisham Housing investigations is appropriate. However, working with strategic housing, while we have access to additional CLG funding to tackle social housing fraud we may employ an additional person on a fixed contract to extend our reach and undertake more work with partners in this area to tackle tenancy fraud.
  - The level of A-FACT resource in Special Investigations is at or just below the minimum level to maintain a reasonable capability to address the wide range of issues that arise. This allows the team to select only priority cases and only those that are referred where trouble has already been spotted, level 1. As noted above for the work of All teams, on which Special Investigations would lead, with current resources it will not be possible to do a significant amount of level 2 or 3 work.
- 6.3. As has been noted, with the exception of Housing Benefit work, it is very hard to quantify the cost v benefit of undertaking the level of counter fraud work A-FACT do. However, it can be said that the volume of referrals keep coming in and the teams 'success' rates in finding fraud or bad practice continues at roughly one in four of the cases taken on. This would suggest that while A-FACT have a finger in the dyke and are holding back the flood they are not pushing the level of fraud down or out from the organisation.
- 6.4. To go further and fully meet the CLG Secretaries top ten tips (see Appendix C) would require more resource and a favourable wind to ease the fraud risk pressures which are heightened from the constraints of the current public sector economic climate.

## **7. Legal Implications**

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

## **8. Financial Implications**

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

## **9. Equalities Implication**

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

## **10. Crime and Disorder Implications**

- 10.1. There are no crime or disorder implications arising directly from this report

## **11. Environmental Implications**

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

## **12. Background Papers**

12.1. There are no background papers reported.

If there are any queries on this report, please contact

David Austin at [david.austin@lewisham.gov.uk](mailto:david.austin@lewisham.gov.uk) or on 020 8314 9114, or

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## Appendix A – Anti-fraud facts and figures

	<u>Value</u>	<u>Source</u>
1. Annual UK Public Sector spend	£700 billion	ONS 2010
2. UK Public Sector fraud estimate	£21 billion	NFA 2011
3. LB Lewisham total spend including	£1,100 million	LBL 2010
4. Housing benefits	£211 million	LBL 2010
5. HRA (Social Housing)	£93 million	LBL 2010
6. Operations	£270 million	LBL 2010
7. Social Housing stock in England	4.9 million	CLG 2009
8. Housing tenancy frauds	50,000	NFA 2011
9. LB Lewisham Social Housing stock	30,600	LBL 2010
10. A-FACT gross expenditure budget broadly allocated	£600,000	LBL 2011/12
11. A-FACT Benefit investigations	£250,000	LBL 2011/12
12. A-FACT (LBL and LH) Housing investigations	£150,000	LBL 2011/12
13. A-FACT Special investigations	£200,000	LBL 2011/12
14. Estimate of fraud in any organisation	3-5%	NFA and ACFE
<b>Estimate of annual fraud in Lewisham split</b>	<b>£33 million</b>	<b>= (3 / 1) x 2</b>
<b>external fraud estimate in Lewisham</b>	<b>£25 million</b>	<b>= ((3-6) / 1) x 2</b>
<b>internal fraud estimate in Lewisham</b>	<b>£8 million</b>	<b>= (6 / 1) x 2</b>
<b>Estimate of fraudulent Housing tenancies in Lewisham</b>	<b>312</b>	<b>= (8 / 7) x 9</b>
Taking 3% lower estimate of level of fraud in LBL		
<b>A-FACT benefit £ as % of benefit fraud</b>	<b>4.0%</b>	<b>= 11 / (14 x 4)</b>
<b>A-FACT housing £ as % of housing fraud</b>	<b>9.0%</b>	<b>= 12 / (14 x 5)</b>
<b>A-FACT operations £ as % of operations fraud</b>	<b>2.5%</b>	<b>= 13 / (14 x 6)</b>

## **Appendix B – Legislation to be followed in anti-fraud work**

Corruption Act 1906  
Police and Criminal Evidence Act (PACE) 1984  
Local Government Finance Act 1992  
The Council Tax (Administration and Enforcement ) Regulations 1992  
Criminal Procedures and investigations Act (CPIA) 1996  
Data Protection Act 1998  
Human Rights Act 1998  
Freedom of Information Act 2000  
Regulation of Investigatory Powers Act (RIPA) 2000  
Proceeds of Crime Act 2002  
Fraud Act 2006  
Bribery Act 2010

## **Appendix C – Ten point counter-fraud blueprint (CLG May 2011)**

1. Measure exposure to fraud risk
2. More aggressively pursue a preventative strategy
3. Make better use of data analytics and credit reference agency checks to prevent fraud
4. Adopt tried and tested methods for tackling fraud in risk areas – such as blue badge scheme misuse
5. Follow best practice to drive down Housing Tenancy and Single Person Discount fraud
6. Pay particular attention to high risk areas such as procurement and grant awards
7. Work in partnership with service providers to tackle organised fraud across local services
8. Maintain specialist investigative teams
9. Vet staff to a high standard to stop organised criminals infiltrating key departments
10. Implement the national counter fraud standards developed by CIPFA

AUDIT PANEL		
<b>Report Title</b>	<b>ANTI FRAUD AND CORRUPTION TEAM (A-FACT) UPDATE</b>	
<b>Key Decision</b>	NO	Item No. 11
<b>Ward</b>	ALL	
<b>Contributors</b>	Interim Head of Audit & Risk A-FACT Group Manager	
<b>Class</b>	Part 1	Date: 22 June 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 financial year 2010/11.

## 2. Recommendations

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

## 3. Special Investigations

- 3.1. During the year to March 2011 the Special Investigations section received 250 new allegations or enquiries relating to fraud and/or irregularity.

2010/2011 Special Investigations Cases				
Year	Balance	New	Closed	Balance
2007/08	98	92	89	101
2008/09	101	88	109	80
2009/10	80	187	168	97
2010/11	97	250	213	134

- 3.2. During this period the section completed 213 cases/enquiries. A further 134 cases are still in progress. These figures include Lewisham Homes cases but exclude pre-employment checks undertaken (see 3.8).

### Employment related cases

- 3.3. By far the biggest area of work this year has been with employee related fraud. Within the Council 41 employee related cases were investigated involving 44 people. Of these twenty have concluded with action being taken. An analysis of the outcomes in these cases is presented in the table below.

Year	Dismissed /removed from contract	Dismissed & Convicted	Resigned or left contract during enquiry	Other disc. Action	Job offer with-drawn	Total
2007/08	4	1	1	3	0	9
2008/09	4	1	2	1	2	10
2009/10	3	0	4	3	6	16
<b>2010/11</b>	<b>5</b>	<b>0</b>	<b>5</b>	<b>9</b>	<b>1</b>	<b>20</b>

- 3.4 In the category "Other disciplinary action" six employees received final or indefinite written warnings, two received verbal warnings and in one case the person was moved to other duties.

#### Lewisham Homes

- 3.5 A-FACT has been undertaking a significant amount of work for Lewisham Homes generating £104,810 of income under our SLA in the past year.
- 3.6 To address the risk of money laundering, A-FACT have examined the accounts of tenants in 76 cases where the tenants have either made cash payments of over £1,000 into their rent accounts or have requested the refund of a large rent account credit. In four of these cases it was found that the tenant had either other large debts with Lewisham or that the benefit had been paid in error. This prevented £13,532 being incorrectly repaid.
- 3.7 We have concluded 24 investigations, including probity checks on staff and members of the board. A number of complex investigations are still ongoing and will be reported as they are concluded.

#### Pre-employment Checks

- 3.8 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 form which focuses on any issues relating to benefits, council tax, rent and personal business interests which may put the individuals integrity in doubt. In the year to March 2011 279 checks on staff were undertaken. This compares to 443 in the previous year.
- 3.9 These checks found one case where the applicant was not eligible to work in the UK and twelve cases where arrangements were made to pay off rent or council tax arrears.

#### Blue Badge Fraud

- 3.10 Out of the ten Blue Badge investigations completed only two found no fraud or irregularity. We were unable to progress three cases due problems getting witness statements or other vital evidence.
- 3.11 The outcomes of the remaining cases were:
- One Blue Badge application highlighted incorrect Council Tax Single person discount. The discount removed totalled £660.
  - In one instance legal action was taken under s117 (1)(a) Road Traffic Act 1984 for parking in a disabled parking bay and displaying a disabled person's blue badge when not entitled to. The individual was fined £200 and an order for costs of £385 was made, plus a victim surcharge of £15.
  - Another prosecution was bought when a close relative of a Blue Badge holder used the badge to park at Heathrow when the badge holder wasn't present. They were fined £100 and ordered to make a contribution towards costs of £50.
  - In another instance a warning was issued to badge holder regarding the use of their blue badge.
  - A fraudulent badge was seized for being misused.



Cheque and Bank account fraud (not including Housing Benefit cheques)

- 3.12 The section provided advice and information on four separate attempts to defraud school and council bank accounts of money including a fraudulent CHAPS payment.

Other work

- 3.13 The Special Investigation section also deals with a wide variety of concerns reported across all areas of the Council's activities, including.

Special Investigations – Other work	09/10	10/11
Cash Losses & Corporate credit card fraud	2	4
Publicity of known Scams	4	1
Strengthening of procedures to prevent fraud	4	4
Computer misuse	5	1
Allegations of fraud passed to other agencies or departments	3	3
Cases closed as early enquires established no fraud	9	22
Confirmed details of a Lewisham Pensioners where concerns exist	1	1
Error rather than fraud proved	-	1
Address concerns that employees PayPal accounts could be hacked	-	1

- 3.14 A number of major investigations are likely to come to a conclusion in the next few months but cannot be reported at present for legal reasons. However, in 2011/12 we have started to report quarterly to each Executive Director with a summary of all cases under investigation 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.

- 3.15 Two more detailed case summaries are shown below which demonstrate the variety of work undertaken by the section.

- Investigation following an anonymous allegation found mismanagement of procurement processes, breach in recruitment procedures and failure to comply with the Code of Practice for Gifts and Hospitality . Mitigating circumstances put forward at the disciplinary resulted in a seven month written warning being issued to the officer concerned.*
- Human Resources referred concerns about a teacher. They had been employed for a number of years but issues had arisen about their CV. Our enquiries established that it contained a large number of inaccuracies. When challenged about these they resigned. We also found they had used multiple identities to claim benefits and as a result of our enquiries Bromley Council and the DWP were able to prosecute for fraudulently claiming over £11,300 of Housing Benefit and Income Support.*
- An employee was found to be using the Council's postal system to send items they had sold on eBay. They received a 15 month written warning and were moved from their duties.*

## 4 Benefit Investigations

- 4.1 During the year to March 2011 the Benefit Investigation Team has secured 181 sanctions against an annual target of 180. The total value of fraudulent benefit overpayments identified was £846,022. On recovery this represents a saving to the public purse.

In the year up to March 2011 the Benefit Investigations Section received 591 referrals of benefit fraud, they completed and closed 626 cases, a further 381 investigations are in progress.

Year	No of referrals received	No. of closed cases	No. of o/s cases at Yr end	No. of Sanctions	No of sanctions per officer	Value of fraudulent o/p
2006/07	711	434	568	149	16	£359,404
2007/08	469	483	554	164	18	£455,773
2008/09	561	761	354	159	23	£450,569
2009/10	548	486	416	143	20	£651,827
2010/11	591	626	381	181	25.8	£846,022

- 4.2 The sanctions figure is made up of 23 Administrative Penalties, 137 Cautions and 21 Prosecutions. In the case of the Administrative Penalties a financial penalty of 30% of the overpaid benefit must be paid by the claimant. The total amount of the Administrative Penalties levied in 2010/11 was £32,923. A-FACT are permitted to keep any Administrative Penalties recovered in the course of the year in recognition of their efforts. The final figure of paid penalties is yet to be agreed
- 4.3 During the year we secured some notable convictions, many of which received local press coverage. Recent successes include:

### Benefit cheat to pay back more than £40,000

*A lady who defrauded more than £40,000 in benefits because she failed to declare a £100,000 payout was ordered to pay back the money that she stole after a joint prosecution by Lewisham Council and the Department for Works and Pensions.*

*She tried to say the money in her accounts belonged to other people but was unable to provide any evidence of this. She had received £4,972 in Income Support from the DWP, and £38,000 in housing and council tax benefits from Lewisham Council.*

*On 15 December she pleaded guilty to three counts of obtaining benefits fraudulently. She was subsequently sentenced to 12 months' imprisonment for each offence, suspended for two years, and ordered to complete 200 hours of unpaid work. In sentencing, the judge took into account that she had children, but warned her that if she breached any of the conditions of her sentence she would go to prison.*

### Benefit cheat jailed for £55,000 fraud

*A benefit cheat who defrauded £55,748 in benefits has been given a two year jail sentence, following a prosecution by the Department for Works and Pensions (DWP), in association with Lewisham Council.*

*She was originally investigated by the DWP for having a fraudulent "Indefinite Leave to Remain" stamp on her passport. She also had a counterfeit letter from the Home Office that she submitted to the DWP in order to obtain a National Insurance number so that she could claim Income Support.*

*They contacted Lewisham Council who undertook further investigations that revealed that she had used the counterfeit documents to access Housing Benefit and Council Tax benefits.*

*She was found guilty at Woolwich Crown Court on 26 January 2011 of falsely claiming Income Support of £3,594 from the DWP and £51,106 in Housing Benefit and £1,048 in Council Tax benefits from Lewisham Council. The judge felt that her claims had been premeditated from the outset and committed over an extended period of time. She was sentenced to two years' imprisonment and the judge recommended that she be deported once her sentence had been served.*

4.4 The Benefit Investigation Section also investigate allegations of non-receipt of Housing Benefit cheques. When a Benefit claimant reports the non-receipt of a cheque which has been cashed the team investigates the circumstances of the encashment prior to reissuing payment. In the last year the team has taken action in the following cases:-

- five cases investigated and replacement cheques issued having recovered the fraudulently encashed monies.
- one case where the claimant fraudulently attempted to obtain payment again, having already received the cheque.
- one case where enquiries are still ongoing.

4.5 The team working on Housing Benefit Investigations is directly impacted by the Government's announcement about the creation of a single national investigation force to be led by the Department for Work and Pensions (DWP). From April 2013 the Council will no longer be providing this investigation service. We are still awaiting confirmation on whether and how staff will be transferred to the DWP.

## **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 year to the end of March 2011 60 cases were passed for investigation, a similar amount to last year. The officer dealing with these cases completed 47 cases compared to 35 cases last year. There are currently 72 cases under investigation.

2010/11 Housing Investigations	B/fwd	New	Closed	Balance
April	59	5	0	64
May	64	2	0	66
June	66	6	6	66
July	66	7	2	71
August	71	8	4	75
September	75	5	2	78
October	78	2	4	76
November	76	5	9	72
December	72	3	9	66
January	66	5	4	67
February	67	7	4	70
March	70	5	3	72

- 5.3 Of the 47 cases that were completed 16 resulted in successful outcomes.
- eleven Applications for housing due to Homelessness were cancelled as a result of proving that false information had been provided
  - one tenancy was recovered having proved to have subletting.
  - three Housing Register application were withdrawn due to false information
  - one Cash Incentive Scheme payment of £16k was withheld when it was proven the tenancy was not the tenants sole and principal home. The tenancy was also recovered.
- 5.4 A lady who's application for Homelessness was withdrawn last year was successfully prosecuted. She was prosecuted under section 214 (1) of the Housing Act 1996 and fined £2,000.
- 5.5 In March action by the team resulted in the successful repossession of a temporary stay property. Information was received that the lady was not resident at the address. Our enquiries linked her to an address in Southwark. She was challenged with this information following which she decided to hand back her keys and her application for housing was withdrawn.

## **6 Requests for information under the Data Protection Act (Section 29.3)**

- 6.1 The A-FACT responded to 34 requests for information from other agencies to assist with fraud enquiries.
- 6.2 In addition the team's Intelligence Officer responded to 1,287 requests for information. These requests were primarily from the Police, Department for Work and Pension, other local authorities and Central Government departs such as UK Borders Agency and HM Revenue & Customs. This is up slightly in the number of requests conducted last year.

## **7 Publicity**

- 7.1 A-FACT has continued to publicise successful cases in the local press and has also received national television coverage on two episodes of the BBC programme Saints and Scroungers. Feedback from all coverage has been positive.
- 7.2 The team has continued to advertise the "Report Fraud Hotline 08000 850 119 on the electronic messaging board outside the Town Hall.

## **8 Fraud Awareness Training**

- 8.1 During the year A-FACT provided a programme of training focussing on frontline staff, especially in the area of document verification. This has been aimed at Human Resources, Housing Options Centre and Lewisham Homes staff.
- 8.2 General fraud awareness training has also been provided to the Lewisham Homes Board of Directors.

## **9. Metropolitan Police Secondee**

- 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 has proved invaluable.

- 9.2. DC Norris is an Accredited Financial Investigator and has used his powers under the Police and Criminal Evidence Act to obtain Production Orders for information from Financial Investigations for ongoing investigations.
- 9.3. He is currently working on a number of complex cases (which cannot be reported yet) and was key to four of the prosecutions undertaken this year.

#### **10. Financial Investigations under the Proceeds of Crime Act**

- 10.1. A number of financial investigations are being undertaken by the team. As well as DC Norris, the team has one fully qualified and one part qualified Financial Investigator accredited by the National Policing Improvement Agency.
- 10.2. We have successfully undertaken work to support the London Borough of Havering and are looking to extend this arrangement and will be keeping a proportion of the monies recovered. We are also undertaking work with Trading Standards in connection with counterfeiting offences.

#### **11. Legal Implications**

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

#### **12. Financial Implications**

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

#### **13. Equalities Implication**

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

#### **14. Crime and Disorder Implications**

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

#### **15. Environmental Implications**

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

#### **16. Background Papers**

- 16.1. There are no background papers reported.

If there are any queries on this report, please contact

David Austin at [david.austin@lewisham.gov.uk](mailto:david.austin@lewisham.gov.uk) or on 020 8314 9114, or

Carol Owen at [carol.owen@lewisham.gov.uk](mailto:carol.owen@lewisham.gov.uk) or on 020 8314 7909

# Agenda Item 12

AUDIT PANEL		
<b>Report Title</b>	<b>2010/11 Annual Governance Statement</b> [To be submitted to Audit Panel as part of the Pre-Audit Statement of Accounts 2010/11]	
<b>Key Decision</b>	<b>No</b>	<b>Item No. 12</b>
<b>Ward</b>	<b>ALL</b>	
<b>Contributors</b>	<b>Head of Law</b>	
<b>Class</b>		<b>Date: 22 June 2011</b>

## 1. Introduction

1.1 The Council is required to produce an Annual Governance Statement (AGS) as an integral part of the Statement of Accounts. An AGS was first produced to accompany the 2007/08 accounts. This is updated annually, and has now been amended to reflect changes during 2010/11.

## 2. Recommendations

2.1 Audit Panel are asked to:

- note the draft AGS 2010/11 (appendix 1) and the 2011/12 action plan (appendix 2) and recommend changes as appropriate.
- review the [schedule of evidence](#) and recommend changes as appropriate.



## Annual Governance Statement

### 1. Scope of responsibility

The London Borough of Lewisham (Lewisham) is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It must make certain that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Lewisham also has a duty under the *Local Government Act 1999* to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Lewisham is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Lewisham has approved and adopted a [Local Code of Corporate Governance](#), which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*.

The Annual Governance Statement (AGS) explains how the authority has complied with the code and also meets the requirements of regulation the *Accounts and Audit (England) Regulations 2011* in relation to the publication of a statement on internal control.

### 2. The purpose of the governance framework

The governance framework comprises the systems and processes, culture and values, by which the authority is directed and controlled. The framework also governs the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of

Lewisham's policies, aims and objectives. It then evaluates the likelihood of those risks being realised and the impact should they be realised, and seeks to manage them efficiently, effectively and economically.

The governance framework has been in place at Lewisham for the year ended 31 March 2011 and up to the date of approval of the annual governance statement and statement of accounts.

### **A summary of the governance framework**

Lewisham's directly elected Mayor ensures the Council has a clear strategic direction and effective leadership. The Council benefits from the perspectives and contributions of 54 Councillors. The Council's Constitution clearly defines the roles of Members and Officers, and this clarity contributes to effective working relationships across the Council.

The Local Code of Corporate Governance and well developed Codes of Conduct for Members and Officers demand the highest standards of ethical behaviour. These are reviewed regularly and are communicated widely.

Financial decisions are tied to corporate priorities. The management of risk is handled at a corporate and directorate level and is overseen by an independently chaired Internal Control Board. The involvement and contribution made by the Constitution Working Party, the Standards Committee and the Audit Panel to provide a check on the Council's governance arrangements represent constructive and informative tools to ensure the robustness of the Council's arrangements.

The Council's overall vision for the area is shared by its key partners on the Lewisham Strategic Partnership (LSP) and was developed following extensive consultation with the community.

The Annual Audit letter of 2009/10, issued by the Audit Commission's appointed auditor concluded that the Council was considered to have '*strong governance arrangements in place*' and '*effective risk management systems which are well integrated across the whole of the council and includes partnership working*'.

In December 2010, the Government introduced the Decentralisation & Localism Bill into Parliament. The Bill proposes to devolve more power to councils and neighbourhoods and gives local communities greater control over local decisions such as housing and planning. The Head of Law briefed Councillors in June 2011 on the current position in relation to the Localism Bill and the impact that it could possibly have on the Members Code of Conduct. Specific training on aspects of the Localism Bill is planned for July 2011.



### **3. Elements of the governance framework**

#### **a) Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users**

The long-standing vision of the Council is: *Together, we will make Lewisham the best place in London to live, work and learn.* This was agreed following extensive consultation and adopted by the LSP as the vision statement for Lewisham's first Community Strategy, launched in 2003. This joint vision is promoted on the Lewisham website and in Council strategies, which are also published on the website.

In 2008 the LSP published "*Shaping our future: Lewisham's Sustainable Community Strategy (SCS) 2008-2020*" in line with the recommendations of the Local Government White Paper, *Strong and Prosperous Communities* (2006). The development of the SCS was informed by an extensive programme of consultation, which identified resident's aspirations for Lewisham, and which ensured that those views fed into the six key outcomes for the borough the SCS sets out to achieve.

This development approach was endorsed by the Audit Commission, when they concluded in their 2009 Area Assessment that "*Lewisham's local strategic partnership understands the issues of concern to residents very well. Their main priorities reflect local people's needs and wishes clearly*".

The Council has an enduring set of 10 corporate priorities and in 2008 published and communicated widely a Corporate Strategy (2008-11) which sets out how the organisation will contribute to the delivery of the SCS. The Corporate Strategy is reviewed every year through the Annual Report and is also supplemented by the Monthly Management Report.

#### **b) Reviewing the authority's vision and its implications for the authority's governance arrangements**

The Lewisham Strategic Partnership is led by the LSP board which is chaired by Lewisham's directly-elected Mayor. A series of thematic partnerships work with the LSP board, each concentrating on a specific set of cross-cutting policy issues. The thematic partnerships bring together the relevant organisations and individuals to determine appropriate interventions and to ensure that joint-working results in the best possible outcomes. The LSP board and thematic partnership boards have re-aligned their focus around the six key outcomes set out in the SCS. The plans which relate to the thematic boards, are monitored on a regular basis. The monitoring of such plans feeds up to the LSP board and into the wider monitoring of the SCS.

The Council assessed the implications of change for the Council's governance arrangements through the review of the Local Code of Corporate Governance at the Standards Committee (10<sup>th</sup> May 2007) and at Council (23<sup>rd</sup> May 2007). Further reviews of the Local Code have taken place in 2008, 2009 and 2010. The review of

2009 (reported to Standards Committee on 5<sup>th</sup> May 2009) recommended that the Local Code be extended to include a new requirement – in the light of new CIPFA guidance and the Council's extensive partnership arrangements – to ensure effective partnership governance and risk management.

Further to this, on an ongoing basis, the work of the Constitution Working Party and the Internal Control Board addresses governance issues arising out of the Council's vision for the area. In its 2007 Direction of Travel statement, the Audit Commission noted that, in Lewisham, 'robust corporate governance arrangements continue to operate'. In their feedback following the 2008 'Use of Resources' assessment the Audit Commission found 'excellent arrangements around ethical governance'. As a result the Audit Commission nominated the Council as an example of 'notable practice' – for other local authorities to follow – in the field of developing arrangements to secure ethical governance. And during a study of social responsibility and community cohesion in 2009, OfSTED found "a clear vision which focuses strongly on outcomes."

The 2009/10 [Annual Audit Letter](#) states that the Council '*has strong governance arrangements in place, such as a development and training programme for members, and is able to demonstrate that these have led to a wide range of positive outcomes*'. It also notes that the Council '*continues to have a clear vision of the outcomes it seeks to achieve to deliver best value for local people, including improving the quality of life, based on an ongoing assessment of need through the procurement strategy*'.

**c) Measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources.**

Lewisham has a successful record in this area, which was recognised in the 2009 Organisational Assessment with a score of 3 out of 4 for performance management.

In the 2009/10 [Annual Audit Letter](#) the Audit Commission concluded that the Council '*has comprehensive data quality processes in place. The Council has continued to implement an effective process for recording and reporting data and ensures that it is reliable*'

A review of the Performance Management Framework takes place annually, to ensure continuous improvement. The Performance Management Framework allows for robust and structured target setting against national requirements and local priorities. It also allows the Council, its partners and residents to monitor and measure the Council's effectiveness against these national and local performance indicators.

Our Monthly Management Report is the centrepiece of our performance reporting structure. It provides a clear and easy to read analysis of our performance against a basket of 80 indicators including National Indicators and local measures, and also

includes an executive summary to direct attention to areas of strong performance as well as areas requiring greater management attention. It is produced entirely from the Performance Plus (P+) system and is presented monthly to the Executive Management Team and quarterly to Mayor's briefing and to the Mayor and Cabinet.

The Monthly Management Report utilises exception reporting to focus attention on key areas: exception reporting for red Projects, Risk and Finance and Red and Green exception reporting for performance. By combining these four areas for each of our corporate priorities, it functions as the critical tool for supporting decisions across the organisation. While examining this report, the Executive Management Team, Mayor and Cabinet and Public Accounts Select Committee challenge all aspects of performance. The report is also published on the Council's website, and so is accessible to members of the general public.

The quality of services for users is also measured through satisfaction surveys and information from the complaints management and resolution process. The Council's complaints procedure is published on the web and has been publicised, through the Council's quarterly newsletter – "Lewisham Life" - to all residents of the borough. The Council has continued to improve its complaints procedure. A revised complaints management system – iCasework – was implemented across the Council on 30 June 2008 and allows for the monitoring and review of intelligence on the resolution of complaints. In combination with bespoke complaints handling training courses, this ensures that the Council learns from complaints. The Head of Public Services reports annually to the Standards Committee with an update on complaints handling, and performance in this area is also reviewed annually by both Mayor and Cabinet and the Public Account Select Committee.

Value for Money (VfM) is integral to Council operations, and the budget strategy is predicated on ensuring that the council is delivering good VfM. A Budget Saving Strategy Group effectively replaces the former Efficiency Programme Board. There has been recent emphasis on securing budget savings (whether this be via improving efficiency or by budget cuts or service cessations). The group was created to focus on delivering the revenue budget savings which would be needed to make the Budget Strategy work.

The Group comprises, Heads of Strategy and Performance and Group Finance Managers, plus a representative from Human Resources and Legal Services. The Group has the remit to review and act as a sounding board for the Budget Strategy, savings process, saving proposals and the mechanics for ensuring the Council has a smooth process for delivering savings. The Group is also responsible for annually reviewing the existing process and suggesting ways to improve it.

In addition to this, the Council is continuing to develop its approach to value for money through its participation in the Local Authority Performance System (LAPS). The LAPS tool enables London local authorities to benchmark costs and performance and develop VFM profiles across a range of service areas.

**d) Defining and documenting the roles and responsibilities of the Executive, non executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication**

The Council's Constitution sets out the roles and responsibilities of the Mayor, Chair of Council, the Council as a whole, the Executive, Overview and Scrutiny committees, Standards Committees and other committees.

Members follow the required formal procedures when making Council decisions, which ensure that such decisions are made transparently and openly. There is an annual programme of regular meetings whereby formal decisions are taken. Every committee agenda includes as a standard item a section on declarations of interest by committee members which sets out the legal position in relation to the need to declare, and on occasion, withdraw from discussion of matters where the member has a personal and/or prejudicial interest.

Decisions are taken in accordance with the Council and Mayoral scheme of delegation as appropriate and these schemes are maintained, kept up to date and made available to the public as detailed within the Constitution. Decisions are taken in accordance with the general principles of administrative law and on the basis of professional advice at all times. Minutes are published and made widely available through the Lewisham website. All Executive decisions are subject to review by Overview and Scrutiny business panel and may be called-in in accordance with the Council's Constitution. There were no call-ins during the financial year 2009-10. The most recent example of a matter referred to the Mayor for reconsideration in accordance with the call in was the prioritisation of transport schemes on June 1<sup>st</sup> 2011.

The highest standards of ethical conduct are adhered to in order to avoid actual, potential and perceived conflicts of interest. The principles of decision making appear as Article 16 within the Constitution. Standards Committee receives a report on Member compliance with the Code of Conduct, a process which was recognised as 'notable practice' by the Audit Commission in the 2007/08 Use of Resources audit.

In achieving accreditation under the London Member Development Charter in April 2008 (for a minimum period of 3 years) , the Council has agreed a range of role descriptors for members according to the role they fulfil (e.g. executive/community representative/overview and scrutiny etc) and has put in place a personal development scheme to enhance member capability in those roles. Officers support all Members in the performance of their various roles and this is detailed in the Constitution. The roles of the statutory officers are also set out at Article 14 of the Constitution and in detailed job descriptions. The Schemes of Delegation by both the Mayor and the Council are appended to the Constitution at Part VIII.

**e) Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff**

The Council adopted an amended Member Code of Conduct in July 2010 to comply with new legal requirements. It complies with all statutory provisions and is appended to the Constitution at Part V. It appears on the Council's website, on the intranet and is well publicised. A comprehensive training programme on the Codes of Conduct is delivered by the Head of Law (Monitoring Officer) on an on-going basis for members of the Council.

Monitoring Officer advice is regularly sought by members in relation to potential Code of Conduct issues. The Standards Committee was consulted on changes to the Member Code in November 2009. They were also consulted on the review of compliance with the Members Code of Conduct in November 2010.

The Council has in place an Employee Code of Conduct which complies with all legal requirements and is appended to the Constitution at Part V. The purpose and content of the Employee Code of Conduct is communicated frequently and widely.

**f) Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks**

***Reviewing and updating standing orders, standing financial instructions***

The Council's Financial Regulations, Financial Procedures and Directorates' Scheme of Delegation, are regularly updated and communicated to all relevant staff and are available on the Council's intranet. The Financial Regulations, the Schemes of Delegation and the Financial Procedures are currently being updated with the view to publishing the reviewed additions in September 2011. The Council's procedure rules, of which Standing Orders are a part, are reviewed alongside the Constitution; the Constitution is reviewed on a regular basis.

Alongside this, the financial awareness rolling training programme for budget holders will continue in 2011/12 and beyond, to ensure that all budget holders have the necessary skills required to manage budgets effectively.

***Scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken***

The Constitution is very clear about the decision making process. It requires that Members follow formal procedures when making Council decisions, which ensures that such decisions are made transparently and openly. There is an annual programme of regular meetings whereby formal decisions are taken. Committee reports are produced by officers in a standard format to ensure that authors address all significant considerations such as the legal and financial implications of decisions, equalities issues, environmental issues and a crime and disorder assessment. Every committee agenda includes as a standard item a section on declarations of interest

by committee members which sets out the legal position in relation to the need to declare, and on occasion, withdraw from discussion of matters where the member has a personal or prejudicial interest. The principles of decision making appear as Article 16 within the Constitution. There is a well embedded agenda planning process and a requirement for reports to be signed off by senior officers. Decisions are taken in accordance with the Council and Mayoral scheme of delegation as appropriate and these schemes are maintained, kept up to date and made available to the public as detailed within the Constitution. The Constitution requires Executive decisions to be published within two working days of being taken, and sent to all Members of the Council where possible by electronic means. Minutes are published and made publicly available on the Lewisham website. All Executive decisions may be called-in by the Overview and Scrutiny Business Panel in accordance with the Council's Constitution.

The Constitution provides for the Council to have a Constitution Working Party (CWP) to advise it on the operation of its constitutional arrangements. In practice, the procedure rules set out in the Constitution are under constant review to reflect changing needs. In 2010/11 reports to Full Council have included Members Allowances and Pensions, Council Procedure Rules, the status of the Housing Select Committee and the composition of the Appointments Committee. The Constitution has been updated to reflect these new responsibilities.

***Maintaining an adequate and effective system of internal audit***

The Account and Audit (England) Regulations 2011, require the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The role of internal audit is to provide an independent and objective opinion on the control environment within the Council. Internal audit work is undertaken in accordance with the CIPFA Internal Audit Code of Practice for Internal Audit in Local Authorities 2006 (the code).

The work of Internal Audit is set out in an annual internal audit plan that covers the key financial systems, schools, and the operational activities where Internal Audit and management perceive there are risks to achieving operational objectives. The work of internal audit also supports the work of the Council's External Auditor who reviews our work in detail to satisfy themselves the work of internal audit can be relied upon. From the 31 March the Council must conduct a review at least once a year of the effectiveness of its system of internal control and report on this to members. A review of the adequacy and effectiveness of internal audit will take place in 2011/12.

For each audit where controls have been analysed, Internal Audit issues an assurance statement which indicates the level of assurance that management can place on the adequacy and effectiveness of the internal controls. For 2010/11, four levels of assurance were used: Two positive levels, 'substantial' and 'adequate' assurance; and two negative levels, 'limited' and 'no assurance'. In each report Internal Audit may also make control improvement recommendations, rated High, Medium or Low.

For 2010/11 one hundred and eleven assurance reviews were undertaken. Of the 98 of these where an opinion on internal controls was issued only 7% (21% in 2009/10) were issued with a negative level of assurance, and no 'no assurance' opinions were issued. In respect of recommendations made 4% were high (5% in 2009/10) and 58% medium (47% in 2009/10).

The key financial systems are fundamental to the operation of the Council, so it is important that these systems have robust internal control mechanisms and operate effectively. The Head of Audit and Risk confirmed that all of these key financial systems have been issued with a positive assurance level for 2010/11. In all but two cases these systems have either maintained or improved their assurance level on 2009/10. There were specific reasons for the two which declined slightly, cash collection and NNDR, and both systems retained their positive assurance level. Fixed Assets was not reviewed by internal audit during 2010/11 due to the implementation of a new system at the year-end. For this year only, this work will therefore be picked up directly by the External Auditors.

Overall the Council is maintaining an adequate and effective system of internal audit. Internal audit has identified areas where internal controls can be strengthened and reported that, on the whole the Council is managing its operational risk effectively.

#### ***The processes and controls required to manage risks***

The Accounts and Audit (England) Regulations 2011 highlight the Council's responsibility for ensuring it has in place a sound system of internal control which includes arrangements for the management of risk.

There is a robust risk strategy and framework, reviewed and updated in 2010/11, in place to manage risks. All services must maintain an operational risk register aligned to their service plan objectives. Risks are recorded and reported using the Council's main performance management system – Performance Plus. The risk registers record significant risks and score them in terms of impact and likelihood. Target scores are set and mitigation actions identified and monitored.

Directorate risk registers are considered in detail at least quarterly at Directorate Management Teams. Key risks within the directorate and corporate risk registers are then subject to quarterly reviews by the Risk Management Working Party and the Internal Control Board. The Internal Control Board is chaired by an independent 'non executive' person (Bill Roots, a former London local authority Chief Executive) and comprises the Executive Management Team, Head of Law (Monitoring Officer), Head of Audit and Risk and Group Manager for Insurance and Risk. Risks are updated quarterly and are tracked through the monthly management report which summarises key risks and mitigation actions taken.

Risk Management is embedded within the Council's approach to programme and project management. Project risks are regularly reviewed by Project Review Groups

and Corporate Project Board. Risks for the whole capital programme are reviewed and updated quarterly. Members are involved in scrutinising risks with updates of the Capital Programme considered regularly by Public Accounts Select Committee and reported to Mayor & Cabinet.

In addition for 2010/11 to support better decision making, with the significant savings proposals considered and agreed by members, specific attention was given to identifying, assessing the key risks for each proposal submitted as part of the budget setting process.

RSM Tenon, the Council's independent internal audit contractor, carried out an annual risk maturity review (which reported in May 2011) and has assessed the Council as maintaining its 'managed' approach to risk.

The 2009/10 [Annual Audit Letter](#), issued by the Audit Commission's appointed auditor concluded that the Council "*has effective risk management systems which are well integrated across the whole of the council and includes partnership working*".

**g) Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities**

The Audit Panel is made up of six elected members and up to four independent advisors and meets at least quarterly. A key role of the panel is to review and comment on the strategy, plans and resources of Internal Audit. Internal Audit update reports are received by the panel on a quarterly basis, summarising the audit reports issued, management's progress on implementing internal audit recommendations, and the performance of the Internal Audit function. Update reports on the activities of the Anti-fraud and Corruption Team are also received by the panel on a quarterly basis. The panel receive the annual report of the Council's Head of Audit and Risk.

The panel consider and monitor the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements. In terms of external assurance, the panel consider the external auditor's Annual Plan, other relevant external reports which contribute to the level of assurance. The panel monitors management action in response to issues raised by internal and external audit, and significant issues identified by these are included in the action plan appended to this statement.

The panel also consider the Council's annual Statement of Accounts and this Statement and makes comments on those to the meeting of the Full Council that considers the accounts.

**h) Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful**

The duties of the Head of Law (Monitoring Officer) are defined in the Constitution. The Monitoring Officer attends Mayor and Cabinet and Full Council meetings and regularly briefs EMT on corporate legislative developments (e.g. *Localism Bill 2010*)



and specific proposals within the Bill including Governance). Legal advice is incorporated in every report and advice on proper process is a regular feature of that. Where gaps or non-compliance are identified, appropriate action is taken (e.g. in response to Freedom of Information compliance issues, alternative procedural arrangements were put in place to enhance performance). Reports do not proceed unless robust legal implications on all matters have been considered and are included in the report. Experienced professional legal staff are employed by the Council.

The financial management of the authority is conducted in accordance with financial regulations set out in the Constitution. The Council has designated the Executive Director of Resources as Chief Finance Officer in accordance with Section 151 of the *Local Government Act 1972* and to discharge the responsibilities under Section 114 of the *Local Government Act 1998* and Sections 25-28 of the *Local Government Act 2003* in relation to the Chief Financial Officer's statutory duties. The Chief Finance Officer advises on the proper administration of the Council's financial affairs, keeping proper financial records and maintaining effective systems of financial control. These duties are reflected in the job description of the Executive Director for Resources which are set out at Article 14 of the Constitution. Financial implications are included in all committee reports and form an integral part of the information needed to aid the decision making process.

The Pensions Investment Committee has agreed a Governance Policy Statement which sets out how the Committee exercises its fiduciary duty to members of the Pension Fund. The Committee's governance arrangements include the appointment of an independent Custodian Bank responsible for the safe custody of the Fund's assets, the appointment of an independent investment advisor, independent actuary and investment consultant, Hymans Robertson. The Committee will review its Statement of Investment Principles in accordance with the CIPFA's Pensions Panel Principles of Investment decision making.

**i) Whistle-blowing and procedures for receiving and investigating complaints from the public**

The Council has a whistle-blowing policy in place which is widely publicised on the Council's website and in 'Lewisham Life'. Complaints made under this policy are handled by the Head of Law (Monitoring Officer) and an annual review is considered by the Standards Committee (March 2011).

**j) Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training**

The overall aim of the Members' Development Programme is to ensure that all members have access to the training and development opportunities they need to fulfil their responsibilities to the local community and provide clear leadership and effective scrutiny of local Council functions. The 2010-11 personal development programme and general member development programme have both been

completed and an initial induction programme for new Members has been undertaken.

This is recognised as best practice and feedback from members indicates the programme has helped them considerably in carrying out their roles.'

The 2009/10 [Annual Audit Letter](#) recognised the training Members were receiving, stating that the Council *'has strong governance arrangements in place, such as a development and training programme for members, and is able to demonstrate that these have led to a wide range of positive outcomes'*.

The Head of Personnel and Development has responsibility for the development needs of senior officers. The Monitoring Officer also plays a key role in ensuring that senior officers are aware of their statutory duties and changes in legislation. At the start of the financial year the Chief Executive defines objectives for each of the Executive Directors. These are then cascaded to officers throughout the organisation through the Performance Evaluation Scheme.

**k) Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation**

Lewisham has an open and outward facing culture that is clearly focussed on the needs of our residents and facilitated by an exceptionally strong and diverse approach to engagement and consultation.

The Council's engagement activity is overseen by the Communications and Consultation Board. The Board operates at senior Head of Service Level and provides a strategic steer on the communication and consultation agendas within the Council. It is supported by its subsidiary, the Consultation Steering Group, which draws representation from across the Council and supports effective resident engagement at an operational level.

These arrangements are underpinned by the Council's Framework for Engagement (2009-2012). This sets in place shared principles for engagement, which were also agreed at a partnership level through the Stronger Communities Partnership.

In support of this, and to provide increased channels through which citizens are engaged, the Council continues to promote e-Participation by implementing a new online engagement system. This system provides the platform through which citizens can respond to online consultations as well as set up and respond to e-Petitions. Other channels of engagement include the 18 ward-level Area Assemblies which came into operation in 2008 and are open to anybody living or working in the ward, and the Young Citizens Panel which enables any young person aged 11-18 years either living or studying in the borough to join.

The Audit Commission awarded Lewisham a “green flag” for community engagement and empowerment of local people, in their 2009 Area Assessment. They concluded that *‘empowering and involving local people is at the heart of the way public sector partnerships work in Lewisham to improve the area as a place to live. Partners have an excellent track record of involving local people, including those who are less likely to be active in the local community.’*

**l) Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission’s report on the governance of partnerships, and reflecting these in the authority’s overall governance arrangements**

The Council acts in a number of partnerships with a view to improving the quality of life for local people. These partnerships take a variety of forms, from large scale contracting, as in the case of the Building Schools for the Future programme, to strategic alliances such as the Lewisham Strategic Partnership (LSP). The Council has used the Audit Commission report on the governance of partnerships to provide a framework to assess its arrangements in relation to partnership working.

As a first stage in that process, the Head of Law (Monitoring Officer) conducted an exercise in relation to several of the most significant partnerships in the borough and reported those findings to the Internal Control Board. In February 2009, a detailed audit of all of the Council’s major partnerships and contractual arrangements was reported to the EMT and to ICB. In response, EMT required all Directorates to consider partnership governance arrangements, and particularly the business continuity arrangements of those partnerships, as a standing item at Directorate Management Team meetings. In November 2009, the Chief Executive presented a paper to ICB which assessed the main risks to the partnerships within each of Lewisham’s six Sustainable Community Strategy priority themes.

As part of the review of the Local Code in 2009 the Standards Committee accepted a recommendation to extend the Code to include a provision to ensure that the Council has robust and effective mechanisms to ensure partnerships are effectively governed and that partnership risks are identified and managed.

In November 2009, Standards Committee considered a new “Standards in Partnership” protocol that has been developed by Standards for England. Adherence to this protocol is intended to ensure that the aims of the partnership can be fulfilled effectively and the public can have confidence in the operation of the partnership.

The Standing Committee made a recommendation to refer this partnership protocol to the LSP, where it was considered in December 2009. The LSP reviewed its Terms of Reference and Code of Conduct in 2010 in order to reflect the good practice set out in the new Standards for England partnership protocol.

## 4. Review of effectiveness

Lewisham has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit and Risk's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process by which the governance framework has been maintained and reviewed is widespread. It occurs throughout the year and at year end. On an ongoing basis, throughout the year, it has involved the following:

- Consideration by Internal Control Board of governance issues – including risk registers, counter-fraud updates and internal audit reports.
- The Head of Audit and Risk prepares a rolling plan of audit coverage to be achieved in the forthcoming year, based in primarily on an assessment of the Council's risk profile. The plan is reviewed by the Internal Control Board.
- The Audit Panel receives the Internal Audit Strategy and approves the annual audit plan.
- The Audit Panel receives the annual assurance report from the Head of Audit & Risk which set out his opinion on the Council's overall control environment.
- The Audit Panel reports on its work to the Public Accounts Select Committee twice a year.
- Executive Management Team (EMT) consider a full range of governance issues throughout the year, including issues relating to the improvement of the Internal Audit Service. EMT scrutinise performance and risk regularly and ensure management action where necessary.
- The Standards Committee considered the efficiency of the Council's complaints handling system and the effectiveness of the Whistle Blowing Policy. In June 2010 it considered the review of the Council's Code of Corporate Governance, and in November 2010 it reviewed Member compliance with the Member Code of Conduct.
- The Independent Remuneration Panel made recommendations to the Council about the accountability and effectiveness of Members.
- Consideration of external audit reports conducted in year by Mayor and Cabinet, Audit Panel and relevant Select Committees.

- Constitution Working Party undertook a review of the Constitution in its entirety in March 2009 which led to amendments to the Constitution in line with the Local Government and Public Involvement Act 2007. It also considered the reviews undertaken by the Independent Remuneration Panel and referred those to Full Council.

**At year end, the review of the effectiveness of the governance framework is conducted under the auspices of the Chief Executive by a team of officers consisting of:**

- Kath Nicholson: Head of Law and Monitoring Officer
- Troy Robinson: Standards & Education Law Advisor
- Barrie Neal: Head of Corporate Policy and Governance
- David Austin: Interim Head of Audit and Risk
- Annabel Saunders: Principal Policy Officer
- Caroline Doyle: Principal Policy Officer

The AGS working party have met regularly since March 2008. Officers have been drawn from across the council to represent key areas of expertise in governance and internal control matters. The terms of reference for the group are as follows:

- To provide expertise in the development of the AGS on governance and internal control matters
- To analyse CIPFA/SOLACE guidance in relation to the development of the Annual Governance Statement
- To collate evidence from across the organisation relating to CIPFA/SOLACE guidance
- To evaluate evidence collated and identify areas for action
- To compile an action plan of significant governance issues
- To develop the Annual Governance Statement to be incorporated in the Statement of Accounts on an annual basis
- To ensure that the AGS is signed off appropriately through the council's key control mechanisms: EMT, Standards Committee, Audit Panel, Internal Control Board and Full Council
- To review the Annual Governance Statement and arrangements for governance and internal control throughout the year

The process by which the governance provisions are reviewed at year end includes:

- The consideration by EMT members on the 2nd June 2010 of a draft Annual Governance Statement. Where any gaps have been identified in evidence gathering, these are addressed in the action plan outlined in Appendix 2. EMT also consider the outcome and action plans of external inspections and audit, using those to address any significant governance issues for the future.

- Preparation of the Accounts and the Head of Audit and Risk's Annual Report and consideration of these and the Annual Governance Statement by the Council's Audit Panel on 22<sup>nd</sup> June 2011.
- A review of the Council's Local Code of Corporate Governance by the Standards Committee on the 21<sup>st</sup> June 2011, with reference to CIPFA/Solace Guidance.
- Referral of the Annual Governance Statement to full Council with the Statement of Accounts, and advice from Audit Panel on the 21<sup>st</sup> September 2011.
- Sign off by the Chair of the Council and Chief Executive, once approved.

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## 5. Significant governance issues

Actions taken to deal with governance issues during the course of 2010/11 are referred to at section 3 of this statement.

We propose over the coming year (2011/12) to take steps to address significant governance issues which have been identified through the annual review and through external assessment and inspection. These issues are set out at Annexe 1 along with the actions proposed to address the need for improvement.

We intend to monitor their implementation, operation and effectiveness as part of our next annual review. To do this regularly throughout 2011/12 it is proposed that the officer team dealing with governance arrangements meet quarterly and report on progress to the EMT/Internal Control Board and/or Audit Panel on relevant issues.

**Signed:**

.....  
Leading Member (or equivalent) & Chief Executive (or equivalent) on  
behalf of [the authority]

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## Appendix 2

### Significant governance issues - Action Plan

<b>Issue</b>	<b>Decent Homes</b> Further reduce the gap between Lewisham and national expectations for the decent homes standard
<b>Action</b>	Continue to monitor progress in delivering the Housing Strategy action plan
<b>External Assurance Link</b>	Annual Audit Letter 2010
<b>Desired Outcomes</b>	A reduction in the gap between the proportion of homes in Lewisham that meet the Decent Homes Standard, and the proportion of homes that do so nationally
<b>Timescales</b>	March 2012
<b>Lead Officer</b>	Genevieve Macklin
<b>Notes</b>	<p><b><u>Progress to date:</u></b> This is an ongoing action from the 2009/10 action plan. It originated in the recommendations made by the Audit Commission's appointed auditor in the 2008 Annual Audit Letter:</p> <p>"The Council needs to ensure that its strong partnerships and effective leadership lead to a step change in outcomes...it should concentrate in particular on further reducing the gaps between national expectations for educational outcomes, health inequalities and decent homes standards and those in Lewisham".</p> <p><b>Brockley PFI (Regenter B3)</b> The PFI has achieved 100% decency in this programme.</p> <p><b>Lewisham Homes (ALMO):</b> The level of non-decency in 2010/11 within Lewisham Homes' stock was 55%.</p> <p><b>Stock Transfers:</b></p> <ul style="list-style-type: none"> <li>• By March 2011 Phoenix Community Housing completed decent homes works to 3773 tenanted homes which means only 32% of the stock is non-decent</li> <li>• L&amp;Q has achieved 100% decency at Grove Park</li> <li>• Broomleigh (Affinity Sutton) has achieved 100% decency at Orchard Estate and Village Court.</li> <li>• By March 2011, Broomleigh (Affinity Sutton) had made 177 tenanted homes across Newstead Road Estate and Leybridge Court (Lee Transfer) decent with 298 home remaining non-decent</li> <li>• Forest Hill &amp; Sydenham, Rushey Green and Catford transferred to L&amp;Q in October 2010. By March 2011, L&amp;Q had made 499 tenanted homes decent with 1782 tenant homes remaining non-decent</li> </ul> <p><b><u>Next steps:</u></b> <b>Lewisham Homes (ALMO)</b></p> <ul style="list-style-type: none"> <li>• The Homes &amp; Communities Agency (HCA) announced the allocations for Decent Homes Backlog Funding in February 2011 and awarded Lewisham £94.5 million over 4 years,</li> </ul>



which was the second highest settlement in England. The allocations for 2013/14 and 2014/15 are provisional allocations which are not guaranteed and could be subject to change. For 2011/12, Lewisham Homes are estimating that 719 tenanted homes will be made decent, bringing the non-decency level down to 53%. Lewisham Homes have projected that by 2015, the non-decency level of their stock will be 28%.

**Stock Transfers**

- Phoenix Community Housing are due to complete decent homes works by December 2012.
- Broomleigh (Affinity Sutton) will complete decent homes works at Newstead Road Estate and Leybridge Court by 2012.
- L&Q are scheduled to complete decent homes works at Forest Hill, Sydenham, Rushey Green and Catford by October 2014.

<b>Issue</b>	<b>Households in Temporary Accommodation</b> Reduce the numbers of households in temporary accommodation.
<b>Action</b>	Put in place robust systems for the management of homeless applications and the allocation of temporary accommodation, reduce the number of households in temporary accommodation.
<b>External Assurance Link</b>	National Indicator 156
<b>Desired Outcomes</b>	Maintain the number of households in temporary accommodation at 877 during 2011/12
<b>Timescales</b>	March 2012
<b>Lead Officer</b>	Genevieve Macklin
<b>Notes</b>	<p><b><u>Progress to date:</u></b> This is an ongoing action from the 2009/10 action plan.</p> <p>In line with the TA reduction plan agreed with the CLG, In 2008/09, the numbers of households in temporary accommodation reduced by 696, the third largest drop in London. In percentage terms at 28% the reduction was the 6th most improved. This trend has been sustained with the numbers in temporary accommodation reducing by a further 566 between April 2009 and March 2010. The 1242 households in temporary accommodation at the end of March was below the target set out in the TA reduction plan agreed with CLG. At the end of December 2010 there were 957 households in temporary accommodation, 80 short of the target.</p> <p>The numbers in temporary accommodation have been reduced by a range of different actions. The starting point is early identification of issues and active homeless prevention to sustain people in their accommodation. This includes working with private tenants who are experiencing issues with their landlords, mediation with parents and young people and a whole range of other steps. Lewisham's levels of homeless prevention have increased steadily through 2008-9 and into 2010-11. Where households cannot be sustained in existing accommodation they are offered advice about a range of options including how to rent privately, shared ownership and other intermediate housing products, mobility schemes and supported housing options and often this results in homelessness being prevented as well.</p> <p>It is the range of these actions, as part of a clear strategy and action plan, which has led to the reduction in numbers. This has not been at the expense of the suitability of the accommodation offered.</p>

	<p>At the end of April 2011 there were 947 households in temporary accommodation. Numbers continued to reduce after December 2010 to a low of 918 in February 2011 but have risen slightly in the last 2 months as a result of increased homeless approaches, a trend being mirrored across London.</p> <p><b>Next steps:</b>  During 2011-12 the service aims to sustain numbers at existing levels. Whilst the national indicator is no longer in place it is clearly prudent to sustain numbers in temporary accommodation at a lower level and this remains a key objective for the service area. Progress against the target is being monitored within Customer Services Management team and through a range of activity being overseen by a Customer Services Programme Board, which includes a range of service transformation projects aimed at improving homeless prevention and resolution of housing need issues and improvements in the costs and quality of temporary accommodation where it is used.</p>
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<b>Issue</b>	<b>Impact of the Recession</b> Assess and monitor the impact of the Recession.
<b>Action</b>	Assess and monitor the impact of the Recession on the Building Schools for the Future, housing and town centre regeneration programmes.
<b>External Assurance Link</b>	Annual Audit Letter 2010
<b>Desired Outcomes</b>	Accurate and timely monitoring of risks to delivery provides basis for well-informed decision making.
<b>Timescales</b>	March 2012
<b>Lead Officer</b>	Steve Gough
<b>Notes</b>	<p><b>Progress to date:</b>  This is an ongoing action from the 2009/10 action plan. It originated in the recommendations made by the Audit Commission's appointed auditor in the 2008 Annual Audit Letter:</p> <p>"The Council needs to assess and monitor the impact of the economic downturn on demand-led services and its regeneration programmes, especially Building Schools for the Future, housing and the Lewisham Town Centre development project"</p> <p>In February 2011 Mayor &amp; Cabinet agreed the 2011-12 Budget that included the following update on the risks associated with the 2011-16 Capital Programme:</p> <p>The risks to the programme have changed over the last 12 months. Then, the risks associated with the housing market, contractor failure and securing adequate project management skills were identified. The housing market risk remains and, following the cuts in social housing funding, has probably grown in significance. Construction prices are currently low with tender returns regularly below estimates. Constructors are squeezing their supply chains and profit margins in order to win work and this can leave them prone to financial failure. Officers will continue to assess financial risks before appointing any major contractors to schemes.</p> <p>Primary school places remain a key concern. It is estimated that the short term growth in pupil numbers across the borough could lead to a requirement for up to 18 additional forms of entry by September 2011. Some permanent expansion has been agreed and the rebuild of both Gordonbrock and Brockley schools is now in progress but, these measures fall short of the projected needs. £16.338 million of Department for Education capital has been allocated in 2011/12 and officers are currently considering how this should be allocated.</p> <p>Capital resources have been reviewed in detail following the publishing of the Comprehensive Spending Review and the other announcements from the government about cuts. It was announced that there would be significant cuts to capital funding of around 45%. Full details of</p>

	<p>what this means in practice are still to be announced, it is known that there will be no revenue support for borrowing after 2010/11.</p> <p>The Council's Capital Programme includes a number of complex programmes such as Building Schools for the Future, Customer Services transformation and the redevelopment of Deptford and Catford Town Centres, where skilled programme and project management are required to successfully deliver to time and cost. The Council's current successful approach to the development of internal capacity remains vulnerable to pressures from across the market for highly skilled programme and project managers.</p>
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<b>Issue</b>  <b>Action</b>  <b>External Assurance Link</b>  <b>Desired Outcomes</b>  <b>Timescales</b>  <b>Lead Officer</b>	<p><b>Impact of public sector spending cuts</b></p> <p>The delivery of the Council's multi-year strategy to manage a fundamental financial restructure needs to be monitored, and impacts on public services and Council employees must be limited.</p>
	<p>Monitor the delivery of the Council's multi-year financial strategy.</p>
	<p>Annual Audit Letter</p>
	<p>The Council's financial strategy is effectively monitored and impacts on public services and Council employees as a result of the financial restructuring are limited.</p>
	<p>March 2012</p>
	<p>Conrad Hall</p>
<b>Notes</b>	<p><b>Progress to date:</b></p> <p>On the 23rd May 2010, the Chancellor of the Exchequer announced £6.2bn of public sector spending cuts. The key point in this announcement for Local Government was that there would be immediate in-year reductions of £1.165bn in individual grants.</p> <p>A report on the £3.295m in-year reductions that Lewisham would need to make as a result of these public sector spending cuts went to the Public Accounts Committee on the 13 July 2010 and Mayor &amp; Cabinet on the 14 July. This report set out the impact on services that would arise from making over £3m savings.</p> <p>The Spending Review was announced on 20 October 2010, setting departmental expenditure limits (DEL) for each Government department for the 4 year period from 2011/12 to 2014/15. The Spending Review announced that overall revenue funding to Local Authorities will reduce by 26% in real terms by 2014-15 and the cuts over the four year period will be significantly front-loaded.</p> <p>The Provisional Local Government Finance Settlement was announced on 13 December 2010. The Settlement was the first part of two 2 year settlements and covers the periods of 2011-12 and 2012-13. The average reduction in formula grant across England is 9.9% in 2011/2012 and 7.3% in 2012/2013.</p> <p>Lewisham's formula grant has reduced by 10.6% in 2011/2012 and 7.8% in 2012/2013.</p> <p>The council agreed its 2011/12 budget on 1<sup>st</sup> March 2011. Savings of £20.467m were agreed for that year, and further budget savings of £8.878m and £3.356m agreed in principle for years 2012/13 and 2013/14. Achievement of the savings will be tracked through the council's budget monitoring system, and the first set of full forecasts will be available at the end of June 2011.</p>

	<p>In 2010/11 the budget was delivered with a net underspend of £1.7m.</p> <p><b>Next steps:</b> Further savings may be required for years from 2012/13 onwards. The council is considering its approach to future efficiency requirements and closely tracking government funding announcements.</p>
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<b>Issue</b>	<p><b>Health &amp; Safety</b> Compliance with appropriate standards of Health &amp; Safety</p>
<b>Action</b>	To identify the appropriate standard for Health & Safety to which the Council should apply and achieve compliance with it
<b>External Assurance Link</b>	British Standard OHSAS 18001
<b>Desired Outcomes</b>	All Directorates to be compliant with the requirements of the BS OHSAS 18001 for the management of Health & Safety in the Council
<b>Timescales</b>	December 2012
<b>Lead Officer</b>	David Austin / Executive Directors
<b>Notes</b>	<p><b>Progress to date:</b> This is an ongoing action from the 2009/10 action plan.</p> <p>In line with BS OHSAS 18001 the Council's single Health &amp; Safety (H&amp;S) management system has been implemented corporately and in each of the Directorates with one exception – the Children and Young People Directorate, including schools.</p> <p>The Corporate H&amp;S Team and the governance of H&amp;S has been restructured to focus on the critical activities to maintaining a single effective and consistent risk based approach to H&amp;S across the Council. A H&amp;S Board has been created to oversee both corporate and directorate H&amp;S risks. The Corporate H&amp;S team is now focused on:</p> <ul style="list-style-type: none"> <li>• developing and maintaining a full set of H&amp;S policies and guidance in line with BS OHSAS 18001 to meet statutory requirements;</li> <li>• communicating H&amp;S priorities and good practice (including coordinating training for and providing advice to directorates);</li> <li>• conducting risk based audits and capturing and reporting on all H&amp;S accidents, incidents and near misses.</li> </ul> <p>The Council's internal audit service completed an advisory review in 2010/11 of the Corporate H&amp;S policies, management system and compliance with legislative requirements. This highlighted some areas for continued operational improvement within the H&amp;S system.</p> <p><b>Next steps:</b> The Corporate H&amp;S team will:</p> <ul style="list-style-type: none"> <li>• continue to support and monitor the implementation of the H&amp;S management system in the Children and Young People directorate;</li> <li>• work with directorate H&amp;S management nominees to implement the recommendations</li> </ul>

from the H&S review by December 2011, and maintain and strengthen H&S practices across the Council through the business as usual activities identified above.

<b>Issue</b>	<b>Business Continuity Management</b> Strengthen the Council's business continuity arrangements.
<b>Action</b>	The Emergency Planning / Business Continuity Manager, and Directorate business continuity leads to implement the recommendations contained in the audit report by Kiln House Associates Ltd dated 12 May 2010.
<b>External Assurance Link</b>	Procedures to be reviewed by the Council's Internal Auditors, RSM Tenon.
<b>Desired Outcomes</b>	Robust business continuity arrangements established and their effectiveness tested on a regular basis.
<b>Timescales</b>	March 2012 - all recommendations have been implemented except for specific ICT related recommendations where work is in progress.
<b>Lead Officer</b>	Malcolm J Smith / Ralph Wilkinson
<b>Notes</b>	<p><b><u>Progress to date:</u></b></p> <p>This action originated from the draft business continuity management audit report produced by Kiln House Associates Ltd which assesses the Council's Business Continuity arrangements against the requirements of BS25999. The audit report said that the Council can take limited assurance that the Business Continuity Management system as currently set out is effective. The report made 37 recommendations for action.</p> <p>Significant progress has been made since the audit. All services have conducted a business impact assessment and produced a business continuity plan. Some critical services have already had their plan tested. An on line tool has been developed to aid services with business continuity. The Council now records all business continuity incidents and reviews them to establish trends, learn lessons and take action where appropriate.</p> <p>Three recommendations remain outstanding (on records management and systems disaster recovery) where work is in progress which is monitored by the Business Continuity Coordinators Group chaired by Malcolm Smith. The next review meeting is now on the 22nd July 2011.</p> <p><b><u>Next steps:</u></b></p> <p>Work will continue to complete the three outstanding actions from the audit.</p> <p>Testing of critical service business continuity plans will continue using local table top exercises. The lessons learnt from these will be included in updated plans. Although Council wide exercises have been used in the past to test plans the local exercises are proving much more effective.</p> <p>Work to prepare services for the challenges of the London Olympics 2012 period is underway. A robust action plan is in place and is continually being updated. Progress is being monitored by the 'London 2012 Logistics Working Group' chaired by Hilary Renwick.</p> <p>An on line reporting tool to record and monitor all business continuity incidents will be developed over the summer. The tool will make it easier to record incidents, trends and establish appropriate actions as well as making the corporate Business Continuity and Risk working groups aware of such risks.</p>

<b>Issue</b>	<b>Improving the quality of auditable grant claims</b>
<b>Action</b>	To implement the recommendations of the Audit Commission's report on grant claims for 2008/09.
<b>External Assurance Link</b>	Audit Commission report on grant claims for 2009/10
<b>Desired Outcomes</b>	To improve the quality of grant claims submitted to the Audit Commission and thereby reducing the total amount of external audit fees for 2009/10.
<b>Timescales</b>	By March 2011 and annually thereafter
<b>Lead Officer</b>	Steve Mace and Directorate Lead Officers for individual grants
<b>Notes</b>	<p><b><u>Progress to date:</u></b></p> <p>The District Auditor stated at the Audit Panel on 23 December that the grants audit process had improved from last year. The general direction of auditable grant claims is good, however there are some grants where there is still room for improvement (e.g. teacher's pensions). There will be close collaboration by Finance staff and Directorate lead officers in the submission of grant claims and the subsequent response to audit queries.</p> <p>The forecast outturn for external audit fees in the last financial year is £130k. This is a reduction of £50k on the previous year. This has been achieved by a mixture of fewer grants and better liaison with the Audit Commission.</p> <p><b><u>Next steps:</u></b></p> <p>Progress will be monitored throughout 2011/12.</p>

<b>Issue</b>	<b>Closing of Accounts</b> Close the Council's financial accounts on time.
<b>Action</b>	Although the accounts closed on time for 2009/10, the introduction of the International Financial Reporting Standards (IFRS) will add considerable complexity and increase the risk of closing in a timely fashion.
<b>External Assurance Link</b>	External auditors of the Statement of Accounts.
<b>Desired Outcomes</b>	Accounts produced on time and without significant issues arising from the audit.
<b>Timescales</b>	September 2011
<b>Lead Officer</b>	Conrad Hall
<b>Notes</b>	<p><b><u>Progress to date:</u></b></p> <p>Monthly meetings have been programmed in with the District Auditor. Enhanced project management arrangements have been introduced, including the review of new IFRS requirements to ensure that any potential issues are highlighted and addressed. In January 2011 the Audit Commission assessed the council's arrangements as 'red', primarily due to slippage against the original project plan. Although the remaining time is tight officers are still confident that the deadlines can be achieved.</p>

	<p><b>Next steps:</b> Monthly meetings will continue with the District Auditor. Although the remaining time is tight officers are still confident that the deadlines can be achieved.</p>
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<b>Issue</b>	<b>Ongoing review of the Annual Governance Statement</b>
<b>Action</b>	<p>The AGS working party will continue to meet on a regular basis through 2011/12 to review progress against the Annual Governance Statement Action Plan.</p> <p>Reports on progress will be submitted to EMT members and ICB as appropriate</p>
<b>Desired Outcomes</b>	The AGS working party act as an effective body to ensure the ongoing review and improvement of governance arrangements.
<b>Timescales</b>	Quarterly meetings in 2011/12; reporting to EMT members and ICB as required
<b>Lead Officer</b>	Kath Nicholson, Barrie Neal, David Austin
<b>Notes</b>	<p><b>Progress to date:</b> The AGS working group met at the beginning of May 2011 to sign off on the AGS action plan 2010/11. They then met again at the end of May 2011 to discuss and agree the new AGS action plan 2011/12.</p> <p>The 2010/11 Annual Governance Statement is updated annually. It is circulated to ICB (which includes EMT members), Audit Panel and Full Council for review and sign off, in line with the required timescales.</p> <p><b>Next steps:</b> The AGS working group will continue to meet during 2011/12. It will consider progress with this action plan and will report to EMT and ICB as appropriate. It will also be responsible for updating and reporting the 2010/11 Annual Governance Statement in line with required timescales.</p>

<b>Issue</b>	<b>Information Management &amp; Security</b> Compliance with appropriate standards of Information Management & Security (IM&S)
<b>Action</b>	To identify and comply with the appropriate standards for Information Management & Security
<b>AGS Criteria</b>	Objective 2 & 3
<b>External Assurance Link</b>	ICO/Internal Audit/ Audit Commission
<b>Desired Outcomes</b>	Robust IM&S activities established, documented and complied with by all council officers
<b>Timescales</b>	December 2012
<b>Lead Officer</b>	Georgina Chambers (Corporate Information and Records Manager)
<b>Notes</b>	<p><b>Progress to date:</b> The Corporate Information Management Team have identified relevant IM&amp;S legislation and standards and are currently reviewing all IM&amp;S policies to ensure they accurately reflect identified requirements and that officers are aware of their responsibilities.</p>

We have an Information Asset Register that identifies all the Councils Information Assets and names the relevant responsible information owners, and provides the frame work for future developments.

The recent re-organisation of the Technology & Transformation Division has created a new Information Management Team bringing together the relevant disciplines: strategy for the IM&T division, Data protection, Access to Information, Information Security, Records Management, Information Sharing, Compliance with Code of Connection.

**Next steps:**

The Information Management Team will:

- continue to review IM&S policies: identify legislation and standards we work to and how we meet their requirements. Get signed acceptance from officers;
- get the framework right and align policies and procedures (use of IT, USBs, drives, clear desk policy, information sharing, records management including retention and disposal);
- raise awareness of risk and personal responsibility for information we handle by working with Information Asset Owners, through comms and training. We will ensure officers know the safest way to work with personal information, including knowing how to identify the category of sensitive personal information and know the extra care needed when working with it;
- assess and monitor compliance through management information, audits and other channels where appropriate.



<b>Report Title</b>			<b>Report to the Audit Panel on the cost &amp; use of Consultants and Senior Interim Managers at LB Lewisham</b>		
<b>Key Decision</b>		<b>No</b>		<b>Item No. 13</b>	
<b>Ward</b>					
<b>Contributors</b>			<b>John Baker Strategic Advisor Resources &amp; Contracts</b>		
<b>Class</b>			<b>Date: 22 June 2011</b>		

## 1. Introduction

The purpose of this paper is to provide the Panel with details of the current use and cost of senior interim managers and consultants

## 2. Summary

The use of Senior Interim Managers and Consultants provides the Council access to specialist skills which enables projects and services to be delivered more effectively and efficiently than would be otherwise.

## 3. Policy Context

The use of Senior Interim Managers and consultants falls within Council's Corporate priority 10 "Inspiring efficiency, effectiveness and equity" by ensuring the delivery of excellent services to meet the needs of the community.

## 4. Definitions of Senior Interims & Consultants

### 4.1 Senior Interims

Senior interim Managers are defined as middle-to-senior grade managers covering a substantive post within the Council organisation and are concerned with the fulfilment of particular professional functional or senior management positions within the organisational structure (usually covering Business-as-Usual activities or providing cover for a role) and ideally engaged on a short term basis. They normally would have line responsibility for staff if this is an element of the role they are covering.

Senior Interim Managers are normally hired through the Agency Managed Service operated on Lewisham's behalf by Reed Consultancy, though some senior interims are hired from specialist agencies who are not part of the AMS.

### 4.2 Consultants

An external consultant is an individual or organisation appointed to deliver a specified project with specified deliverables and a timetable. The project should either be developmental and/or problem solving and/or diagnostic and/or re-engineering in nature. Consultants should be engaged to deliver a professional, technical or management service or specific problem solving assignment.

## 5. Approval Process

Approval to engage a Senior Interim Manager is managed through the relevant Directorate Expenditure Panel, and is supported by a business case.

The Procurement Guidelines on the use of Consultants (revised November 2008) exclude consultants from being used to provide or manage mainstream services and specifically state they should not be used for interim or agency roles.

In appointing a consultant for an essential piece of work all Council Officers, including senior managers, are required to prepare a business case which is presented to the relevant Directorate Expenditure Panel for approval.

## 6. Current Expenditure & Distribution of Senior Interims and Consultants

### 6.1 Senior Interim Managers

The figures below are based on invoices processed during January – April 2011.

	Jan-April 2011 total	Monthly Average
CYP	£204,024.57	£51,006.14
Community	£38,332.90	£9,583.22
Customer	£32,576.51	£8,144.12
Regeneration	£408,958.71	£102,239.67
Resources	£225,155.80	£56,288.95
<b>TOTAL</b>	<b>£909,048.49</b>	<b>£227,262.12</b>

### 6.2 Senior Interim Manager distribution across the Directorates:

Directorate	Jan 2011	April 2011
CYP	4	5
Community	1	1
Customer	1	1
Regeneration	10	9
Resources	3	3
<b>TOTAL</b>	<b>19</b>	<b>19</b>

The main reason for hiring Senior Interim Managers is to cover vacant posts prior to a restructure. Over 58% have been hired for this reason. Other reasons include covering for the post-holders secondment, long term sickness absence or the managing of a major contract.

### 6.3 Consultants

Establishing the cost of Consultants is more problematical than for Senior Interim Managers because of the different way their services are procured and paid for.

Senior Interim Managers are provided through Agencies, principally through our Agency Managed Service. The spend is therefore easy to identify.

Consultants can be procured through this route, but the majority set themselves up as Limited Companies, and invoice Lewisham directly. To identify consultant spend it requires the interrogation of all invoices processed by Lewisham (several thousand each month) and identifying those which are linked to this specific area of spend during this period.

Therefore, the figures presented here represent the consultant spend for January – April 2011 and the monthly average during this period.

During this period the following invoices/spend were processed and coded to consultants:

Directorate	Jan – April 11 Total	Monthly Average
CYP	£148,178.81	£37,044.70
Community	£174,384.68	£43,596.17
Customer	£336,917.43	£84,229.35
Regeneration	£309,789.92	£77,447.48
Resources	£74,652.17	£18,663.04
<b>TOTAL</b>	<b>£1,043,923.01</b>	<b>£260,980.74</b>

6.4 From the spend figures above, the number of Consultants across the Directorates is detailed below:

Directorate	January 11	April 11
CYP	5	7
Community	6	4
Customer	5	6
Regeneration	4	2
Resources	4	2
<b>TOTAL</b>	<b>24</b>	<b>21</b>

The primary reason given for hiring these Consultants is to either lead or support the delivery major projects (48%). The next largest group are performing specialist roles, principally in the educational or safeguarding fields. The remainder are technical specialists.

## 7. Listing of Senior Interims and Consultants

The listing below was prepared at the beginning of March 2011 and hence includes 23 interims and 23 consultants. It represents the roles covered by Consultants and Senior Interims in each of the directorates. The totals will differ from the tables above due to the different dates used and whether invoices were processed for the period reported on.

Consultations are taking place with our agency providers to establish whether the Council can publish the personal rates of pay for these senior Interim Managers to ensure that both the agencies and the council comply with Data Protection regulations, however indicative rates are provided in paragraph 8.

### 7.1 Children & Young People Directorate

Within CYP there are a number of roles associated with social care which are currently being covered by Senior Interims

Consultant / Senior Interim	Service Area	job title	Start Date	End Date
Senior Interim	Access Support	Educational Psychologist	February 2009	Ongoing
Senior Interim	Access Support	SALT	Being determined	Ongoing
Consultant	Children Social Care	Consultant Social Worker	2001	Once current work complete
Senior Interim	Children Social Care	Team Manager (R&A)	04/10/2010	30/04/2011
Senior Interim	Children Social Care	Team Manager - Children With Disabilities	14/10/2010	25/03/2011
Senior Interim	Children Social Care	Service Manager	21/02/2011	30/04/2011
Consultant	Children Social Care	Chair of LSCB	March 2009	June 2011

Senior Interim	Educational Development	Head of IYSS & Connexions Manager	19/12/2008	31/08/2011
Senior Interim	Resources	Head of Estate Management & Contracts	20/07/2009	30/09/2011
Consultant	Resources	Fire Safety Assessment Officer	December 2007	September 2011
Consultant	Resources - BSF. Estates Management Unit	Contract Manager for PFI FM contracts	Being determined	September 2011

## 7.2 Community Directorate

Within Community , a number roles are associated with the Adult Social Care Personalisation and Transformation programme.

Consultant / Senior Interim	Service Area	job title	Start Date	End Date
Senior Interim	Adult Services	Head of Service- Adult Services	02/08/2010	Indefinite
Senior Interim	Adult Services	Operations Manager - Older Adults	21/04/2008	30/04/2011
Consultant	Adults with Learning Disabilities	Specialist Senior Practitioner Assessor	March 2008	Being determined
Consultant	Community Safety - Adult Safeguarding	Officer	Being determined	31/08/2011
Consultant	Crime Reduction / Drug Action Team	Consultant	Being determined	Being determined
Consultant	Directorate Management Team - CEL	Consultant	2009	Ongoing

## 7.3 Customer Directorate

The majority of temporary roles within the Customer Directorate are interim, pending restructuring.

Consultant / Senior Interim	Service Area	job title	Start Date	End Date
Senior Interim	Housing Strategy & Development	Part time Service Group Manager	22/04/2010	31/03/2011
Senior Interim	Public Services - Central Admin	Continuity Manager	April 2007	June 2011
Senior Interim	Public Services - Service Development	Independent Adjudicator	January 2010	May 2011
Senior Interim	Strat Housing & Reg Services/Housing Needs	Lettings & Support Services Manager	December 2010	July 2011
Senior Interim	Strategic Housing & Business Regs Service	Housing Advice & Review Manager	19/07/2010	01/04/2011
Consultant	Strategic Housing & Business Regulations	Consultant	24/11/2010	18/03/2011

Consultant	Strategic Housing & Business Regulations	Consultant	18/03/2011	When funding runs out
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#### 7.4 Regeneration Directorate

A number of individuals working within Regeneration who have been engaged on a long term basis are working within the *Building Schools for the Future* project. Additionally, forthcoming restructuring within Transport has meant a number of senior roles are currently being covered by interim managers, including the Head of Service

Consultant / Senior Interim	Service Area	job title	Start Date	End Date
Senior Interim	Performance & Strategy	Executive Director Regeneration	07/06/05	Indefinite
Senior Interim	Planning	Development Control Manager	05/03/2007	March 2012
Consultant	Programme Management	Programme Manager	Dec-05	May 2011
Consultant	Programme Management & Property	BSF Cost Manager	January 2008	April 2013
Consultant	Programme Management & Property	BSF Programme Design Manager	January 2009	April 2012
Consultant	Programme Management & Property	BSF Commercial Manager	May 2010	April 2012
Consultant	Programme Management & Property	Senior Programme Manager	December 2005	December 2011
Senior Interim	Programme Management & Property	Contract Management Support to FM	09/11/2010	August 2011
Senior Interim	Programme Management & Property	Procurement Support	April 2009	July 2011
Senior Interim	Transport	Head of Transport	02/08/2010	Pending Restructure
Senior Interim	Transport	Transport Manager	03/11/2008	Pending Restructure
Senior Interim	Transport	CPZ Team Manager	21/03/2007	31/03/2011

#### 7.5 Resources Directorate

Within the Resources Directorate there are a number of roles being covered by Senior Interims in advance of budget restructuring. Additionally, there are specific iT projects, such as The Payroll Human Resources Information System (PHRIS) project, which requires individuals with specific experience in Business Objects software to help develop payroll reports etc.

Consultant / Senior Interim	Service Area	job title	Start Date	End Date
Senior Interim	Audit & Risk	Head of Audit & Risk	19/07/2010	30/06/2011
Consultant	Corporate Resources	PHRIS Consultant	June 2008	Mar-11

Consultant	Corporate Resources	PHRIS Consultant	July 2010	Ad-hoc days only
Senior Interim	Finance	Group Manager Capital & Treasury	15/03/2010	01/07/2011
Senior Interim	Personnel & Development	Strategic Organisational & L&D Manager	06/08/2010	30/06/2011

Feedback from managers using Senior Interim Managers and Consultants across the Directorates is that the specialist skills these individuals bring to Lewisham provides good value for money and represent a cost saving (through cost avoidance) due to the efficiencies their experience and expertise bring to the Council which is not available in-house.

The specialist and specific nature of the roles these individuals perform means that interims and consultants can be 100% focused on delivery. Their chances of gaining their next assignment depends on their ability to deliver in their current one, success at which will generate a positive reference once it comes to an end.

## 8. Pay Rates for Senior Interim Managers and Consultants

The council seeks to be a fair and good employer of choice. It seeks to engage the best talent and skills available but also to have regard to changing conditions in differing occupational labour markets.

The approach has been to have a mixed economy with a large core of permanent staff which are then supplemented by temporary appointments to respond to either scarce skills or where service changes do not warrant the expenditure on permanent staff.

The employment of 19 senior interim managers currently which represents less than 15% of the senior workforce is in keeping with this.

Pay rates for interims are regularly monitored through the agency contract the council has with Reed to ensure the council does not pay above the market rate. Although the costs of engaging permanent staff would typically represent two-thirds of the cost of engaging senior interims the council saves substantially in not having to pay redundancy costs which could be considerable at a time when a number of reorganisations are taking place.

Pay rates themselves vary greatly dependant on the role the individual is undertaking.

For Senior Interim Managers, sourced through the Managed Service the daily pay rates range from £238 per day to £700 per day. Reed have been tasked with ensuring the rates the Council pay represent good value for money and are in line with current labour market rates in London. However, some rates will be dictated by the scarcity of individuals in niche skills areas.

For those Senior Interim Managers who are sourced from outside of the Managed Service the range is much wider – from £283 per day to approximately £935. This is principally a reflection of their more specialist skills.

Overall, analysis of pay rates to Senior Interim Managers indicates that 45.5% are paid less than £500 per day, and 54.5% are paid above this rate.

The daily pay rate for Consultants varies greatly, although a large number of them are earning in excess of £500 per day. From those identified, the daily pay range is between £210 and £900, with 63.6% paid below £500 per day, and 36.4% are paid above this rate.

The use of Senior Interims & Consultants allows for greater flexibility in how posts/roles can be resourced – such as using them for part-weeks or specifically targeted periods (such as critical times during the delivery of a project).

Additionally, the nature of their specific and targeted engagement means that, in line with current pay policy, the Council can demand “high level and hard-edged managerial accountability” from the first day of their assignment without having to wait for the incremental productivity improvement associated with new, permanent staff (often described as the “learning curve”).

The use of Senior Interims and Consultants allows us to tap into a highly talented and often very specialised, pool of experts, each with a proven track record of delivery.

## **9. Current Market Trends in the Usage and Remuneration of Consultants and Senior Interims**

Reed, our AMS provider believe that the interim market has changed within the public sector over the last 12 months. The number of interims working within local authorities has dropped not only over the past 12 months but more sharply again in the last 6 months, although Reed are unable to quantify by how much.

In terms of rates, Reed confirm that there has been a decrease of between 5 - 10% on interim salaries from 12 months ago. Although this decrease is mainly for new assignments, some ongoing assignments have also been re-negotiated.

A recent survey of interim managers working in local authorities, provides the following insight into the current trends in the interim market<sup>1</sup>.

- Whilst **78%** agree there have been significantly fewer interim roles in the past 12 months, **55%** strongly believe that demand will increase in the next 3 to 6 months
- **60%** see that upturn coming from transformation, downsizing, efficiency and programme management roles
- **63%** state that daily rates have dropped at least **10%** over the past year
- Whilst **78%** will travel further now and **58%** will drop down a tier, only **34%** are more likely to consider a permanent or fixed term role
- Only **9%** have ever had a proportion of their daily fee set at risk against Key Performance Indicators

on a ‘risk / reward’ basis yet **80%** are positive about working within such a compensation scheme

## **10. Length of Tenure**

94.7% of existing Senior Interims have been with the organisation for over 6 months. Whilst 58% of all existing senior interims have been engaged for over a year. The extended length of tenure at Lewisham reflects the desire not to substantively fill senior vacancies in services that form part of the budget reduction programme, thus mitigating the risk of potential, and expensive, redundancy payments.

## **11. Review of Senior Interim and Consultant Length of Tenure and Pay Rates**

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<sup>1</sup> Source: Green Park Interim & Executive Search June 2011

Agency spend is routinely and closely monitored on a monthly basis through the reporting of spend going through the Agency Managed Service. Additionally, a review of current spending on Senior Interims Managers and Consultants has been instituted by the Chief Executive which will be completed at the end of June 2011.

As part of this review, managers were asked to:

- Review the basic daily rate and reduce it
- Review the agency margin and reduce it
- Reduce the number of days worked

The review is still ongoing, but is 78% complete, and once fully completed the findings will be made available to the Panel.

Of the results received so far, in the case of Senior Interim Managers, in two cases the assignments were completed and their contract terminated and of those still working with us, the pay rates of 4 have been lowered and the agency commission of 1 Senior Interim has been reduced. This reduction is on average 10-12%, in line with the market trends identified above.

The hours worked have been reviewed and reduced in 7 cases and dates have been agreed for when 10 assignments will terminate.

For Consultants, 9 have left the Council or the contract terminated, 1 has had their hours reduced and, in the case of 3 Consultants, a date has been agreed for when their assignments will come to an end.

Concurrently, as part of their remit under the Agency Managed Service contract, Reed are reviewing the pay rates with the suppliers on the AMS and have achieved a reduction in some of the supplier margins.

Colleagues in HR, Procurement and Finance are also currently reviewing how the spend on consultants can be more easily recorded and monitored.