

LONDON BOROUGH OF LEWISHAM

Minutes

MINUTES of a meeting of the AUDIT PANEL, which was open to the press and public, held on WEDNESDAY 20 JUNE 2012 at LEWISHAM TOWN HALL, CATFORD, SE6 4RU at 7:00p.m.

Present

Councillors Ibitson, Harris, Mallory and Peake.

Apologies were received from Councillors Clutten, and Whittle

Independent Members

Richard King
Mike Robinson
David Webb
Paul Dale

Audit Commission

Sue Exton - District Auditor
Geoffrey Banister - Audit Manager

RSM Tenon Ltd

Chris Harris - Director of Internal Audit

Lewisham Homes

Adam Barrett - Director of Resources

LB Lewisham Officers

Janet Senior - Executive Director for Resources and Regeneration
Conrad Hall - Head of Business Management and Service Support
David Austin - Interim Head of Audit & Risk
Richard Lambeth - Group Finance Manager – Accounting and Capital
John Johnstone - Principal Accountant – Accounting and Capital

1. Election of Chair and Vice Chair

RESOLVED that Councillor Harris be elected Chair and Councillor Peake be elected Vice Chair of the Audit Panel for the municipal year 2012/13.

There were no declarations of interest.

2. Minutes

RESOLVED that the Minutes of the meeting of the Panel held on 22 March 2012, which was open to the press and public, be confirmed and signed as a true record of the proceedings.

3. Audit Plan 2011.12

- 3.1 Ms Exton presented the external auditor's report. She drew members' attention to the risks outlined in Table 1.
- 3.2 Mr Webb asked what could be described as a heritage asset. Mr Lambeth said that heritage assets were assets held and maintained principally for their contribution to knowledge and culture. Mr Webb asked whether a museum could be described as a heritage asset. Mr Lambeth said that it could be, but was unlikely. However, it was more likely that the contents would be the heritage assets. There could be differences of opinion between officers and external auditors about what should be included within the heritage asset but it would be subject to discussion.
- 3.3 The Chair asked what external audit was considering in respect of the closure and transfer of the libraries. Mr Banister said that the transfer and signing of the new leases were considered. Mr Lambeth said that there had been some uncertainty because the assets had been operated by third parties from June 2011. The leases had now been signed and Lewisham still owned the buildings. The Libraries are being managed on behalf of Lewisham.

RESOLVED that the report be noted

4. Audit Plan - Pension Fund

- 4.1 Mr Banister presented the external auditor's report and outlined the significant risks in Table 1 of the report.
- 4.2 Mr King asked about the risk identified from the opening of the new bank account for the pension fund during 2011/12. Mr Lambeth said that transactions through the account had been built up during the year and the necessary controls had now been put in place.

RESOLVED that the report be noted.

5. Draft Statement of Accounts

- 5.1 Mr Hall presented the report. He said that the group accounts had been circulated at the meeting because they had not been ready for distribution with the agenda. Members were invited to raise any queries with officers in advance of the next meeting of this Panel.

5.2 Mr Lambeth drew members' attention to three points. Firstly the format had changed because it did not have the comparative figures of last year. Secondly, there was an extra requirement that heritage assets be included in the accounts. Finally, the Housing Revenue Account (HRA) was to be self financing from April 2012. A significant proportion of the outstanding HRA debt had been repaid by the government on 28 March 2012; this was shown in the accounts and had an effect on the borrowing figures.

Pension Fund

5.3 The Chair said that the Actuary has assumed that the Fund's assets will generate a return of 6.1% per annum Mr Hall said that this was a reasonable long term assumption. It was difficult to predict how commodities would perform in volatile markets and the current uncertainty in the Eurozone would have an impact on global equity markets. However, he said that the prediction was consistent with asset performance. The Chair then asked at what point the predictions of the actuaries would be considered. Mr Hall said that officers and members do not always actively accept what actuaries are predicting. The Council have fund advisers in Hyman Robertson who offer advice, performance of fund managers is scrutinised and the performance of Lewisham's fund is compared with other similar local authority pension funds. Recently, Lewisham withdrew money from a manager because of underperformance.

5.4 The Chair asked why the pensions liabilities had increased over the year ending 2011/12 by 10%. He asked whether it was due to early retirement. Mr Lambeth agreed and said that there were comparative figures at page 77 of the accounts. He said that other differences were the past service costs adjustment and technical changes, but there was not one major cause. The Chair said that a 10% increase was large and he asked that a breakdown of this increase be submitted to the next meeting of this Panel so that members can have an understanding of the reasons for the increase.

ED R& R

5.5 The Chair asked about investment analysis in paragraph 5. He asked officers to send members details of how global securities are diversified.

5.6 The Chair asked why the decision had been taken to change from an active to a passive fund management. Mr Hall said that the Pensions Investment Committee had been considering moving to passive management over the last 18 months. A high proportion of the portfolio is in equities. The active fund management requires higher returns and so entails higher risks. Active management comes with higher transaction costs and higher fees. A passive fund is less risky and the fees are substantially lower. Active funds require more officer time because performance must be managed closely, passive funds require less scrutiny. The decision to move to a passive fund was reasonable and made with the support of legal officers and Hyman Robertson.

RESOLVED that the report and the appendices be noted.

6. Internal Audit Update Report

- 6.1 Mr Austin presented the report.
- 6.2 Mr Harris updated the Panel on each of the remaining 2011/12 reports. The position was:
- Fraud report – Now finalised
 - Information Governance – Still in raft, soon to be finalised
 - Payroll and HR system – Work in progress, draft to be issued in the next week or two
 - HR Thematic – to be ready by end July
 - Regeneration of Lewisham – to be finalised in July
 - Implementation of NNDR – work in progress; more work required on data migration expected to take place soon.
 - Supporting People Framework – Now finalised.
- 6.3 Mr Austin updated the Panel on the work done to align the audit plan to the Council's key risks, including examples of the risks covered by internal audit and those not. Mr King asked what other assurances are in place for the approximate 40% of corporate risks not being looked at by internal audit. In these cases Mr Austin described how there are other assurances in place, such as services accredited to standards (e.g. legal) and others reviewed by external independent inspectors (e.g. OFSTED and CQC). The 2012/13 audit plan includes a project to refresh the mapping of these assurances. It was agreed that going forward the alignment of the Audit Plan and Key Risks should be made.
- 6.4 Mr Dale referred to the contractor Performance Indicators. Mr King asked in particular about number 4 which gave a score of 4.6 out of 5 for the average level of client satisfaction achieved. He asked whether this figure was too high; were internal auditors taking the soft option. He asked members of the panel whether they agreed with this figure. Mr Austin said that of the 90 audits in 2011/12 only 15 returned their questionnaires. Officers have shortened the questionnaire (four questions each to be scored on a scale of 1-4) and put it online and are encouraging audit sponsors to return more questionnaires. He said that it could be that those who have suggestions to improve the service were not returning questionnaires.
- 6.5 Mr Harris said that, as the contractor, they invested time upfront in the audit process. Working with audit sponsors to agree the audit objectives and discussing the draft audit findings and recommendations prior to issuing the draft report to ensure the factual aspects of the work are agreed. He thought it difficult to state what a good performance score would be.
- 6.6 The Executive Director for Resources and Regeneration asked whether the Panel was suggesting that the audit contractor's relationship with the client might be too 'cosy'. Mr Dale agreed with her description.
- 6.7 Mr King asked how members could know whether Lewisham were compliant with CIPFA code? Mr Austin said that three years ago

Lewisham's compliance was reviewed by the external auditors, two years ago by the London Borough of Croydon. This year internal audit undertook a self-assessment, and next year (2012/13) Lewisham will be reviewed by Lambeth. In each year the recommendations for continuous improvement have been reported to the Audit Panel in the Head of Internal Audit's annual assurance report.

6.8 Mr Dale said that 2011/12 had been a poor year for audit completions and yet the satisfaction figures were high so there was a discrepancy somewhere. He was concerned about the number of recommendations that were still outstanding. Mr Austin agreed that things were less assured than they were. However, much of the planned 2011/12 work had been caught up and the audit reports had been more critical on matters of internal control this year. This is distinct from the separate monitoring of the implementation of Internal Audit recommendations by officers.

6.9 Ms Senior said that management do consider recommendations that are not being implemented as reported by internal audit and they are discussed at the Internal Control Board. She said that it is often the case that recommendations have been followed-up but the internal audit tracking system had not been updated. She did not believe the relationship was unduly 'cosy' but she said that some recommendations were not being dealt with quickly enough and this should be addressed. It is recognised by management that this is an issue and needs to be addressed. Mr Dale said that the Audit Plan needed to be delivered on time by internal audit and agreed recommendations implemented by management.

6.10 The Chair asked about the process leading up to managers being called before the Audit Panel for late implementation of internal audit recommendations. Mr Austin said that officers could be called to this panel to explain why they had not responded to recommendations. He said that he would do this if there was no response after three reminders. Members agreed that there should only be two reminders before officers were called to this panel for an explanation. The deadline for management should be the same as the date of preparing the report. This was agreed.

ED R&R

6.11 Mr Dale said that consideration needs to be given to what happens to recommendations when they are superseded and whether it has an impact on the overall opinion. Mr Austin agreed to give members information on recommendations superseded in 2011/12 follow-up reports.

ED R&R

6.12 The Chair concluded that the priorities for 2012/13 are for the internal audit contractor to deliver the plan on time through the year, management to implement agreed recommendations in a timely manner, and the Head of Audit to refresh the assurance mapping to align future audit plans to objectives and risk.

RESOLVED that the report and appendix 1 be noted and appendices 2 and 3 approved.

7. Annual Assurance Report 2011.12

- 7.1 Mr Austin presented the report.
- 7.2 Mr King referred to the satisfactory assurance in paragraph 5.2, he suggested that the word 'generally' should be omitted. This was agreed. ED R&R
- 7.3 Mr Dale referred to Appendix 1. He said that the Payments to Residential Domiciliary Care had a Limited assurance last year. Mr Austin said this review remains in draft and the opinion is indicative. There were concerns that it was taking longer than expected to make sure that it goes back to at least satisfactory assurance.
- 7.4 Mr Webb noted the negative opinions recorded but that it was not clear which directorate they were in.
- 7.5 Mr King referred to the appendix, he asked for the information on service groups within their directorate to each be presented on one page. It was agreed that the directorate for each service should be included in future reports where this is relevant to drawing out the internal control message. ED R&R

RESOLVED that the report be noted.

8. Anti Fraud and Corruption team (A-Fact) update

- 8.1 Mr Austin said that at the last meeting of this panel, members asked Lewisham Homes to be invited to this meeting to outline the work undertaken by them with regard to Anti-Fraud and Corruption. He then introduced Adam Barrett from Lewisham Homes.
- 8.2 Mr Barrett said that there was a large number of sub-lettings in the borough. Lewisham Homes operate on information received rather than random investigation. Lewisham homes support National Fraud Investigations; from which council tax and benefits are cross referenced and checked. Data sources are checked with regard to occupancy and identification.
- 8.3 Mr Barrett said that Lewisham Homes work with the Council with regard to identification of false documents; ultraviolet scanners are one of the methods used. He said that out of 1,200 occupancy checks, 101 properties were recovered; not all of these were fraud, some were cases where a tenant had died but had not been reported.
- 8.4 Mr Barrett said that contractors were given a check list of things to be aware of when visiting a property, including child care and vulnerable adults. If there are multiple locks in a property, this could be an indication of sub letting. Market rents are a lot higher than social rents and there is a market for illegal letting and high returns from rents.
- 8.5 The Chair asked whether occupancy checks were based on pre-screening. Mr Barrett confirmed that it was; referrals were received from

members of the public, data, and contractors. Random checks are not often undertaken because they are not productive. The Chair asked whether the cost of pre screening had been compared to random checks. Mr Barrett said that there were no comparative figures but the costs of data matching and other different method of investigative work would be compared to the cost of random checks in the near future.

- 8.6 The Chair asked how joined up the process of recovery was. Mr Barrett said that reports are submitted to Committees and the Council. Regular meetings are held with Lewisham officers in the fraud team. He intended to test the effectiveness of the process before considering whether any more money should be invested in investigations. The cost of refurbishment and rent loss would also need to be included in these cost considerations.
- 8.7 Mr King asked whether there were any comparable figures with other local authorities. Mr Austin said that there were not any directly comparable figures because the stock within each local authority varied. Lewisham recovered 100 properties; another authority considered the recovery of 36 properties to be good.
- 8.8 Mr King asked whether any of the tenants displaced became the responsibility of Lewisham. Mr Barratt said that some tenants are referred to Lewisham's housing service who consider whether they should be re-housed. Occupants can be victims of illegal landlords. He did not know whether they would be fast tracked into suitable accommodation.
- 8.9 Mr Austin said that officers were presented with such scenarios. Sometimes properties had been sub-let in cramped, over crowded conditions. Sometimes the person sub-letting lives in the accommodation with the tenant which is legal.
- 8.10 Members noted the housing update and thanked Mr Barratt for attending the meeting.

Special Investigations

- 8.11 The Chair asked whether the number of cases had been reduced. Mr Austin said that, in volume terms yes, as the threshold had been raised to make sure that the most important cases were considered. This is consistent with the strategy agreed with the Audit Panel last year.
- 8.12 Councillor Mallory said that some of these success stories outlined in the report should be communicated to the public. Mr Austin agreed. He said that this was the best time to publicise these stories because the annual figures had just been produced. It was agreed that publicity should be arranged for September after the Summer break.

ED R&R

RESOLVED that the report be noted.

9. Exclusion of the press and public

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

10. Closed minutes

The following is a summary of the items considered in the closed part of the meeting:

10 CLOSED MINUTES

RESOLVED that the Minutes of the meeting of the Panel held on 22 March 2012, which was not open to the press and public, be confirmed and signed as a true record of the proceedings.

The meeting ended at 9.20p.m.

Chair