



AGENDA AUDIT PANEL

Date: THURSDAY, 12 SEPTEMBER 2013 at 7.00 pm

Committee Room 3
Civic Suite
Lewisham Town Hall
London SE6 4RU

Enquiries to: **Olga Cole**
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COUNCILLORS

Councillor Michael Harris (Chair)
Councillor Philip Peake (Vice-Chair)
Councillor Ami Ibitson
Councillor Mark Ingleby
Councillor Dan Whittle
Councillor Jim Mallory

Independent Members

Paul Dale
Richard King
Mike Robinson
David Webb

Members are summoned to attend this meeting

Barry Quirk
Chief Executive
Lewisham Town Hall
Catford
London SE6 4RU
Date: 3 September 2013



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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LONDON BOROUGH OF LEWISHAM

Minutes

MINUTES of a meeting of the AUDIT PANEL, which was open to the press and public, held on TUESDAY 18 JUNE 2013 at LEWISHAM TOWN HALL, CATFORD, SE6 4RU at 7:00p.m.

Present

Councillor Peake (in the Chair), Councillors Ingleby and Mallory.

Independent Members

Paul Dale
Mike Robinson
David Webb

Grant Thornton

Jamie Bewick
Darren Wells

Manager Public Sector Assurance
Director for Assurance

Chris Harris

RSM Tenon

Officers

David Austin
Andreas Ghosh
Richard Lambeth
Janet Senior

Interim Head of Audit & Risk. (not present for Item 3)
Head of Personnel & Development
Group Finance Manager- Accounting and Capital
Executive Director for Resources & Regeneration

Apologies were received from Councillors Harris, Ibitson and Richard King.

Minute No.		Action
1.	<u>MINUTES</u>	
	RESOLVED that the Minutes of the meeting of the Panel held on 27 March 2013, which was open to the press and public, be confirmed and signed as a true record of the proceedings.	
2.	<u>DECLARATIONS OF INTERESTS</u>	
2.1	Paul Dale declared a non prejudicial personal interest in Item 3 as an Interim consultant at the London Borough of Merton.	
3.	<u>PAY ARRANGEMENTS FOR CONSULTANTS AND SENIOR</u>	

INTERIMS

- 3.1 The Head of Personnel & Development introduced the report. The Chair asked whether the Council was paying interims too much. The Head of Personnel & Development stated that the Council has a neutral vendor arrangement with Reed, and the contract was to ensure that rates drop, and currently the rates were in line with the market.
- 3.2 Councillor Mallory asked why the Council does not have the information of whether these interims were being paid by a Private Service Company or otherwise. The Head of Personnel & Development said that if the interims were employed by an agency the Council would not immediately be aware of this. Councillor Mallory said that he was concerned that officers do not try to ensure they were aware of the facts before the appointment. The Head of Personnel & Development said that officers could try and get this information although they were not technically the employer of the interims. Councillor Mallory said this issue should be explored further. Head of
Pers. &
Dev.
- 3.3 Councillor Mallory asked why the Fire Safety Assessment Area has an interim without a projected end date, and was told by the Head of Personnel & Development that the Fire Safety Adviser role was a specialist role and was on a part-time basis and has not got an end time because of the nature of the job. He added that the role was required, but the Council could not afford it on a full-time basis. Councillor Mallory said that Panel Members need to know how much each interim was costing the Council. The Head of Personnel & Development stated that this information could be provided. Councillor Mallory said the key information would be the overall cost to the Council. The Head of Personnel & Development said that this information would be provided. Head of
Pers. &
Dev.
- 3.4 Mike Robinson said that the numbers went down to 24 Interim Consultants in April 2012 only to be up to 32 in April 2013, and this should be described as a slight increase, he added that the increase seemed significant and asked whether this would go down or continue to increase. The Head of Personnel & Development said that he could not predict this especially with the constant restructuring of the organisation. He added that the Council have been able to maintain a low figure, peaking at 55 and the lowest being 24. He said that he thought the fluctuation would continue. He informed Panel Members that if the numbers were in danger of reaching the same levels as in 2011, he would expect Managers to alert him before this happened.
- 3.5 Councillor Mallory asked whether there was any proof that using

consultants reduce redundancy costs. The Head of Personnel & Development stated that the rates the Council pay to consultants were not as high as redundancy payments. Councillor Mallory said that this would be assuming officers were made redundant, as they could have moved to other jobs. The Head of Personnel & Development informed Panel Members that most Managers would say they were expecting to go through a re-organisation, and would not wish to employ staff who would subsequently be made redundant.

3.6 Councillor Mallory asked if all BSF related jobs would go soon. The Head of Personnel & Development said that there was also a capital programme to consider, but officers would be looking at the market and making calculations. Councillor Mallory asked if it was likely that similar skills would be needed, which could result in the Council retaining the same people. The Executive Director for Resources & Regeneration said that the skills would not necessarily be the same. She said currently with the Capital Programme, some of the work with the schools could be similar, but with the new PFI's the skills would be different, and the Council would be looking at recruitment at Director level for the schools programme, and there would be permanent jobs.

3.7 David Webb said that when they had first looked at a similar report in the past Panel Members were told that Interims were a necessity because of the grade and calibre of people the Council need to attract, he asked if the situation has changed. The Executive Director for Resources & Regeneration said that this issue was still of concern, but officers would review this. Councillor Peake thanked officers for the report.

RESOLVED that the report be noted.

4. AUDIT PLAN 2012/13

4.1 Darren Wells, Director for Assurance, Grant Thornton introduced the report.

4.2 Councillor Peake commented that most of the information in the report had been covered at the last meeting, and asked how far would Grant Thornton's approach differ from that of the Audit Commission. Mr Wells informed the Panel that where the Audit Commission focused on controls, Grant Thornton understood the control environment, and would do more substantive tests.

4.3 Councillor Mallory asked how Grant Thornton would deal with some of the risks mentioned in the report, and was told that they would work their way through them to understand the way

systems in the organisation were designed, Mr Wells added that Grant Thornton does not think there would be material error. Councillor Mallory asked about the housing revenue, with large areas where the transactions have not being recorded. Mr Wells said that this would be a potential risk.

- 4.4 Mike Robinson said that the Audit approach would entail more focus on risk inherent in the system, and testing relating to this. As there would be a risk that something might happen, and tests would be done to ensure it would be alright. Mike Robinson stated that he was pleased to see that on looking at page 19 the inherent risks assessments and the risk misstatements were low and this tallied with the other report, which showed there was consistency. Mr Wells said his team would be focussing on areas with high risk.

RESOLVED that the report be noted.

5. AUDIT PROGRESS REPORT – JUNE 2013

- 5.1 Mr Wells introduced the report and highlighted that they have managed to reduce the fees for the Council's audit by 40%, and the fees they were proposing for 2013/14 would be the same as that of 2012/13.

RESOLVED that the report be noted.

6. PENSION FUND AUDIT PLAN

- 6.1 Mr Wells introduced the report and informed members that the approach Grant Thornton would be taking was similar to that of the main audit. He informed the Panel that sample selections would be taken for assessment to ensure they were correct and complete.

RESOLVED that the report be noted.

7. PRE AUDIT STATEMENT OF ACCOUNTS

- 7.1 The Group Finance Manager, Accounting and Capital introduced the report.
- 7.2 David Webb asked whether there was a correlation between the number of full time staff going down and that of Consultants going up. The Executive Director for Resources and Regeneration stated that there was no direct correlation, there was ongoing review of staff at senior level and Interim Consultants were being appointed and some were also leaving.

She added that the figure of Interim Consultants would continue to fluctuate between 24 and 28. David Webb then asked what had caused the increase in long term liabilities, and was told by the Group Finance Manager, Accounting and Capital that this was because the liabilities of new PFI schemes would be added on when the assets become operational. Once all the new PFI schemes are operational, no more liabilities would be added on.

- 7.3 It was brought to officers' attention that Councillor Ingleby's and Councillor Feakes interests, as recorded in the Register, had some inaccuracies which needed to be amended. The Group Finance Manager, Accounting and Capital apologised for the error, and the Executive Director for Resources and Regeneration said that the information would be checked and amended accordingly. Panel members congratulated officers for completing the accounts on time.

ED Res. &
Reg.

RESOLVED that the report be noted.

8. ANTI FRAUD & CORRUPTION TEAM UPDATE

- 8.1 The Interim Head of Audit & Risk introduced the report. David Webb praised officers for the very good work they were doing, especially with reduced resources.

RESOLVED that the report be noted.

9. INTERNAL AUDIT UPDATE

- 9.1 The Interim Head of Audit & Risk introduced the report.

- 9.2 The Chair said he was concerned that there was still difficulty in getting information for the IT Strategy, and asked whether this was because Management was being unreasonable. He added that he was conscious that the Head of IT Services had been to the Panel before to deal with Panel Members' concerns. The Interim Head of Audit & Risk stated that the work was delayed in part because of other priorities in IMT and that the officer who was responsible for that task had now left the Council.

- 9.3 The Executive Director for Resources and Regeneration informed Panel Members that there had been a delay because the unit had gone through a re-organisation and had lost 20% of their staff which was a significant number. She added that a draft had now been prepared this would go through the formal review process before it was finalised. The Chair asked whether officers were confident that the IT Strategy would now be undertaken this year and was told it would be done.

Minute No.		Action
9.4	Councillor Ingleby asked whether the new IT contractual arrangements would need a new team to start the process. It was noted that a new team would not be necessary as this process had been in place for two years with Bromley and it was not a new arrangement. The Interim Head of Audit & Risk stated that audits would generally be added or taken off the plan, and the audits tend to be for activities that were more risky and not part of the core financial reviews.	
9.5	The Executive Director for Resources and Regeneration said that the issue around Information Technology was because of database security requirements the Council was going through changes currently to ensure they are all caught within the strategy.	
9.6	Paul Dale said he was concerned that the issues raised on page 228 of the report was substantial as he was aware that a lot of London Boroughs practice a policy of zero tolerance. The Executive Director for Resources & Regeneration stated that the Council has to meet the code of connection and reaccreditation requirements. She added that there were a number of things the Council was putting in place to ensure compliance with the controls framework. The Executive Director for Resources stated that the Council has a Business Continuity Plan for ICT, but in some cases they were misaligned to Service priorities, but officers would ensure they align again. This is monitored through the agreed internal audit recommendations.	Int. Head of Audit & Risk
9.7	Councillor Ingleby asked whether the work on Adult Social Care has been finalised, and was told that out of the seven remaining audits there were four still to be completed, and these would be reported to the September meeting.	Int. Head of Audit & Risk
RESOLVED that the report be noted.		
10.	<u>ANNUAL ASSURANCE REPORT FOR 2012-13</u>	
10.1	The Interim Head of Audit & Risk introduced the report. It was noted that this would be the last annual report that would be prepared in compliance with the requirements of the CIPFA Code. From 1 April 2013 the new Public Sector Internal Audit Standards (PSIAS) would be in place.	
RESOLVED that the report be noted.		
11.	<u>EXCLUSION OF THE PRESS AND PUBLIC</u>	

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 and the public interest in maintaining the exemption outweighs the public interest in disclosing the information:

- 11.1 The following is a summary of the item considered in the closed part of the meeting:

INTERNAL AUDIT PERFORMANCE

- 11.2 Panel members had discussions with the Contractor, and then the Executive Director of Resources and Regeneration and the Interim Head of Audit & Risk about the performance of the current contractor and the options open to the organisation.

The meeting ended at 9.25p.m.

Chair

Agenda Item 2

AUDIT PANEL		
Report Title	DECLARATIONS OF INTEREST	
Key Decision		Item No. 2
Ward		
Contributors	Chief Executive	
Class	Part 1	Date: 12 September 2013

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

1 Personal interests

There are three types of personal interest referred to in the Council's Member Code of Conduct :-

- (1) Disclosable pecuniary interests
- (2) Other registerable interests
- (3) Non-registerable interests

2 Disclosable pecuniary interests are defined by regulation as:-

- (a) Employment, trade, profession or vocation of a relevant person* for profit or gain
- (b) Sponsorship –payment or provision of any other financial benefit (other than by the Council) within the 12 months prior to giving notice for inclusion in the register in respect of expenses incurred by you in carrying out duties as a member or towards your election expenses (including payment or financial benefit from a Trade Union).
- (c) Undischarged contracts between a relevant person* (or a firm in which they are a partner or a body corporate in which they are a director, or in the securities of which they have a beneficial interest) and the Council for goods, services or works.
- (d) Beneficial interests in land in the borough.
- (e) Licence to occupy land in the borough for one month or more.
- (f) Corporate tenancies – any tenancy, where to the member's knowledge, the Council is landlord and the tenant is a firm in which the relevant person* is a

partner, a body corporate in which they are a director, or in the securities of which they have a beneficial interest.

- (g) Beneficial interest in securities of a body where:-
- (a) that body to the member's knowledge has a place of business or land in the borough; and
 - (b) either
 - (i) the total nominal value of the securities exceeds £25,000 or 1/100 of the total issued share capital of that body; or
 - (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person* has a beneficial interest exceeds 1/100 of the total issued share capital of that class.

*A relevant person is the member, their spouse or civil partner, or a person with whom they live as spouse or civil partner.

(3) Other registerable interests

The Lewisham Member Code of Conduct requires members also to register the following interests:-

- (a) Membership or position of control or management in a body to which you were appointed or nominated by the Council
- (b) Any body exercising functions of a public nature or directed to charitable purposes , or whose principal purposes include the influence of public opinion or policy, including any political party
- (c) Any person from whom you have received a gift or hospitality with an estimated value of at least £25

(4) Non registerable interests

Occasions may arise when a matter under consideration would or would be likely to affect the wellbeing of a member, their family, friend or close associate more than it would affect the wellbeing of those in the local area generally, but which is not required to be registered in the Register of Members' Interests (for example a matter concerning the closure of a school at which a Member's child attends).

(5) Declaration and Impact of interest on member's participation

- (a) Where a member has any registerable interest in a matter and they are present at a meeting at which that matter is to be discussed, they must declare the nature of the interest at the earliest opportunity and in any

event before the matter is considered. The declaration will be recorded in the minutes of the meeting. If the matter is a disclosable pecuniary interest the member must take no part in consideration of the matter and withdraw from the room before it is considered. They must not seek improperly to influence the decision in any way. **Failure to declare such an interest which has not already been entered in the Register of Members' Interests, or participation where such an interest exists, is liable to prosecution and on conviction carries a fine of up to £5000**

- (b) Where a member has a registerable interest which falls short of a disclosable pecuniary interest they must still declare the nature of the interest to the meeting at the earliest opportunity and in any event before the matter is considered, but they may stay in the room, participate in consideration of the matter and vote on it unless paragraph (c) below applies.
- (c) Where a member has a registerable interest which falls short of a disclosable pecuniary interest, the member must consider whether a reasonable member of the public in possession of the facts would think that their interest is so significant that it would be likely to impair the member's judgement of the public interest. If so, the member must withdraw and take no part in consideration of the matter nor seek to influence the outcome improperly.
- (d) If a non-registerable interest arises which affects the wellbeing of a member, their, family, friend or close associate more than it would affect those in the local area generally, then the provisions relating to the declarations of interest and withdrawal apply as if it were a registerable interest.
- (e) Decisions relating to declarations of interests are for the member's personal judgement, though in cases of doubt they may wish to seek the advice of the Monitoring Officer.

(6) Sensitive information

There are special provisions relating to sensitive interests. These are interests the disclosure of which would be likely to expose the member to risk of violence or intimidation where the Monitoring Officer has agreed that such interest need not be registered. Members with such an interest are referred to the Code and advised to seek advice from the Monitoring Officer in advance.

(7) Exempt categories

There are exemptions to these provisions allowing members to participate in decisions notwithstanding interests that would otherwise prevent them doing so. These include:-

- (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)

Agenda Item 3

AUDIT PANEL			
Report Title	GRANT THORNTON'S EXTERNAL AUDIT REPORTS ON THE 2012/13 ACCOUNTS		
Key Decision	No	Item No.	3
Ward	ALL		
Contributors	EXECUTIVE DIRECTOR FOR RESOURCES AND REGENERATION		
Class	Part 1	Date:	12 September 2013

1. PURPOSE

- 1.1 The purpose of this cover report is to present to the Audit Panel the reports by Grant Thornton on their findings during the external audit of the Council's 2012/13 Main Accounts and Pension Fund Accounts. These reports follow on the agenda.
- 1.2 The Grant Thornton report on their review of the Council's arrangements for securing financial resilience is also attached.

2. RECOMMENDATIONS

- 2.1 It is recommended that the Audit Panel consider and note the attached reports from the Council's external auditors, Grant Thornton.

APPENDICES

- 1 – Grant Thornton – The Audit Findings for the London Borough of Lewisham.
- 2 - Grant Thornton – The Audit Findings for the London Borough of Lewisham Pension Fund.
- 3 – Grant Thornton – Review of the London Borough of Lewisham's arrangements for securing financial resilience.



The Audit Findings for the London Borough of Lewisham

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2013

August 2013

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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- B Audit opinion
- C Overview of audit findings

Section 1: Executive summary

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence
- 05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of the London Borough of Lewisham (the Council)'s financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and the Audit Panel in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, your financial statements present a true and fair view of the financial position, the expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting (the Code). We are also required to reach a formal conclusion on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan.

Our audit is substantially complete although we are finalising our work in the following areas:

- Employee remuneration
- Accounts receivable
- Review of pensions disclosures
- Grants revenues
- Review of the final version of the financial statements

- welfare benefits testing
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received draft financial statements at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit Financial statements opinion

Subject to completing our outstanding work we anticipate providing an unqualified opinion on the financial statements.

The financial statements were overall of a good quality. We have agreed a number of adjustments to correct errors in disclosure notes and to improve the presentation of the financial statements. These are set out later in this report.

Most of the numerical adjustments are concerned with the valuations of Property, Plant and Equipment and the way the Council has accounted for them. Although there are some large adjustments none of them affect the Council's overall revenue position.

Overall the audit has progressed well and finance staff have been helpful and prompt in responding to our queries. We will be meeting with management to discuss areas where further efficiencies could be made for next year and where the quality and relevance of supporting evidence could be further improved.

Further details are set out in section 2 of this report.

Value for money conclusion

Based on our review of your arrangements to secure economy, efficiency and effectiveness in your use of resources, we propose to give an unqualified value for money (VFM) conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to you.

We draw your attention in particular to control issues identified in relation to asset valuations. You had no valuations expertise available to you during 2012/13 and had to recruit a temporary valuer at a late stage of the process. This put the Council at risk of being unable to comply with the Code requirement to revalue its assets within a five year cycle. Some aspects of the valuations were not fully in accordance with the Code or were incorrectly accounted for.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and the review of your arrangements for securing economy, efficiency and effectiveness have been discussed with the Chief Finance Officer.

We have made a number of recommendations as set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Chief Finance Officer and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Section 2: *Audit findings*

- 01. Executive summary
- 02. Audit findings**
- 03. Value for Money
- 04. Fees, non audit services and independence
- 05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Panel. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 18 June.

Audit opinion

Subject to satisfactory completion of our outstanding audit procedures we anticipate that we will provide the Council with an unqualified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in our Audit Plan. We noted two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	<p>We reviewed your revenue recognition policies and concluded they were reasonable</p> <p>We tested material revenue streams and did not identify any concerns, or any significant unusual items</p> <p>Our audit work to date has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular we found there were adequate controls over journal adjustments, which were supported by appropriate evidence.</p> <p>We note journals are not sequentially numbered, which makes it difficult for management to demonstrate it had a complete record of manual adjustments to the ledger. This is a potential improvement area to explore when the Oracle system is upgraded later in 2013.</p> <p>We reviewed the significant estimates and judgements made by management and did not identify any indication of management override.</p>



Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Operating expenses understated	<ul style="list-style-type: none"> We carried out a walkthrough of the accounts payable system We tested a sample of 60 operating expenses for completeness and accuracy 	Our audit work to date has not identified any significant issues in relation to the risk identified
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> We tested a sample of creditors and accruals 	Our audit work to date has not identified any significant issues in relation to the risk identified
Employee remuneration	Remuneration expenses not correct	<ul style="list-style-type: none"> We carried out a walkthrough of the payroll system. We tested a random sample of 60 employees for assurance that payments were valid and accurate We tested the year end reconciliation of payroll to the ledger 	Awaiting evidence for 8 schools employees
Welfare expenditure	Welfare benefits improperly computed	<ul style="list-style-type: none"> We carried out a walkthrough of the benefits system and we are currently certifying the benefits claim BEN01 	Reliance to be placed on the testing of initial samples of benefits claimants
Housing rent	Revenue transactions not recorded.	<ul style="list-style-type: none"> We carried out a walkthrough of the Housing revenue systems we tested the disclosures in the Housing Revenue Account (HRA) 	Our audit work has not identified any significant issues in relation to the risk identified
Property, plant & equipment	PPE activity not valid	<ul style="list-style-type: none"> We carried out verification work on the opening PPE balance and we tested a sample of additions 	Our audit work has not identified any significant issues in relation to the risk identified
Property, plant & equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> We reviewed the reasonableness of valuation measurement 	We concluded the valuations were reasonable, although there were some instances where the approach was not strictly in line with the requirements of the Code. (as explained under 'judgements and estimates').

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.


Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> You complied with the standard accounting policies on revenue recognition as set out in the Code. 	You selected appropriate accounting policies on revenue recognition and you complied with them	 Green
Judgements and estimates	<ul style="list-style-type: none"> You made significant accounting estimates regarding <ul style="list-style-type: none"> useful life of capital equipment pension fund valuations and settlements revaluations impairments Provisions 	<p>We reviewed your significant judgements and estimates.</p> <p>We concluded that the useful lives of property, plant and equipment assets were reasonable and in accordance with your accounting policies.</p> <p>At this time we are still reviewing the pension fund valuations as provided by your actuary.</p> <p>We reviewed the property, plant and equipment valuations in your accounts and concluded they are reasonable. Your housing stock has been valued by uplifting last year's figures by an appropriate index. The Code recommends a Beacon approach, which involves valuing a sample of houses and extrapolating them to the whole housing stock. The Council adopted the indexation approach because of resourcing pressures. We concluded that the index is soundly based and provides a reasonable estimate of valuation movements, therefore this would be unlikely to lead to a material misstatement.</p> <p>We reviewed the impairments in your draft accounts. We found that these were not accounted for correctly, and required material amendments to classifications in notes 9 and 35. However these amendments did not affect the overall net book values of your assets.</p>	 Amber

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient
-  Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Estimates continued	<ul style="list-style-type: none"> Bad debt provision 	<p>You made a provision of £24,674K for council tax bad debts. In reviewing this estimate we compared the assumptions management had made with actual council tax recovery rates, based on historic performance.</p> <p>We estimated the provision overstated the likely amount of bad debts by £4.2 million. This is not a material difference from the Council's estimate. Management's view is that its provision is prudent and they do not propose to change their methodology at this time, given the recent changes to the council tax benefit system. We concur with the Council's approach.</p>	
Other accounting policies	<ul style="list-style-type: none"> We reviewed your accounting policies against the requirements of the CIPFA Code and accounting standards. 	<p>You selected appropriate accounting policies and complied with them. Management agreed to provide more clarification on the treatment of schools on the balance sheet.</p> <p>The accounting of the pension indemnity for former employees who transferred to Lewisham Homes was an area of disagreement between the Council and its former auditors. Previously the Council disclosed the pension indemnity as a contingent liability under IAS37. You have changed the accounting this year, recording the pension cost in note 39 (Defined Benefit Schemes). We concur with the change in treatment.</p> <p>Our view is that this change in treatment should be treated as a change in accounting policy under accounting standard IAS8. In your financial statements you have treated this as change in accounting estimates. The effect of this is not material and is a presentational matter which does not alter your overall financial position.</p>	<p> Amber</p>

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient
-  Accounting policy appropriate but scope for improved disclosure

Adjusted misstatements

We set a triviality threshold of £1,066K (which is 0.1 per cent of gross revenue expenditure). We deem errors below this level to be inconsequential to our opinion and we do not report them.

We did not identify any misstatements above the trivial threshold which affect the net expenditure position or asset values.

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	25,606	Council dwellings – note 9b	Revaluations and impairments were incorrectly classified within note 9. This did not affect the overall net book value or the balance sheet.
2 Misclassification	141,945	Other land and buildings – note 9b	Revaluations and impairments were incorrectly classified within note 9. This did not affect the overall net book value or the balance sheet.
3 Disclosure	1,808	Other land and buildings – note 9a	Amendment made so that note 9a is consistent with note 9b
4 Disclosure	39,572	PFI assets – note 35c	Amendments made to this disclosure note to include all PFI assets and to correctly classify valuations and impairments
5 Disclosure	5,312	Operating leases – note 34 - Council as lessor	Amendment to the future commitments of the Council as lessor
6 Disclosure	3,013	Operating leases – note 34 - Council as lessee	Amendment to the future commitments of the Council as lessee
7 Disclosure	15,300	Revaluation reserve	The revaluation reserve contains a debit balance of 15,300 in respect of decent homes. This should be apportioned over the assets it relates to rather than as a separate line in the revaluation reserve.
8 Misclassification	3,714	Balance sheet	Loan is misclassified as long term but should be short term
9 Disclosure	6,933 and 3,619	Note 12a – financial instruments	Financial instruments values were inconsistent with the balance sheet, because of late adjustments, and were also overstated because they included debtors and creditors which did not meet the definition of a financial instrument.

Unadjusted misstatements


We set a triviality threshold of £1,066K (which is 0.1 per cent of gross revenue expenditure). We deem errors below this level to be inconsequential to our opinion and we do not report them.

We did not identify any misstatements above the trivial threshold which Management has declined to amend.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.




Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards. These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

Assessment	Issue and risk	Recommendations
<p>1.  Red</p>	<ul style="list-style-type: none"> As a result of an internal reorganisation you had no in-house valuation expertise during 2012/13. This put the Council at risk of being unable to comply with the Code requirement to carry out a programme of valuations of property plant and equipment. You recruited a temporary valuer at a late stage in the process, who was able to carry out sufficient work to assure us that the financial statements were not materially misstated. However due to time and resource pressures the valuation was not strictly in line with the Code in a number of respects. <ul style="list-style-type: none"> - the housing stock was uplifted by an index, whereas the approach recommended by the Code is to value a sample of assets and extrapolate to the full housing stock using a beacon approach. We reviewed the indices used and we concluded they represented a reasonable estimate. - you only valued a sample of three investment properties, whereas the Code requires a full valuation. We note that the other properties are immaterial in value. - you did not revalue surplus assets which are held at fair value. - there are a small number of assets which have not been valued in the five year cycle, however the value of these is trivial. 	<ul style="list-style-type: none"> Ensure you have sufficient valuations expertise available to meet the requirements of the Code

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

Internal controls (continued)

Assessment	Issue and risk	Recommendations
<p>2.</p> <p style="text-align: center;"> Amber</p>	<ul style="list-style-type: none"> Your previous auditors commented that your asset register did not reconcile to the accounts. During 2012/13 you have made progress in developing the use of the asset register. The gross book value and net book values in the asset register now materially agree to the accounts. There is scope to develop the register further. The register is not being used as the main tool to populate the accounts, which are still mostly updated as a year end process through the use of spreadsheets. There are also significant differences in how movements are being accounted for between the register and the accounts. 	<ul style="list-style-type: none"> Continue to develop the use of the asset register as a tool to drive capital accounting and the production of the financial statements.
<p>3.</p> <p style="text-align: center;"> Amber</p>	<ul style="list-style-type: none"> We reviewed the investment balances disclosed in your accounts. These included £10 million which according to the Council's records was held by Lloyds TSB. When we checked this to confirmations we found it was actually held at Bank of Scotland, although the Council's correspondence with its relationship manager had specifically named Lloyds TSB. Management subsequently clarified that Bank of Scotland is part of the Lloyds group and their relationship is at a group level, not with the individual institution. 	<ul style="list-style-type: none"> Ensure the investment institution is always specified, where there is a group relationship
<p>4.</p> <p style="text-align: center;"> Amber</p>	<ul style="list-style-type: none"> Our IT auditors carried out an IT risk assessment, to consider the adequacy of controls over the IT system. We did not identify any significant weaknesses, but raised some points of best practice which we have shared with management. You plan to upgrade your Oracle system in November 2013. We will be discussing with management what controls are in place around data migration to the upgraded system. 	<ul style="list-style-type: none"> Consider the best practice points raised in the IT audit memorandum

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Panel. We have been made aware of all instances of fraud over £10,000 which occurred at the Council during 2012/13. No other issues have been identified during the course of our audit.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
4.	Disclosures	<ul style="list-style-type: none"> We reviewed narrative disclosures and our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.
7.	Annual Governance Statement	<ul style="list-style-type: none"> The Annual Governance Statement complies with the best practice guidance by CIPFA. We did not identify any omissions or any information which was inconsistent with our knowledge. At 17 pages it is one of the longest Annual Governance Statements we have seen . In the interests of making your accounts less cluttered and more accessible to a reader, you may wish to consider how this public document could communicate your governance arrangements in a more succinct way.

Section 3: Value for Money

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money**
- 04. Fees, non audit services and independence
- 05. Communication of audit matters

Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code of Audit Practice.

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered your arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

We have reported the detailed results of our financial resilience review in a separate report. We concluded that you have sound budgetary controls in place, supported by robust financial governance arrangements and internal controls.

Our work highlighted that you underspent against your revenue budget by £ 3.5 million in 2012/13. This was the third successive year of underspend, demonstrating your strong track record of robust financial management.

You have not had to draw on reserves to support the revenue position and you were able to increase the level of usable reserves by £26.2 million in 2012/13. The level of reserves is broadly in line with other London Boroughs. The level of your borrowings has significantly reduced due to a large receipt following the abolition of the housing subsidy system in 2012 used to repay borrowing .

You recognise that your council tax collection rate for 2012/13 was below target. Statistics published by the Department of Communities and Local Government show a rate of 94.2 per cent, compared to a London average of 96.4 per cent. All councils are faced with the issue that collection rates could deteriorate further in 2013 due to the changes to council tax benefits introduced under the Welfare Reform Act.

Your medium term financial plan (the financial survey) covers the period to 2016. You have set a balanced budget for 2013/14 but still need to identify further savings for 2015 onwards.

We concluded you have adequate arrangements to secure financial resilience.

Value for Money

Since 2010 you have successfully implemented a programme of savings resulting in over £56 million efficiencies. You achieved 97 per cent of planned savings in 2012/13.

In December 2012 the Secretary of State announced further reductions to Revenue Support Grant, requiring the Council to make an additional £53.5 million savings between 2013 and 2015. Some £20.9 million of those savings are built into the budget for 2012/13. An additional £32 million is needed for the 2014/15 budget of which around £14 million is still to be identified.

You have a strong track record of making efficiencies. The scale of future savings requirements mean that more radical savings options may be required to continue this good track record.

The Audit Commission publishes value for money profiles on its website, which compare councils' costs per head with those of similar councils. These show your overall costs to be broadly in line with the peer group, but higher in some specific areas most notably adult social care.

At the same time as making savings, you are progressing with ambitious plans to regenerate the Borough as part of your vision to make Lewisham the best place to live, work and learn in London.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Value for Money concluded

Key findings (continued)

Challenging economy, efficiency and effectiveness

We have reviewed whether you have prioritised resources to take account of the tighter constraints you are operating within.

The population of London grew by around a million between 2001 and 2011 and is the fastest growing part of the UK, with a younger age profile than elsewhere in the UK. This presents a particular set of challenges around a growth of demand for education, housing and welfare services in particular. The Borough needed 23 new reception classes in 2012/13 and will need an additional 25 classes this year.

The economic environment remains challenging, with continuing pressure on demand for services such as benefits and homelessness. At the same time those economic pressures create downward pressure on council tax receipts and other sources of demand led income.

Recent changes to legislation have created additional pressures in relation to central Government funding. As a consequence of the Welfare Reform Act you are now responsible for the cost of council tax benefits, with significantly reduced funding. You are preparing for the universal credit which is introduced in October 2013 and in doing so you are working with your most vulnerable clients to mitigate the impact of the changes.

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual Risk identified	Assurances obtained	Conclusion on residual risk
<p>The Council may not be able to achieve the £20.9 million savings approved in 2013/14, due to the level of savings which have already been made by the Council in the previous three years.</p>	<p>You have a good track record of achieving efficiency savings. 97 per cent of planned savings were realised in 2012/13.</p> <p>The last budget finance report to the Public Accounts Select Committee forecasts that 93 per cent of the 2013/14 planned savings will be achieved.</p>	<p>While the target for 2013/14 is a challenge the Council's good track record and robust in-year forecasting indicate that this should be achievable.</p>
<p>Savings plans for 2014/15 and beyond may struggle to identify the required level of savings using efficiencies alone.</p>	<p>Following the Secretary of State's announcement of reductions in Revenue Support Grant, the Council has determined that £32 million savings will be required in 2014/15. To date over half of that requirement has been identified. In recent discussions management have indicated that around £14 million of savings are still required for 2014/15.</p>	<p>The savings requirement is of a similar order to that achieved by the Council in previous years. You have already identified over half of the savings required and recognise the scale of the challenge.</p>

Section 4: Fees, non audit services and independence

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence**
- 05. Communication of audit matters

Fees, non audit services and independence

We confirm below our final fees charged for the audit and **provision of non-audit services**.

Fees

	Per Audit plan £	Actual fees £
Council audit	255,044	255,044
Grant certification	78,750	78,750
Total audit fees	333,794	333,794

Fees for other services

Service	Fees £
Advisory work on PFI schemes	7,000

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary
02. Audit findings
03. Value for Money
04. Fees, non audit services and independence
05. Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
	Ensure you have sufficient valuations expertise available to meet the requirements of the Code	High	We will ensure that arrangements are in place to enable the requirements of the Code will be met	November 2013 T Thompson
	For 2013/14 value the housing stock using the beacon approach as recommended by the Code	Medium	We will ensure that the requirements of the Code will be met	December 2013 T Thompson
	Continue to develop the asset register as a tool to drive the capital accounting entries in the financial statements	Medium	We will continue to develop the use of the asset register	November 2013 R Lambeth
	For 2013/14 ensure you apply the correct accounting treatment in respect of valuations, impairments and PFI assets	Medium	We will ensure that the correct accounting treatment will be adopted	March 2014 R Lambeth
	Apportion the £15.3 million decent homes balance in the revaluation reserve over the assets it relates to	Medium	This apportionment will be applied to the opening balances as at 1st April 2013	November 2013 R Lambeth
	Review the disclosures in the Annual Governance Statement, with a view to making it more succinct and readable	Low	This will be considered during the 2013/14 process.	March 2014 K Nicolson
	Consider the points raised in our IT issues memorandum for best practice in IT controls	Low	These will be considered as part of the implementation of the new Oracle R12 financial system	October 2013 S Berlin

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF LEWISHAM

Opinion on the Council financial statements

We have audited the financial statements of the London Borough of Lewisham for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of the London Borough of Lewisham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the London Borough of Lewisham as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response; or

- we exercise any other special powers of the auditor under the Audit Commission Act 1998. We have nothing to report in these respects.

Conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Council and the auditor

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, the London Borough of Lewisham put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of the London Borough of Lewisham in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Darren Wells
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Explorer Building
Fleming Way
Crawley
West Sussex
RH10 9GT

[Date]

Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 18 June

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	ongoing
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	ongoing
Cost of services – Housing revenue	HRA	Other	Housing revenue transactions not recorded	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Payments to Housing Capital Receipts Pool	Property, Plant & Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Dividend income from Joint Venture	Revenue			No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	There was only a part valuation of investment properties in 2012/13
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
PFI revenue support grant and other Government grants	Grant Income ⁹	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	Some differences between the asset register and the accounts
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	Valuations were not fully compliant with the Code and incorrectly accounted for.
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	Classification error between long/short term. 1 investment incorrectly recorded the name of the institution
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	Ongoing
Reserves	Equity	None		No	ongoing



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Darren Wells
Director
Grant Thornton UK LLP
The Explorer Building
Fleming Way
Crawley
West Sussex
RH10 9GT

xxx September 2013

Dear Mr Wells

London Borough of Lewisham

Financial Statements for the year ended 31 March 2013

This representation letter is provided in connection with the audit of the financial statements of London Borough of Lewisham for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- iv Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- v We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.
- vi We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have

been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

- vii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the code.
- viii All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the code requires adjustment or disclosure have been adjusted or disclosed.
- ix We have not adjusted the misstatements brought to our attention in the Audit Findings report, which are considered to be immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- x We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xi We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xii We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xiii We have communicated to you all deficiencies in internal control of which management is aware.
- xiv All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xv We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xvi We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

- a. management;
- b. employees who have significant roles in internal control; or
- c. others where the fraud could have a material effect on the financial statements.

xvii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.

xviii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xix We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.

Annual Governance Statement

xx We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

Approval

The approval of this letter of representation was minuted by the Council's Audit Panel at its meeting on 12 September 2013.

Signed on behalf of the Panel

Name.....

Position.....

Date.....

Yours sincerely

Janet Senior

Executive Director of Resources and Regeneration



The Audit Findings for London Borough of Lewisham Pension fund

Year ended 31 March 2013

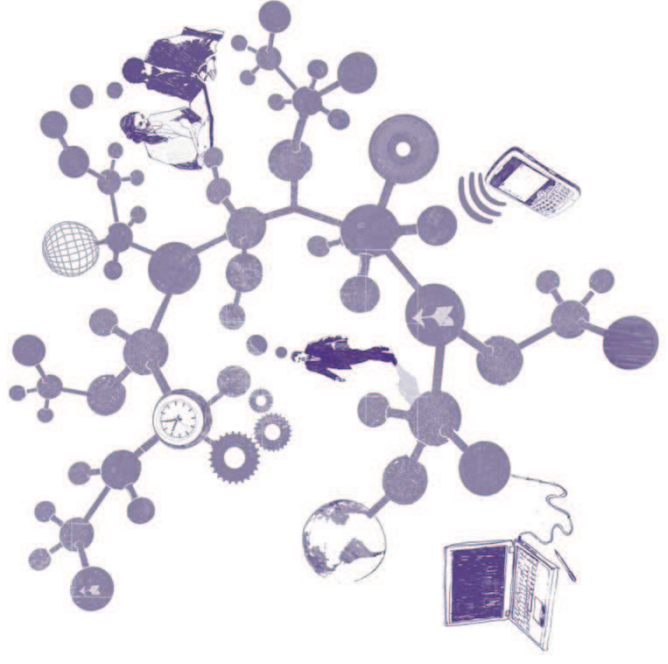
XX August 2013

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

01. Executive summary
02. Audit findings
03. Fees, non audit services and independence
04. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key issues arising from the audit of London Borough of Lewisham Pension Fund's ('the Fund') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, the financial transactions of the fund during the year and that they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

Introduction and background

In the conduct of our audit we have not had to alter or change our Audit Plan dated 29 April 2013. We planned our review on the assumption that the Council has in place a sound control environment to support the production of complete and materially accurate financial statements. We shared working papers requirements with you in March 2013 and the Council provided good quality working papers to us by the agreed audit start date.

Key audit and financial reporting issues

Financial statements opinion

Our audit is substantially complete although we are finalising our work in the following areas:

- investments and investment income
- pensions payable – new pensioners, deceased pensioners and tax calculations
- contributions – checking calculations are based on appropriate pay
- Pension Fund Annual Report
- final internal review process
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

Our review identified one material amendment to the Fund Account and some disclosure and trivial classification errors within the notes to the Fund, which officers have agreed to amend. Further details are set out in Section 2 of this report.

Should the resolution of the outstanding areas of audit work result in a change to either the fund account or the net assets statement, we will report this to the Audit Panel before we issue our opinion.

Subject to the satisfactory conclusion of our work, we anticipate providing an unqualified opinion on the Fund's financial statements. We will also issue an opinion on the Pension Fund Annual Report. Our draft audit opinions are set out in Appendices A and B.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
August 2013

Section 2: *Audit findings*

- 01. Executive summary
- 02. Audit findings**
- 03. Fees, non audit services and independence
- 04. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Panel on 18 June 2013. We also set out the adjustments to the financial statements from our audit work and our findings.

Changes to Audit Plan

We have not made any changes to our Audit Plan dated 29 April 2013.

Audit opinion

Subject to the satisfactory conclusion of our work, we anticipate that we will provide the Fund with an unmodified opinion. Our draft audit opinions are set out in Appendices A and B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards. We also identified an additional significant risk in respect of changes to the fund managers which took place during the year.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>1. Improper revenue recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> review and testing of revenue recognition policies testing of material revenue streams review of unusual significant transactions 	<p>We rebutted this presumption and therefore do not consider this to be a significant risk for London Borough of Lewisham Pension fund since:</p> <ul style="list-style-type: none"> the nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions the split of responsibilities between the Pension Fund, its fund managers and the custodian, provides a very strong separation of duties reducing the risk around investment income revenue contributions are made by direct salary deductions and direct bank transfers from admitted /scheduled bodies and are supported by separately sent schedules and are directly attributable to gross pay making any improper recognition unlikely transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving bodies <p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>2. Management override of controls Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> review of accounting estimates, judgements and decisions made by management testing of journals entries review of accounting estimates, judgements and decisions made by management review of unusual significant transactions 	<p>To date, our audit work has not identified any evidence of management override of controls. Our review of journal controls and testing of journal entries is in progress but has not identified any significant issues to date.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>




Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Pension Fund Account			
Contributions	Recorded contributions not correct	<ul style="list-style-type: none"> Review and testing of pension contributions (received and receivable) Review and testing of payroll records of pensionable salary to schedule of contributions and scheme rules 	Our audit work has not identified any significant issues in relation to the risks identified.
Benefit Payments	Benefits improperly computed / claims liability understated	<ul style="list-style-type: none"> Review and testing of pension benefit payments, lump sums, deferrals, retirements and other material transfers 	Our audit work identified a material misclassification (£0.780 million) between lump sums and Pensions as set out on Page 12 of this report.
Membership Data	Member data not correct Regulatory, legal, and scheme rules/requirements not met	<ul style="list-style-type: none"> Review the disclosures and ensure the data is in line with the regulatory, legal and scheme rules and requirements in place. 	Our audit work has not identified any significant issues in relation to the risks identified.
Investments	Investments activity not valid / Investments not valid Fair value measurement not correct Change of fund managers	<ul style="list-style-type: none"> Review and testing of change in market value of investments Review and testing of significant sales and purchases of investments 	<p>Our audit work completed to date has not identified any significant issues in relation to the risks identified.</p> <p>We were able to reconcile the investment balances showing in the financial statements to confirmations from the fund managers and the custodian, although we have yet to receive a balance confirmation which we requested from one of the fund managers.</p> <p>We confirmed that all purchases and sales in respect of the change of fund managers were correctly accounted for.</p> <p>Our audit work identified a non-trivial misclassification (£0.147 million) between Index Linked and Fixed Interest investment income as set out on Page 13 of this report.</p> <p>Although we have substantially completed our testing of the Fund's investments as described above, the audit work has yet to be fully reviewed and finalised.</p>

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The Council's policy for major sources of revenues (contribution income and Investment income) are set out in detail within Note 2 Accounting Policies	Your revenue recognition policy is consistent with our audit of the Pension Fund financial statements.	 Green
Judgements and estimates	Key estimates and judgements disclosed in the notes to the accounts include: <ul style="list-style-type: none"> - pension fund valuations and settlements - investment valuations 	We reviewed your key estimates and judgements made by management within the notes to the accounts. For the disclosures listed, overall we concluded they were consistent with guidance set out in the Code of Practice of Local Authority Accounting. Management agreed to expand on its accounting policy disclosure for the Fund's commodities held with Investec to disclose the estimation techniques used for valuing these investments.	 Green
Other accounting policies	The Fund's accounting policies are in accordance with the requirements of the Code of Practice on Local Authority Accounting	We have reviewed the Fund's policies against the requirements of the Code of Practice on Local Authority Accounting. The Fund's policies were consistent with the Code of Practice.	 Green

Assessment

 (Red) Marginal accounting policy which could potentially attract attention from regulators

 (Amber) Accounting policy appropriate but scope for improved disclosure

 (Green) Accounting policy appropriate and disclosures sufficient

Adjusted misstatements

An adjustment to the draft financial statements was identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustment arising from the audit which management has agreed to make.

Impact of adjusted misstatement

The adjusted misstatement is set out in detail below along with the impact on the financial statements.

Detail	Pension Fund Revenue account £'000	Net asset statement £'000	Impact on net assets carried forward £'000
1 Our audit testing identified that lump sum payments are understated by £0.756 million. The adjustment will result in the following changes:			
Increase in lump sum payments from £5.413 million to £6.169 million	756		
Decrease in Benefits Payable from £32.857 million to £32.101 million	(756)		
Decrease in the "Pension Increase" line of the Benefits Payable Note 2 from £11.418 million to £10.662 million.			
Overall impact	£0	£0	£0

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which the Council has agreed to make in the final set of financial statements.

Note	Adjustment type	Value £'000	Account balance / Disclosure	Impact on the financial statements
4	Misclassification	147	Investment income	£0.147 million of Index Linked investment income was incorrectly classified as Fixed Interest investment income within Note 4. The amendments are set out below: Index Linked investment income amended from £0.030 million to £0.177 million Fixed Interest investment income amended from £2.092 million to £1.945 million
5	Disclosure error	n/a	Investment Analysis	In the section of Note 5 which presents all investments exceeding five per cent within each class of security, Aquila Life US and UK investments were included twice in error. The Council will remove the duplication.
TBC	Additional disclosure	3,083 2,376	Transfers In Transfers Out	The draft financial statements did not include an analysis between groups and individuals in respect of the transfers in and out of the Fund as required. The Council will include this.

Internal control

- The purpose of an audit is to express an opinion on the financial statements.
- Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk
1.	 Amber	Our audit work identified a number of minor issues in relation to the Council's IT control environment and concluded that there were no material weaknesses which were likely to adversely impact on the Council's financial statements. Further detail on the issues is provide in the Audit Findings Report for the Council's full financial statements.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	A standard letter of representation has been requested from the Council.
4.	Disclosures	Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.
7	Pension fund bank account	<p>Whilst in-year controls were observed to have been implemented in accordance with our documented understanding, we reported in our audit plan an issue concerning the Fund's compliance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The regulation states that</p> <p>"On and after 1st April 2011, an administering authority must hold in a separate account kept by it with a deposit-taker in accordance with this regulation:</p> <ul style="list-style-type: none"> (a) all monies held by the authority on that date; and (b) all monies received by it on or after that date <p>for the purpose of its pension fund.</p> <p>For Lewisham Pension fund, our understanding is that the main bank account continues to hold large proportions of income and expenditure relating to the Pension fund accounts.</p> <p>Our view is that this arrangement does not meet the requirement referred to above.</p> <p>The Council responded to the recommendation in the audit plan stating that officers are resolved to complying with the Regulations to the extent that it is reasonable and efficient to do so. Further detail was provided on how the Council intends to do this.</p>

Section 3: Fees, non audit services and independence

01. Executive summary
02. Audit findings
03. Fees, non audit services and independence
04. Communication of audit matters

Fees, non audit services and independence

We confirm below our final fees charged for the audit.

Fees	Per Audit plan £	Actual fees £
Fund audit	21,000	21,000
Total audit fees	21,000	21,000

The Audit Commission defines the scale audit fee as "the fee required by the auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes."

We are pleased to confirm that we were able to carry out the necessary work to meet our responsibilities within the recommended scale fee as shown above.

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 4: Communication of audit matters

01. Executive summary
02. Audit findings
03. Fees, non audit services and independence
04. Communication of audit matters

Communication of audit matters to those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected unmodified auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Draft audit opinion on the Pension Fund Financial Statements

We anticipate that we will provide the Fund with an unmodified audit report

DRAFT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF LEWISHAM

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of London Borough of Lewisham for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of London Borough of Lewisham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the

explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- have been properly prepared in accordance with the CIPFA/LASAAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Susan M Exton
Director

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

XX September 2013

Appendix B: Draft audit opinion on the Pension Fund Annual Report

We anticipate that we will provide the Fund with an unmodified audit report

DRAFT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF LEWISHAM

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of London Borough of Lewisham for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of London Borough of Lewisham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual

report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

In our opinion, the information given in the pension fund annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We have nothing to report in this respect.

Opinion on financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- have been properly prepared in accordance with the CIPFA/LASAAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Susan M Exton
Director

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
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XX September 2013



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Susan Exton
Director
Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP

xxx September 2013

Dear Ms Exton

**London Borough of Lewisham
Pension Fund Financial Statements for the ended 31 March 2013**

This representation letter is provided in connection with your audit of the financial statements of London Borough of Lewisham Pension Fund for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2013, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year, in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code).

Financial Statements

We have fulfilled our responsibilities for the preparation of the financial statements in accordance with the Code; in particular the financial statements show a true and fair view in accordance therewith, and for keeping records in respect of contributions received in respect of active members.

We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.

Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

We believe that the Pension Scheme's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Pension Scheme's needs. We believe that no further disclosures relating to the Pension Scheme's ability to continue as a going concern need to be made in the

financial statements.

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Pension Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgment based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

Information Provided

We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that you have requested from us for the purpose of your audit; and
- unrestricted access to persons from whom you determine it necessary to obtain audit evidence.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

We are not aware of any fraud or suspected fraud affecting the Fund involving:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements.

We have no knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

We are not aware of any instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

There have been no communications with The Pensions Regulator or other regulatory bodies during the fund year or subsequently concerning matters of non-compliance with any legal duty.

We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

We confirm that no trustee of the fund is connected with, or is an associate of, Grant Thornton UK LLP which would render Grant Thornton UK LLP ineligible to act as auditor to the Fund under section 27 of the Pensions Act 1995.

Other

We confirm that the Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Fund should change.

We confirm that we are not aware of any late contributions or breaches of payment of contributions that have arisen which we considered did not require reporting under the easement introduced under The Occupational Pension Funds (Miscellaneous Amendments) Regulations 2000.

We have not commissioned advisory reports which may affect the conduct of your work in relation to the fund's financial statements.

Yours faithfully

Janet Senior



Review of the London Borough of Lewisham's arrangements for securing financial resilience

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2013

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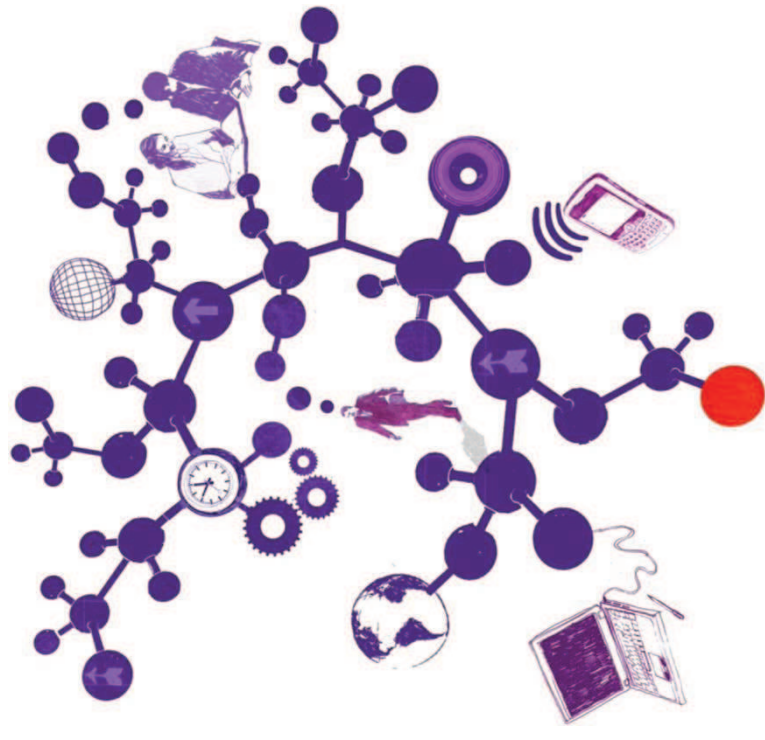
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Appendix - Key indicators of financial performance

Executive Summary

Our approach

Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if the London Borough of Lewisham (the Council) has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them. The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow. Our overall conclusion is that whilst the Council faces some significant risks and challenges during 2013/14 and beyond, it has sound arrangements for achieving financial resilience.

We have used a red/amber/green (RAG) rating with the following definitions.



Executive Summary

National and Local Context

National Context

The Chancellor of the Exchequer announced the current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920's. Revenue funding to local government was to reduce by 19% by 2014-15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms, with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions were frontloaded, with 8% cash reductions in 2011-12.

This followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007. The funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for other services, such as car parking, where customers pay a fee or charge.

The Chancellor of the Exchequer, in his Autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015-16 and 2016-17. In his Autumn Statement on 5 December 2012, the Chancellor reinforced austerity measures announcing a further £6.6bn of savings during 2013-14 and 2014-15. While health and schools will be continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding during 2014-15, with local authorities being exempt from additional savings in 2013/14.

The next spending review period will be for a single financial year, 2015-16. Financial austerity is expected to continue until at least 2017.

Local Context

The Council's overarching vision to make Lewisham "the best place in London to live, work and learn" is set out in its sustainable communities strategy 2008-2020, which is underpinned by other strategies.

The Council has a large and growing population of 276,000 people, (according to 2011 census data). Lewisham has one of the fastest growing populations in the UK, and a relatively young age profile. This presents particular challenges in key policy areas such as education, employment, housing and welfare.

The age profile in Lewisham means 23 new school classes were needed in 2012/13, and an additional 25 in 2013/14. The Council's education agenda is set out in its Children and Young People's plan 2012-15, to improve educational attendance and attainment and parenting in the Borough.

Lewisham is one of the more deprived London Boroughs and has high levels of unemployment. However the Council has good transport links to the rest of London and the South East and has ambitious plans to regenerate the Borough, notably through its town centre developments in Catford and Deptford.

The Borough is particularly affected by the changes introduced in the Welfare reform act 2012. The Council is working with its most vulnerable residents to mitigate the impact of the changes on its residents.

Housing is an acute problem across all of London. Among the problems Lewisham faces are a growing population, limited housing supply, unaffordable prices and an ageing housing stock. The Council has a number of plans in place to improve the quality, quantity and affordability of its own stock and to promote better housing across the Borough.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
-----------	----------------------	----------------------------

- The Council's 2012-13 General Fund net revenue budget was underspent by £3.5million.
- Benchmarking data shows the Council's financial standing to be consistent with other London Boroughs. The Council's long term borrowing is reducing, while useable reserves and schools balances are increasing.
- Council tax and NNDR collection rates improved compared with the previous year, but were short of the Council's targets and London averages. Lewisham's council tax collection rate is one of the worst in London.



Green

- The Council has a good track record of achieving savings. Over a three year period the Council has underspent its budgets and made savings of £67 million.
- The Council has a robust financial planning process and has made reasonable assumptions in its planning.
- The Medium Term Financial Plan covers the period to 2016. The Council's view is that the economic outlook beyond 2016 is too uncertain for detailed planning.
- Further cuts to formula grant mean the Council is faced with making savings of £53.5 million over the next 2 years. The Council has identified £21.3 million of reductions to its budgets for 2013/14.
- The Council has also identified over half the £32.3 million savings required for 2014/15. However the sheer scale of this target means the Council may have to consider more radical options than in the past.



Amber

- Senior management and Members are properly engaged in the financial planning process.
- Budget monitoring reports are presented to the Public Accounts Select Committee. Finance reports are informative and at an appropriate level of detail.
- The four Executive Directors are accountable for the budget performance of their directorates.
- Benchmarking data produced by the Audit Commission shows the cost of the Council's services is broadly in line with the London average, with some variations in specific service areas.



Green

- The Council has a strong track record of performance against its savings plans.
- A strong control environment is in place. The Council's Internal Control Board which holds senior management to account for the effectiveness of controls across the Council is an example of good practice.
- The Council has an experienced senior finance team in place. Reorganisations have led to a lack of corporate knowledge and experience in specific areas, particularly asset valuations.



Amber

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
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Key Indicators of Performance

Consider those areas of the benchmarking data in this report where the Council's indicators differ from the peer group average.
Continue to focus on the council tax collection rate, to improve performance in line with the Council's targets and the London peer group average.

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Strategic Financial Planning

Extend the medium term financial plan beyond 2016, to plan effectively for likely and possible scenarios in the medium term.
Continue to explore options for achieving the savings requirement for 2014/15, including alternative delivery models

Financial Governance

Review benchmarking data produced by the Audit Commission for unexpected areas of high spending services.

Financial Control

Ensure the financial knowledge and experience within the Council is sufficient to meet all statutory and other requirements, particularly with regard to asset valuations.
Consider the additional controls needed during the oracle upgrade in November 2013.

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Appendix - Key indicators of financial performance

Key Indicators

Introduction

This section of the report includes analysis of key indicators of financial performance, benchmarked where data is available. Please refer to the appendix for the comparative data. These indicators include:

- Working capital ratio
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Sickness absence levels
- Out-turn against budget
- Useable Reserves: Gross Revenue Expenditure
- Schools Reserves - Balances to DSG allocations

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Benchmarking is mostly based on your audited financial accounts and those of other councils. These are high level measures which can be affected by one-off events or technical accounting adjustments. As such it is only intended to give a broad indication of how you compare with other councils and our conclusions should be viewed in that context.

We have used the Audit Commission's nearest neighbours benchmarking group comprising the following authorities:

Brent London Borough Council
Croydon London Borough Council
Haringey London Borough Council
Hounslow London Borough Council
London Borough of Barking and Dagenham
London Borough of Ealing
London Borough of Hackney
London Borough of Lambeth
London Borough of Lewisham
London Borough of Tower Hamlets
London Borough of Waltham Forest
Merton Council
Newham London Borough Council
Royal Borough of Greenwich
Southwark Council
Wandsworth Borough Council





Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity	<ul style="list-style-type: none">• The working capital ratio indicates if a council has enough current assets or resources to cover its immediate liabilities. The Council's working capital ratio was 1.5 in 2007/08, reduced to less than 1 in 2008/09 and was 1.30 in 2011-12. This is lower than most other London Boroughs and is less than the group average of 1.8. The Council has the fifth lowest ratio in the benchmarked group.• The Council's NNDR and council tax collection rates improved compared with 2011/12 but were both less than target and less than the London average. NNDR collection rate was 97.4 per cent against a target of 98.5 per cent. The London average was 98.2 per cent.• The Council reported a council tax collection rate of 94.8 per cent. According to published CLG statistics this was one of the lowest collection rates in London and compares with a London average of 96.4 per cent.	 Amber
Borrowing	<ul style="list-style-type: none">• The Council's long term borrowing fell significantly from 2010/11 (£303,372k) to 2011/12 (£157,782k), which was due to the Government redeeming £136m of the Council's Public Works Loan Board (PWLB) loans as part of the new Housing Revenue Account (HRA) Self Financing regulations introduced in 2011/12.• The Council's long term borrowing ratio (as a share of tax revenue) also fell from 1.83 in 2009-10 to 1.17 in 2011-12 a result of the abolition of HRA financing and is in line with the performance of the benchmarked group on average. The Council has the 5th lowest ratio in the benchmarked group.• The Council's long term borrowing ratio (as a share of long term assets) also fell from 0.28 in 2010-11 to 0.20 in 2011-12, which again follows the performance of the benchmarked group. This places the Council within the top 50% of the benchmarked group.• This reduction in borrowing is in line with the Council's Treasury Management Strategy. The Council takes a cautious approach. The Council is currently maintaining an under-borrowed position, ensuring its capital financing requirements are not solely met from debt, but are partly funded by cash as well.	 Green

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Workforce	<ul style="list-style-type: none">The Council lost 7.23 days per annum per full time equivalent to sickness in 2012/13, similar to the rate in 2011/12 (7.19 days). This compares favourably with the local government average of 8 days and the public sector average of 7.9 days.The Council employed an average of 683 agency employees in 2012/13, some 16.7 per cent of the total headcount.Although the agency headcount reduced in 2012/13, the Council's spend on agency staff actually increased from £13.3 million to £14.4 million in 2012/13. This was due to new Agency worker regulations introduced in October 2011.	 Green
Performance Against Budgets: revenue & capital	<ul style="list-style-type: none">As per the draft outturn, the 2012-13 General Fund net revenue budget was underspent by £3.5 million. The Council achieved 97% of the £16.6m of savings that were planned and approved at the start of the year.This performance is consistent with both 2010/11 and 2011/12, in which time the Council underspent against its General Fund net revenue budget, and achieved savings of £53 million over these two years.The Council's Housing Revenue Account (HRA) underspent by £1.3 million after exceptional items (as per the draft 2012/13 accounts). The HRA budget was underspent in the preceding two years.The Council also underspent against its 2012/13 capital programme by £20.6 million. The main reason for this slippage is the significant re-phasing of several Building Schools for the Future (BSF) projects, following a detailed review of the current contract position. These costs are now planned to be incurred during 2013/14.Recent asset valuations indicate a decrease in the value of council owned property assets over the last three years.	 Green
Reserve Balances	<ul style="list-style-type: none">For the five years between 2007-08 and 2011-12, the ratio of the Council's useable reserves (as a percentage of expenditure) has increased, moving from a ratio of 0.08 in 2007/08 to 0.13 in 2011-12. This indicates the Council's usable revenue reserves have increased in absolute and relative terms. The Council was in the top third of the comparator group in 2011-12.The Council's useable reserves at the 31st of March 2013 were £201 million, of which £12 million represented the General Fund balance. This represented an overall increase of 15% compared with the usable reserves balance at the 31st of March 2012 (£174.8 million). The General Fund balance increased by £200k during the same period. The Council considered the adequacy of its reserves as part of the 2013/14 budget setting.	 Green
Schools Balances	<ul style="list-style-type: none">The Council's schools balances ratio (the sum of schools balances as a percentage of the Council's Dedicated Schools Grant allocation) was 0.08 in 2011/12. This ratio has fluctuated over the five year period.	 Green

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Appendix - Key indicators of financial performance

Strategic Financial Planning

Key characteristics of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities.
- The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFP and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including CSR.
- The MTFP is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFP.

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus

Summary observations

Assessment

Focus of the MTFP

- The Council set its 2013/14 revenue budget in February 2013. The latest Medium Term Financial Plan, known as the Financial Survey, was agreed by the Mayor and Cabinet in September 2012. This plan covers the period from 2013/14 to 2016/17.
- The Council's view is that the economic outlook beyond 2016 is too uncertain for detailed planning. Consequently the financial survey does not set out detailed projections beyond this period.
- The Financial Survey identified a best and worst case scenario of the level of savings that were going to be required during 2013/14 and 2014/15, along with the likely position. This confirmed that the Council was likely to need to find between £30m and £55m of savings over these two years. On confirmation of central Government funding, the savings target was finalised as £53.5m. Some £21.3m savings in 2013/14 and the remaining £32.2m falling in 2014/15.
- The Council has identified the £21.3 million of savings for 2013/14 and has built this into budget assumptions.
- The Council has also identified over half the £32.3 million savings required for 2014/15. However the sheer scale of this target means it may have to consider more radical options than in the past for service redesign, alternative delivery models, partnerships or cessation.
- A recent housing matters report identified a potential shortfall of £85 million over the next ten years between the Council's aspiration to provide decent affordable housing and the sources of funding available for this.



Amber

Adequacy of planning assumptions



- When the Council was preparing its Medium Term Financial Plan for the period 2013/14 to 2016/17, a number of reasonable assumptions were made to ensure that it would provide a robust estimate of the likely financial position over this period.
- Significant changes were made to the level of Formula Grant that the Council would receive in 2013/14 and beyond, which meant that it was difficult for the Council to provide a firm estimate of the level of funding it would receive in 2013/14. To mitigate this, the Council identified a higher and lower value as to the likely amount of funding to be received. The actual outturn was within the expected range, demonstrating that the assumptions were reasonable.
- The Welfare reform act introduced a 10% cut in the level of grant provided to them to councils for council tax benefit. The Council has factored these reductions into its budget projections.
- The Council has also assumed an annual increase in council tax of no more than 2.5% a year from 2013/14 onwards, an inflation level of 2.5% over the life of the current Plan, and a 1% increase in the employee pay levels over the life of the plan.
- General budget pressures of £7.5m have also been included in each of the years of the Plan, to allow for the funding pressures that are likely to need to be considered in each of the years of the Plan.



Green

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Scope of the MTFP and links to annual planning	<ul style="list-style-type: none">• The Council's vision to make Lewisham " the best place in London to live, work and learn" is set out in its sustainable communities strategy 2008-2020.• This vision sets the framework for the Directorates and for other strategies and policies, including the Financial Survey.• As part of our review we did not note any inconsistencies between different key strategic documents.	 Green
Review processes and responsiveness of the plan	<ul style="list-style-type: none">• The Council reviews its Medium Term Financial Plan annually, usually in the September preceding the year in which the plan is going to start.• Following this review process, a revised Plan is issued to cover the following four financial years.• Once the revised Plan has been agreed by Mayor and Cabinet, it is then considered by the Public Accounts Select Committee, who then use the figures included in the plan to advise the relevant Select Committees as to the level of savings that need to be identified by each of the directorates.	 Green

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Appendix - Key indicators of financial performance

Financial Governance

Key characteristics of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following indicators:

Understanding

- There is a clear understanding of the financial environment the Council is operating within:
 - Regular reporting to Members. Reports include detail of action planning and variance analysis etc.
 - Actions have been taken to address key risk areas.
 - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

Engagement



- There is engagement with stakeholders including budget consultations.

Monitoring and review

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- Number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).




Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Understanding the Financial Environment	<ul style="list-style-type: none">• The Public Accounts select committee meets approximately eight times a year. It receives finance updates at a high level showing budget performance across the Council. Narrative explanations are brief but appropriate and explain the key variances.• The Mayor and Cabinet are also appropriately involved in agreeing the medium term financial plan and annual budget.• The Council has financial procedures, financial regulations and a Directorate Schemes of Delegation. The documents are currently being updated.• These documents cover financial management responsibilities distinguishing roles and responsibilities at strategic and operational levels and further specifying the amounts officers are responsible for authorising. In addition to this, the documents provide regulation in areas of financial management and budget monitoring, stipulating clearly the procedures that should be adopted and adhered to.	 Green
Executive and Member Engagement	<ul style="list-style-type: none">• There is a good level of involvement by the Council's senior management in financial management. The Mayor and Cabinet agree both the Council's Medium Term Financial Plan and the annual budget, subject to it being approved by full Council.• The Public Accounts Select Committee reviews the detailed budget information on a bi-monthly basis, and provides robust challenge to the relevant directorates where there are issues identified from the budget information presented at the Committee meetings.• The Council's Risk Registers are considered on a quarterly basis by the Internal Control Board, the meetings of which are attended by members of the Council's senior management team.	 Green

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Overview for controls over key cost categories <ul style="list-style-type: none">• The Council's activities are managed by four directorates, each led by an Executive Director. The Directors are accountable for the budgetary performance of the Directorates and the controls in place to manage strategic risks.• Performance of the Directorates is set out in the budget monitoring reports.• Benchmarking data produced by the Audit Commission shows the Council spends marginally more per head than the peer group average. Adult Social Care is an area where the Council's spend per head is above the group average. Council management are aware of the higher spend in this area, which has resulted from policy decisions.		 Green
Budget reporting: revenue and capital <ul style="list-style-type: none">• Budget Monitoring Reports are presented to the Public Accounts Select Committee and Mayor and Cabinet. They are written at an appropriate level for the forum.• These reports start with a high level summary providing the headline position on areas such as the spend against the General Fund net revenue budget, the current level of savings that are planned to be achieved, along with information on collection rates as well.• Following the summary, more detailed overviews are provided, followed by detailed performance data for each of the Council's four main directorates.• The data for the Council's directorates shows the year to date performance of each of the various divisions within the directorates, which allows both committees to clearly monitor if a particular service or area within a directorate is performing well or badly, and the impact this is having on the directorate as a whole.		 Green
Adequacy of other Committee/Cabinet Reporting <ul style="list-style-type: none">• Reports to the Public Accounts Select Committee contain a suite of additional financial information to supplement the budget reports. This information includes.<ul style="list-style-type: none">- Council tax and NNDR collection rates and performance of the collection fund- Performance of the Housing Revenue Account- Treasury Management and borrowing information- Performance against the capital programme- Performance of the pension fund• The report is at a high level which is appropriate for the forum it is being presented to. It includes brief narrative explanations of key messages.		 Green

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Appendix - Key indicators of financial performance

Financial Control

Key characteristics of effective financial control

In conducting our review of financial control we have assessed the Council's performance against the following indicators:

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

Savings Plans

- Processes for identifying, delivering and monitoring savings plan schemes are robust, well thought through and effective.

Financial Systems

- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs.

Finance Department

- The capacity and capability of the Finance Department is fit for purpose.

Internal Control

- There is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is an assurance framework in place which is used effectively by the Council and business risks are managed and controlled.

Financial Control

Internal arrangements


Area of focus	Summary observations	Assessment
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- **Budget setting and monitoring - revenue and capital** There is a robust process in place throughout the Council to ensure that performance against the budget is adequately monitored during the year, so any potential issues or underperformance can be identified, and plans introduced to ensure these do not impact on the overall achievement of the budget and savings plans at the end of the year.
- This process is largely overseen by the Mayor and Cabinet, who receive sufficient information to undertake the level of monitoring that is required of them. They receive a high-level summary of the overall performance of the Council, which also details the level of performance against the key targets they have in place.
- More detailed information is then provided for each of the Council's four main directorates, allowing Mayor and Cabinet to understand why a department may be underperforming, and what processes have been put in place to deal with the identified underperformance.
- Areas such as capital expenditure, spend against the Dedicated Schools Grant (DSG) and Council Tax and Business Rates collection rates are also monitored to ensure that all aspects of the Council's financial performance are routinely monitored.
- The Council has consistently managed to achieve an underspend against its General Fund net revenue budget, which indicates that the processes that the Council has in place have been effective in managing the position and ensuring that any issues identified during the year are identified and resolved prior to year end.




Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Performance against Savings Plans	<ul style="list-style-type: none">• The draft 2012-13 outturn position for the General Fund net revenue budget shows an overall underspend of £3.5million, which is the third year in a row that the Council has achieved a year end underspend against its revenue budget.• Also from the outturn position, the Council has managed to achieve 97% of the £16.6m of savings that were agreed at the start of the financial year.• A robust process in place for identifying potential savings schemes. Savings are identified as part of the annual process of updating the Council's Financial Survey. Directorates are tasked with creating robust plans and projects to achieve the savings required.• These plans are then considered by Sub-Committees to ensure they are robust before being forwarded to Mayor and Cabinet and full Council for consideration and approval.	 Green



Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Key Financial Accounting Systems	<ul style="list-style-type: none">• There are well established systems and procedures in place to produce reliable financial monitoring and forecasting information, which is used alongside related performance information to support decisions.• The Council has been enhancing its controls to ensure all invoices are matched by a valid purchase order. There are still instances where purchase orders are raised retrospectively in Oracle after the invoice has been received by the relevant department. This issue is being monitored closely by the Shared Service Manager.• RSM Tenon provides the Council's internal audit function and carries out a regular programme of reviews of key financial systems. No fundamental concerns were raised by internal audit in 2012/13.• The Council is planning to upgrade its oracle ledger system in November 2013, in partnership with five other London Boroughs. Management will need to ensure that proper controls are in place to ensure the integrity of financial information during the migration to the new system and beyond.	 Amber


Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Finance Department Resourcing	<ul style="list-style-type: none">• The Council has an experienced and knowledgeable senior finance team in place, which has considerable experience of the challenges that the Borough is facing. There has been little turnover at a senior level.• Turnover at other levels has caused some capacity issues. Following recent internal reorganisations the Council was left without any in-house valuations expertise, putting it at risk of being unable to produce code-compliant statutory accounts. The Council had to recruit agency staff at a very late stage in the year in order to meet this requirement• Reorganisations also left the Council short of corporate experience and knowledge in the area of capital accounting. We have noted a number of misstatements in the draft accounts as a consequence, some of which were material.• These examples demonstrate the potential risks sometimes associated with efficiency savings, which can lead to false economies or leave the Council unable to meet certain statutory obligations.	 Amber
Internal audit arrangements	<ul style="list-style-type: none">• The Council's internal audit function is outsourced to RSM Tenon, who perform all of the detailed work that is requested by the Council. This arrangement has been in place since 2008, and is overseen by the Interim Head of Audit and Risk, who is employed by the Council.• The Interim Head of Audit and Risk has certain operational management responsibilities for risk management and governance, as well as his role of overseeing internal audit. The Council is aware of the potential conflict and elects to manage this risk. Other councils consider it best practice to separate completely audit and management responsibilities.• A detailed work plan is prepared by internal audit at the start of the year, taking into account any specific areas that the Council's management would like to be considered. Progress reports against the plan are provided to the quarterly Audit Panel meetings by the Interim Head of Audit and Risk.• Management monitors closely the timeliness of Internal Audit reporting and the timeliness of management responses to Internal Audit, which have been an issue historically.	 Amber

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Assurance framework/ risk management	<ul style="list-style-type: none">• The Council's Risk Management Process is overseen by the Internal Control Board.• Each of the Council's four main directorates have an individual risk register, which identifies the main risks that these directorates have identified to them achieving their goals. These registers are reviewed quarterly, and updated to ensure they remain up to date.• All of the risks included on the directorate risk registers are RAG rated, and performance against these ratings is monitored during the quarterly meetings. Where issues are identified with the level of performance against a particular risk, then procedures are put in place to improve the level of performance against those particular indicators.• Further relevant detail is included on the Risk Registers, including the potential worst impact of the risk, the controls that the directorate currently has in place to mitigate the risk to an appropriate level, and any further work that is going to be performed to further reduce the level of risk present.• The Council also operates a Corporate Risk Register, which considers those areas which are a risk to the strategic performance of the whole Council. Performance against these risks is also monitored on a quarterly basis, and reported to the Audit Panel and the full Council on an annual basis as part of the Annual Governance Statement.	 Green

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix - Key indicators of financial performance

Key Indicators of Financial Performance

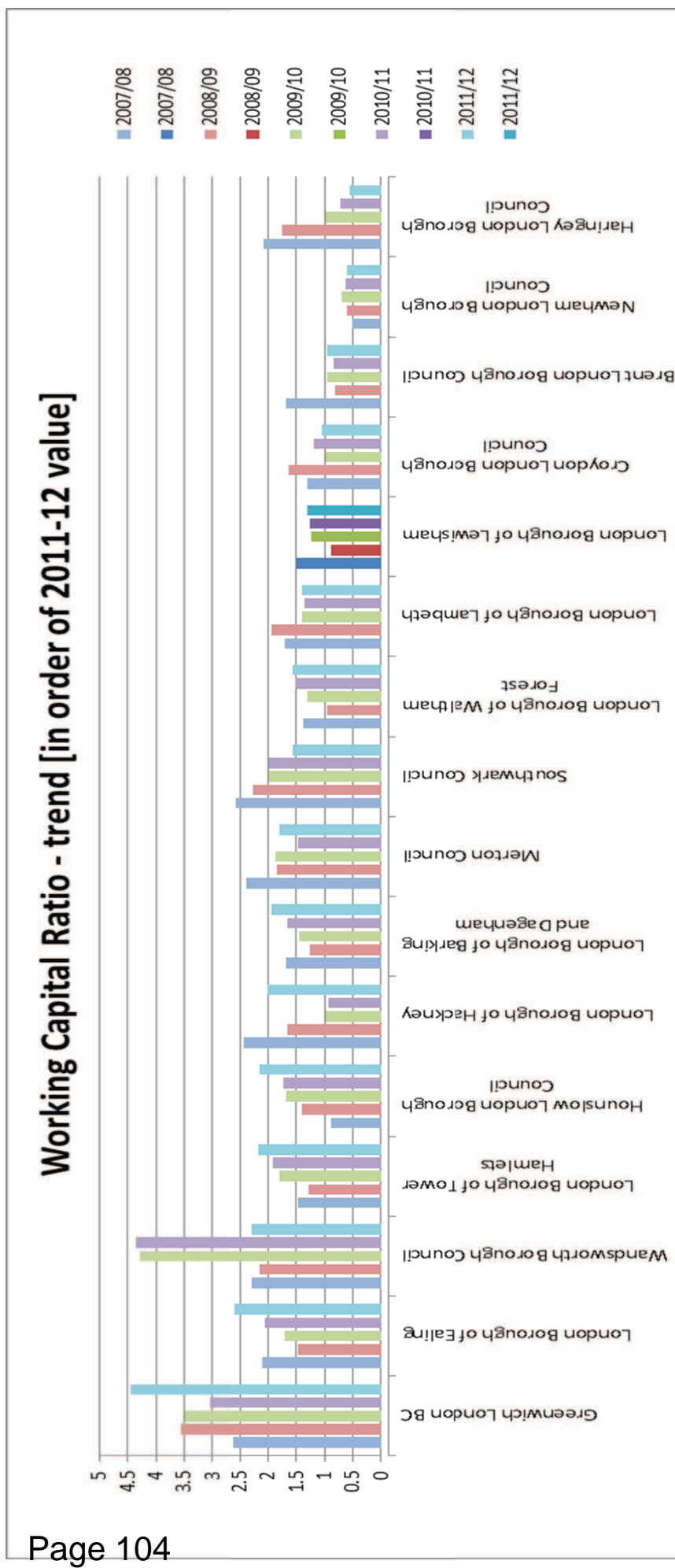
Working Capital - Benchmarked

Definition

The working capital ratio indicates if a council has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of less than one - i.e. current liabilities exceed current assets - indicates potential liquidity problems. It should be noted that a high working capital ratio isn't always a good thing; it could indicate that an authority is not effectively investing its excess cash.

Findings

Lewisham's working capital ratio has reduced from 1.49 in 2007/08 to 1.30 in 2011/12. While the movement in this value over the past five years has been in line with the average movement of the benchmarked group, the Council has remained around half a percentage point below the average in each year. The Council is in the bottom third of the benchmarked group.



Key Indicators of Financial Performance

Useable Reserves - Benchmarked

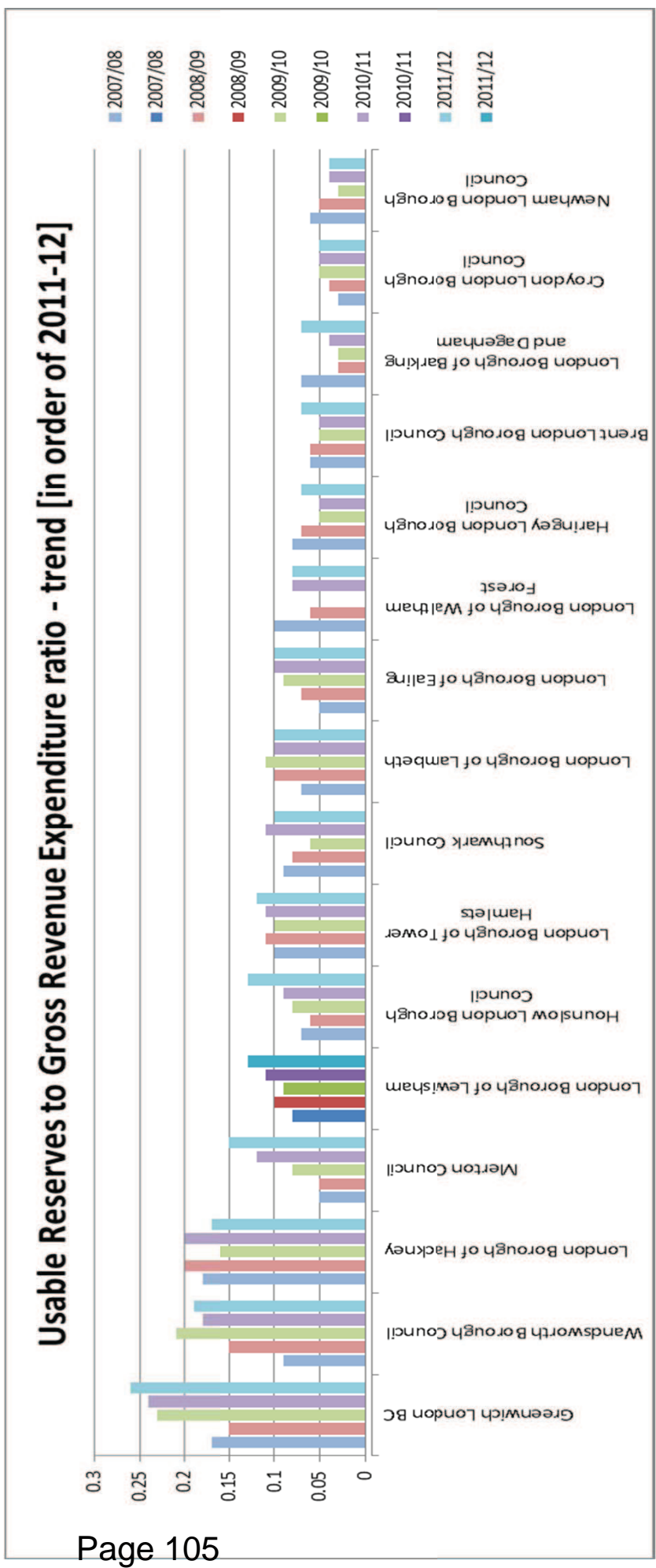
Definition

This shows useable capital and revenue reserves as a share of expenditure. A ratio of one means the total reserves matches the level of expenditure.

Findings

Between 2007/08 and 2011/12, Lewisham has increased the ratio of its useable reserves, from 0.08 to 0.13. There is no clear trend in the benchmarked group, with some authorities increasing their level of reserves (as a percentage of expenditure), and others decreasing their reserve levels. In 2011/12, the Council sits in the top third of reserves levels within the benchmarked group.

As per the 2012/13 Accounts, the Council has reserves of £201 million at the 31st of March 2013, of which £12 million is the General Fund Balance.



Key Indicators of Financial Performance

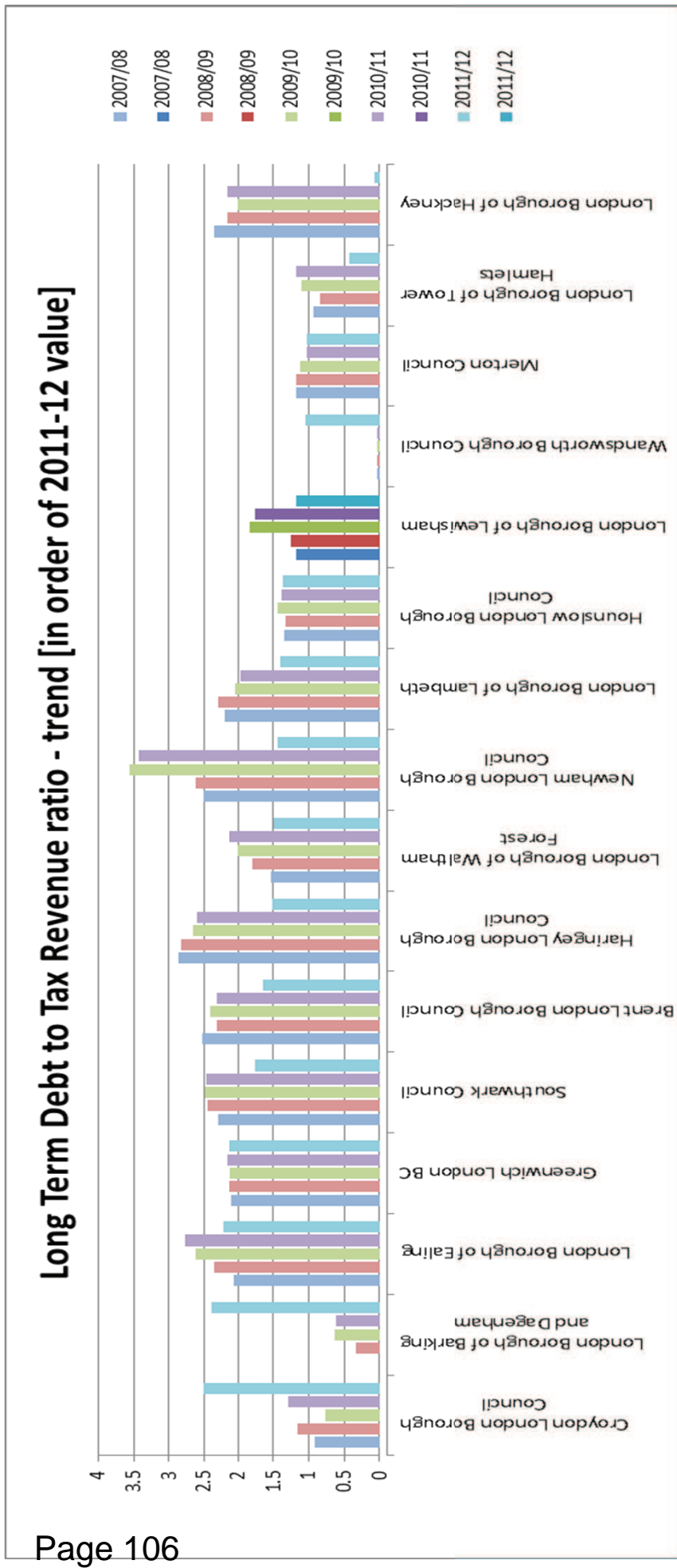
Long Term Borrowing to Tax Revenue - Benchmarked

Definition

Shows long term borrowing as a share of tax revenue. A ratio of more than one means that long term borrowing exceeds council tax revenue.

Findings

While the Council's long term borrowing ratio (as a share of tax revenue) has remained almost the same from 2007/08 (1.18) to 2011/12 (1.17), there has been some movement in the ratio in the intervening period. However, these movements are consistent with the average movement of the benchmarked group during this period. The Council currently sits in the bottom third of the benchmarked group, which indicates a favourable position for the Council at this current point in time.



Key Indicators of Financial Performance

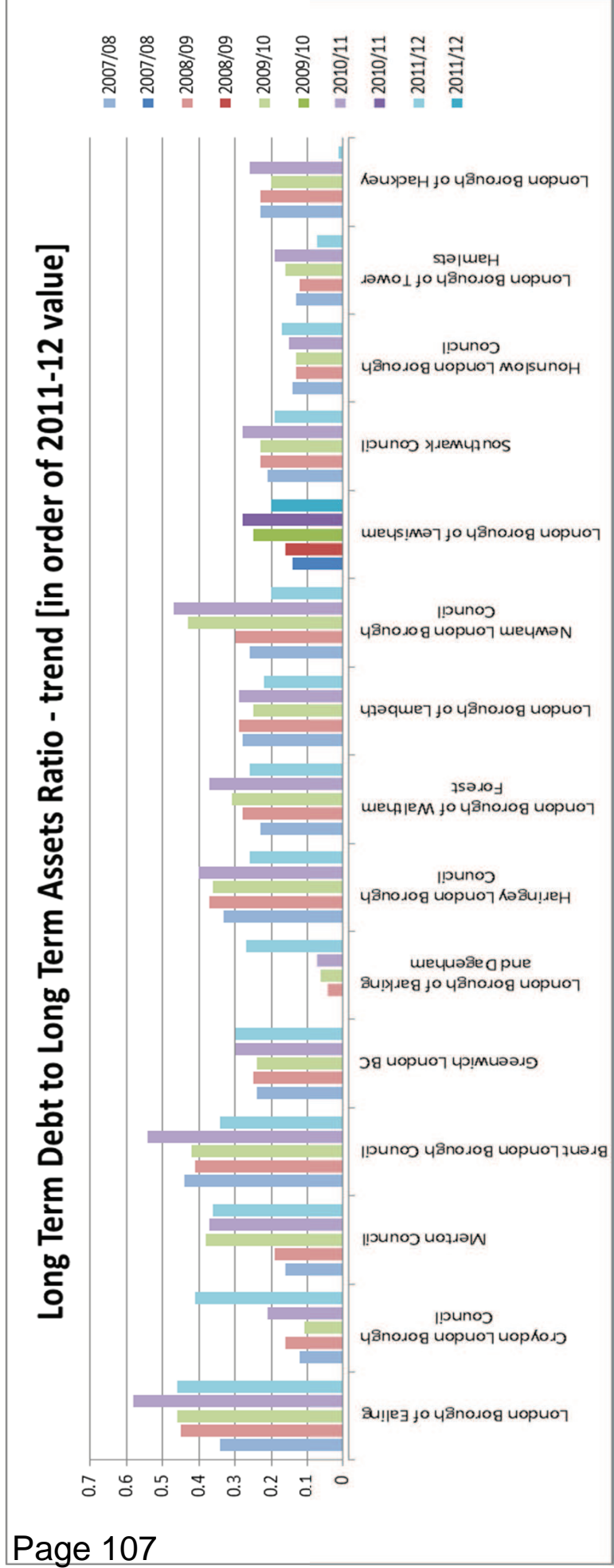
Long-term borrowing to Long-term assets - Benchmarked

Definition

This ratio shows long term borrowing as a share of long term assets. A ratio of more than one means that long term borrowing exceeds the value of long term assets.

Findings

The Council's long term borrowing to assets ratio has decreased from 2010/11 (0.28) to 2011/12 (0.20). This significant movement is explained by the Government redeeming £1.36m of the Council's PWLB Loans during the HRA Self-Financing settlement, which occurred in March 2012. This direction of travel is consistent with the majority of the benchmarked group, with 11 of the 16 boroughs experiencing a reduction in this ratio over the same period. The Council's direction of travel over the whole five year period shown in the graph is largely in line with the average position of the benchmarked group during this period.



Key Indicators of Financial Performance

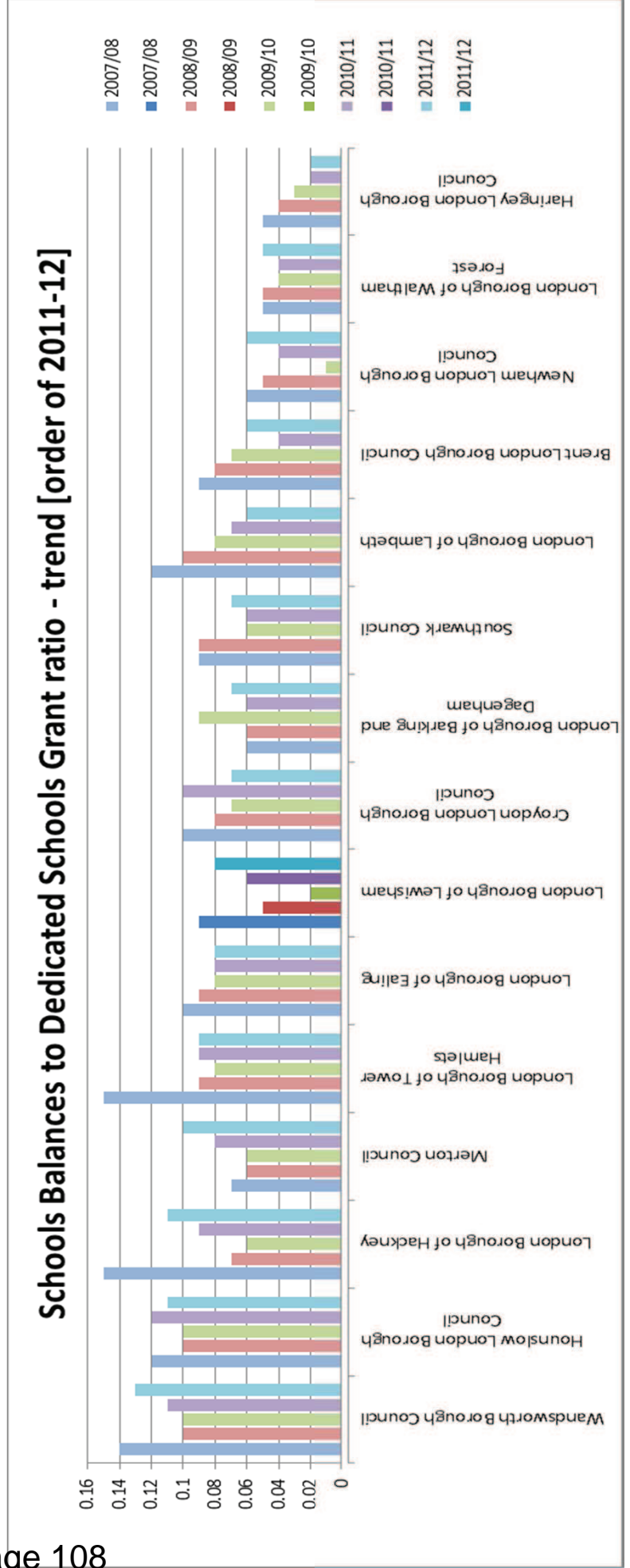
Schools balances to DSG allocation - Benchmarked

Definition

This shows the share of schools balances in relation to the total DSG allocation received for the year. For example a ratio of 0.02 means that 2 per cent of the total DSG allocation remained unspent at the end of the year.

Findings

Again, although the Council's ratio in 2011/12 (0.08) is largely unchanged to the position in 2007/08 (0.09), there was a significant movement in the value over the past three years. The Council's direction of travel over this five year period is consistent with the benchmarked group. Over the past three years (2010/11 to 2012/13), the Council has spent its DSG allocation to budget.



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Agenda Item 4

AUDIT PANEL			
Report Title	EXTERNAL AUDITOR'S REPORTS ON THE 2012/13 ACCOUNTS		
Key Decision	No	Item No.	4
Ward	ALL		
Contributors	EXECUTIVE DIRECTOR FOR RESOURCES AND REGENERATION		
Class	Part 1	Date:	12 September 2013

1 PURPOSE

- 1.1 The purpose of this report is to respond to the external auditor's Audit Findings Reports on the audit of the council's 2012/13 main accounts and Pension Fund accounts. These are attached to the previous item on this agenda, and set out:

"...the key matters and audit findings arising from the 2012/13 audit of the financial statements...whether the accounts present a true and fair view of the financial position and have been properly prepared.....and whether you have put in place proper arrangements to secure value for money in your use of resources."

- 1.2 The reports set out any issues arising from the audits that, in the opinion of the external auditor, are of sufficient significance to warrant discussion with Members.

2 EXECUTIVE SUMMARY

- 2.1 The Council has a statutory requirement to approve and publish its audited Statement of Accounts by 30th September each year. The pre-audit 2012/13 Accounts were considered and noted by the Audit Panel on 18th June 2013. Since then Grant Thornton have been carrying out their external audit, and the final audited 2012/13 Accounts will be submitted to Council for approval on 19th September 2013.

3 RECOMMENDATIONS

- 3.1 The Audit Panel are recommended to note the reports from Grant Thornton and this covering officer report, to ask questions as appropriate and to agree the comments that they wish to be relayed to Council.

4 POLICY CONTEXT

- 4.1 Completing the audit of the council's accounts and receiving the auditor's report thereon contributes directly to the council's tenth corporate priority:
- **Inspiring efficiency, effectiveness and equity:** ensuring efficiency and equity in the delivery of excellent services to meet the needs of the community.

5 AUDIT OF ACCOUNTS

- 5.1 Since the pre-audit Accounts were completed at the end of June 2013, they have been subject to extensive external audit by Grant Thornton and a number of changes have been agreed. At the time this report was dispatched, the audit was substantially complete and Grant Thornton report that subject to completing their outstanding work they anticipate providing an unqualified opinion on the financial

statements and that they propose to give an unqualified value for money conclusion. Grant Thornton will give a verbal update at the meeting and, along with senior council officers, will answer any questions as required.

- 5.2 Grant Thornton have raised a few matters for Members to consider and it is important to note that these mainly relate to detailed disclosure requirements.
- 5.4 The external auditor requests that Members:
- Note the adjustments to the financial statements in the report
 - Approve the letter of representation on behalf of the council
 - Agree the response to the proposed action plan (Appendix A)."
- 5.5 Under the council's constitution these matters are for Council to determine. At Council on 19th September 2013 Members will be recommended to note the Audit Findings reports and approve the audited Statement of Accounts. Any comments of the Audit Panel arising from this meeting will be reported to Council,

6 AUDIT FINDINGS

- 6.1 Overall, the audit has reported that the draft 2012/13 financial statements were of good quality and working papers provided supported the entries in the accounts.
- 6.2 During the audit a small number of errors were identified and amendments to the Accounts agreed with the auditors. None of these are material to the financial position shown in the Accounts and they do not affect the charge to the Council Tax. The changes are mainly presentational and ensure that the Council complies with the technical accounting regulations.
- 6.3 Grant Thornton have reviewed the accounting treatment of the guarantee provided by the Council to Lewisham Homes regarding pension costs. This issue has been the subject of discussion over the last few years with the previous external auditors. We have slightly amended our accounting treatment and Grant Thornton concur with this change.
- 6.4 Grant Thornton have identified a number of errors which the Council has agreed to amend for, the major ones being as follows;
- On the Balance Sheet, a short term loan of £3.7m was wrongly classified as a long term loan.
 - Amendments to the Lease note (note 34) have been made to the future commitments of the Council as lessor of £5.3m and lessee of £3m.
 - A misclassification of downward revaluations as impairments in the Non Current Assets note (note 9b), this has no affect on the Balance Sheet.
 - An amendment to the PFI Movement in Assets note (note 35c) to include all of the new assets which have been brought onto the Balance Sheet following practical completion.
- 6.5 The Action Plan at Appendix A has a number of recommendations in it which have been agreed with Grant Thornton.
- 6.6 Overall the small number of changes required to the 2012/13 Accounts indicates a good system of financial control and the robustness of financial information throughout the organisation.

7 ANNUAL GOVERNANCE STATEMENT

- 7.1 This document has been slightly updated from that considered at the Audit Panel on 18th June 2013 to reflect the completion of a few items. It will be submitted to Council on 19th September 2013 for approval.

8 FINANCIAL IMPLICATIONS

- 8.1 There are no direct financial implications resulting from this report.
- 8.2 The cost of external audit services for 2012/13 was £333,800, including the cost of the audit of the main accounts, the certification of grant claims and returns and other external audit services. The Pension Fund audit cost was £21,000.

9 LEGAL IMPLICATIONS

- 9.1 Regulation 8 of the Accounts and Audit (England) Regulations 2011 requires authorities to publish its Statement of Accounts after the external audit is concluded no later than 30 September. The approval of the audited Statement of Accounts by Council on 19 September 2013 will satisfy this statutory requirement.
- 9.2 It is the role of the Audit Panel to receive, review and where appropriate advise and make recommendations to the Council in relation to the external auditor's opinion and report to Members, and to monitor management action in response to issues raised by external audit.

10 EQUALITIES IMPLICATIONS

- 10.1 There are no equalities implications in this report.

11 CONSULTATION

- 11.1 Sections 15 and 16 of the Audit Commission Act 1998 give electors the right to question the auditor or object to the Accounts. The Accounts are required to be available for public inspection for 20 working days prior to the conclusion of the audit and an advertisement placed in the local press to publicise this fact. This public inspection period ended on the 19 August 2013, which was also the day electors were able to question the auditor. No questions were received by the External Auditor on this day. It is also a requirement that notice of conclusion of the audit is advertised in the local press.

12 ENVIRONMENTAL IMPLICATIONS

- 12.1 There are no environmental implications in this report.

13 CRIME AND DISORDER IMPLICATIONS

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

14 BACKGROUND PAPERS

None

For further information on this report please contact:

Conrad Hall, Head of Business Management and Service Support
Richard Lambeth, Group Finance Manager – Accounting and Capital

AUDIT PANEL		
Report Title	Internal Audit update report	
Key Decision	No	Item No. 5
Ward	ALL	
Contributors	Head of Audit & Risk (Interim)	
Class	Part 1	Date: 12 September 2013

1. Purpose of the report

- 1.1. This report presents members of the Audit Panel with a summary of:
- Internal audit progress with the audit plans for 2012/13 and 2013/14,
 - Implementation of internal audit recommendations, and
 - Performance of the Internal Audit contractor.

2. Recommendations

- 2.1. It is recommended that the Audit Panel note the content of this report.

3. Background

- 3.1. The Council's Head of Internal Audit reports to the Executive Director for Resources and Regeneration and is supported by an Internal Audit Contract Manager.
- 3.2. This client side of Internal Audit contracts out the Council's Internal Audit Service. Since 2008, and following a competitive tendering process in 2011, RSM Tenon Limited has the provided the service.
- 3.3. The contractor is responsible for completing the Internal Audit reviews for the Council (non-schools and schools) as directed. In addition from April 2013, the Internal Audit Contract Manager performs the non-core audit and school (where required) follow-ups and a limited number of ad-hoc audit reviews with the assistance of CIPFA trainees in Finance.
- 3.4. Internal Audit reviews are categorised as one of Audit, Advice, or Consultancy. Audit and Consultancy work result in a report with agreed recommendations, the implementation of which are monitored and reported on. Advice work are shorter pieces of work that result in memo style reports with suggestions for management.

4. Internal audit progress update

2012/13

- 4.1. There are four reports outstanding from the 2012/13 audit plan at the 31 July 2013. They are:
- Early Intervention Grant (CYP),
 - Maintenance of Assets and Premises (RRE) (draft issued 12/07/13),
 - Payment by Results Pilot (RRE), and

- Income Forecasting v's Savings Agreed (RRE).

- 4.2. The Early Intervention Grant and Maintenance of Asset audits were delayed by Lewisham management due to timing and scheduling constraints. The other two pieces of work are with the Contractor.
- 4.3. Seven reports have been finalised from the 2012/13 audit plan since the last meeting. They are:

Dir.	Audit	Date of Final	Audit Opinion	Recs. Made		
				H	M	L
RRE	Divisional Risk Registers	10/06/13	Advice			
RRE	Procure to Pay (P2P) benefits	05/06/13	Advice			
RRE	Croydon Lighting PFI Contract	26/06/13	Satisfactory	-	5	1
CUS	Client Management of Lewisham Homes	18/06/13	Satisfactory	1	1	-
COM	Adult Social Care – Long Term & Complex Cases	28/06/13	Limited	1	11	-
COM	Community Equipment Consortium	30/05/13	Limited	3	6	1
CYP	Special Educational Needs	06/06/13	Satisfactory	2	8	-

2013/14

- 4.4. The contractor is responsible for completing all the reviews in the 2013/14 audit plan, with the exception of two internal audits:
- Turnham Primary School – the internal audit was brought forward to July from November at the request of the Governors. Given the short notice and priority for the contractor to complete outstanding 2012/13 work and progress 2013/14 work the in-house team completed this audit.
 - Troubled Families Programme – The Department for Communities and Local Government (DCLG) require that internal audit review the framework the Council has in place but no formal opinion is required. Rather than prepare a separate engagement the in-house team are doing this review.
- 4.5. The table below summarises the status of the plan as at 31/07/13. For a more detailed look at the current audit plan please refer to Appendix 1.

Lead Dir.	Original Audit Plan	Extra Audits	Dropped Audits	Current Audit Plan	Final Reports Issued	APS Issued	Audits not started
RRE	20	-	(1)	19	-	2	17
CUS	14		(1)	13	1	4	8
COM	10	1	(2)	9	-	1	8

Lead Dir.	Original Audit Plan	Extra Audits	Dropped Audits	Current Audit Plan	Final Reports Issued	APS Issued	Audits not started
CYP	7	2	-	9	1	4	4
Sub	51	3	(4)	50	2	11	37
SCH	23	-	-	23	8	n/a	15
Total	74	3	(4)	73	10	11	52

4.6. Since the last meeting, there have been two additional audits and two audits dropped from the plan.

4.7. Additional

- CCTV – This audit replaced the dropped (see below) Supporting Peoples Programme.
- Troubled Families Programme – The DCLG require that internal audit approve the framework for programme.

4.8. Dropped audits

- NNDR Parameters – The legislation changes to the collection of NNDR did not require any significant changes to the parameters, so there was nothing to audit.
- Supporting People Programme – This is now in the 2014/15 audit plan, as the follow-up of the previous audit was on completed late in 2012/13.

4.9. The ten audits from the 2013/14 plan in the table below have been finalised since the last Audit Panel meeting.

Dir.	Audit	Date of Final	Audit Opinion	Recs. Made		
				H	M	L
CUS	Housing and Council Tax Benefit - IT parameters (Part 1)	22/07/13	Substantial	-	-	-
CYP	Fostering and residential orders	22/07/13	Substantial	-	2	1
SCH	Dalmain JMI	19/07/13	Substantial	-	-	4
SCH	Good Shepherd JMI	10/06/13	Substantial	-	1	3
SCH	Horniman JMI	30/07/13	Substantial	-	-	1
SCH	John Stainer JMI	20/06/13	Substantial	-	1	1
SCH	Lee Manor JM	31/05/13	Substantial	-	-	2
SCH	Rangefield JMI	04/07/13	Substantial	-	-	2
SCH	Rushey Green JMI	22/07/13	Substantial	-	1	1
SCH	Turnham Primary (In-house)	31/07/13	No Assurance	7	15	4

5. Limited and No Assurance reports

- 5.1. Since the last Audit Panel meeting, the 'Limited', 'No Assurance' and 'Consultancy' reports issued were:
- Adult Social Care (COM) (12/13) – Limited,
 - Community Equipment Consortium (COM) (12/13) – Limited, and
 - Turnham Primary School (SCH) (13/14) – No Assurance.
- 5.2. The executive summaries for these reports are provided at Appendix 4. The issues raised in each report are different with no common themes identified.
- 5.3. In addition to the above, the Divisional Risk Registers review became an advice piece of work. It made suggestions in relation to:
- Ensuring service risks are recorded and assessed,
 - Service risks align to business plans and Directorate risk registers, and
 - Consider additional risk management awareness and training.

6. High or Medium recommendations not agreed

- 6.1. Since the last Audit Panel meeting, there has been one medium internal audit recommendation made and not agreed by management.
- 6.2. The recommendation was made in the review of contract management arrangements in place for the Council's joint street lighting PFI with the London Borough of Croydon. It concerns formalising the arrangements for sharing audit reports.
- 6.3. In line with the agreed protocol for escalating such matters, the Internal Control Board have been asked to assess the risk and decide on the desired level of control required.

7. Implementation of internal audit recommendations

Follow-ups

- 7.1. Follow-ups are conducted for non-school work and school audits in receipt of a negative (Limited or No) assurance opinion. They should be completed within nine months of the final report. From April 2013 all Follow-ups are completed by the client side team with the exception of core (i.e. annual) audits and specialist IT reviews.
- 7.2. Since the last Audit Panel report, thirteen Follow-up reviews were completed – eight in respect of 2011/12 reports and five in respect of 2012/13 reports. These Follow-ups identified 91% of recommendations as implemented, in progress or superseded as follows.

Implemented	In Progress	Superseded	Not Implemented	Total Recs
46	23	2	7	78
59%	29%	3%	9%	100%

- 7.3. There remain four Follow-up reports outstanding from the 2012/13 plan. The contractor is responsible for completing these outstanding reviews. The Follow-ups due for 2013/14 are up to date.
- 7.4. Further details of these follow-ups are provided in Appendix 5.

Superseded

- 7.5. Since the last Audit Panel meeting two medium recommendations have been superseded. They were:
- NNDR 2012/13 – recommendation closed down by internal audit, as the same recommendation appeared in the 2011/12 review and remains open.
 - Application implementation for HR and Payroll – This is now incorporated in the actions arising from the Disaster Recovery for ICT infrastructure audit.
- 7.6. Details of the two superseded recommendations are in Appendix 2 and the tracking of the replacement recommendations are reflected in Appendix 3.

Implementation of recommendations

- 7.7. The table below shows the status of high and medium recommendations made by Internal Audit as at the 31/07/13.

Lead Dir.	Previous No. of O/Due Recs.	Current No. of O/due Recs at 31/07/13	Current No. of Recs with 2+ changes	Previous No. of Open Recs at 30/04/13	No of Recs Re-opened since 30/04/13	Net no. of New Recs from 30/04/13 to 31/07/13	Closed Recs from 30/04/13 to 31/07/13	Current Open Recs at 31/07/13
RRE	6	13	2	44	10	32	(20)	66
CUS	-		2	5	-	3	(4)	4
COM	-	3	1	2	4	23	(3)	26
CYP	5	10	3	10	2	8	(3)	17
Total N/S	11	26	8	61	16	66	(30)	113
SCH	26	10	12	53	-	3	(31)	25
Total All	37	36	20	114	16	69	(61)	138

- 7.8. There were four recommendations from the Generic Contract Review – Schools PFI that transferred to RRE from the CYP Directorate following a change of responsibility for the actions.
- 7.9. Those schools with recommendations which are over one year old that relate to obtaining quotes or tendering but which have not incurred the necessary large expenditure to evidence these controls are operating have now had these

recommendations closed. These schools will be audited in no more than two years when internal audit will be able to check again.

- 7.10. There are six non-school audits and four school audits with overdue recommendations. There are also six non-school and six school audits with recommendations that have two or more date changes to agreed recommendations.
- 7.11. Details of those recommendations that are either overdue and/or with two or more implementation date changes are presented in Appendix 3.

8. Performance of the contractor

2012/13

- 8.1. As noted above, there remain four audits and four follow-ups outstanding from the 2012/13 audit plan.

2013/14

- 8.2. One of the ways that the performance of the contractor is measured is by agreed Performance Indicators (PIs). The table below show the results for the 2013/14 audit plan to the end of July.

Performance Indicator		No. of survey	Target YTD		Actual YTD to 31/07/13		Variance (+/-)		Met (Y/N)
			%	No.	%	No.	%	No.	
1	All finals reports issued against plan		4%	3/73	13%	9/73	9%	6	Y
2	Non-SCH final reports issued against plan		6%	3/50	4%	2/50	-2%	-1	N
3	SCH final reports issued against plan		0%	0/23	32%	7/23	32%	7	Y
4	Follow up reviews issued against plan		24%	4/17	24%	4/17	0%	0	Y
5	Level of satisfaction for individual reviews	N-S 1/2 S 1/8	3.0		3.9		0.9		Y

- 8.3. The following key performance indicator was not met:
- **PI 2** – at the end of July, the non-school (N/S) audit plan missed its target by 2%. The original target at the beginning of the year was six reports up to the end of July. Due to audits being either delayed or cancelled by Lewisham, this was reduced to three reports up to the end of July.

9. Update for August

- 9.1. Despatch dates required the full report to be prepared up to the end of July. However, it is possible to give an overview of progress in August.

9.2. In August two non-school reports were issued against a plan for four to be finalised. This means PI 2 is now showing the target as missed by 8%. They were:

- ISS Facilities Management (RRE) – Limited, and
- Adoption & Guardianship payments (CYP) – Satisfactory.

9.3. In August no school reports were issued against a plan for two to be finalised. This is not significant as the school audit plan is already ahead of target – see above.

9.4. Looking forward, delivery of the non-school work significantly steps up from September with five reports due in September, six in October and eight in November.

10. Legal Implications

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

11. Financial Implications

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

12. Equalities Implications

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

13. Crime and Disorder Implications

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

14. Environmental Implications

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

15. Background Papers

15.1. There are no background papers.

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

Appendix 1 - Progress on the 2013/14 Audit Plan

Lead Dir.	Name of Audit	Scope	Date APS Issued	Date Audit Finalised	Opinion
RRE	Property Asset Management	Review of the operation and process for managing property asset. (Assurance)		Cancelled	
RRE	ISS Cleaning Contract	Review of Clienting arrangements for the Facilities Contract. (Assurance)	14/05/13		
RRE	Transport (Highways) Contract	Review of the Clienting arrangements for the transport contract (highways maintenance) particularly valid in light of staff restructure. (Assurance)	27/06/13		
RRE	SharePoint 2010	Review security access, project management of SP2010. (Assurance)			
RRE	Capita - IT Contract Management	To review the contract management process (Assurance)			
RRE	VAT	To review the process of input and output tax. (Assurance)			
RRE	Review Data Scanning and Storage	Review new contract for off site storage and retrieval (Assurance)			
RRE	Project Management	Review of project management across the council to include PRG and Training. (Assurance)			
RRE	Pensions System Implementation	Review of the new pensions system. To include: security, controls, transfer of data from old system and the normal implementation testing that is expected of a new system. (Assurance)			
RRE	Forefront Identity Manager (FIM)	Review of the management processes for user network access. Forefront Identity Manager will replace SMAL system. (Assurance)			
RRE	Oracle	Review of there new oracle upgrade to ensure that it is fit for purpose. Review how maintenance and upgrades to the system are managed, security of data and governance. (Assurance)			
RRE	Budget Control and Monitoring	Key Controls (Assurance)			
RRE	Non Current Assets	Key Controls (Assurance)			
RRE	Payroll	Key Controls (Assurance)			
RRE	Capital Programme, Monitoring and Expenditure	Key Controls (Assurance)			
RRE	Treasury Management	Key Controls (Assurance)			
RRE	Accounts Payable	Key Controls (Assurance)			

Appendix 1 - Progress on the 2013/14 Audit Plan

Lead Dir.	Name of Audit	Scope	Date APS Issued	Date Audit Finalised	Opinion
RRE	Main Accounting	Key Controls (Assurance)			
RRE	Pensions	Key Controls - to include new automatic enrolment. (Assurance)			
RRE	Continuous Auditing	To run and provide quarterly reports (Assurance)			

Lead Dir.	Name of Audit	Scope	Date APS Issued	Date Audit Finalised	Opinion
CUS	NNDR - IT parameters	Review initial controls, parameters prior to Key audit. (Assurance)		Cancelled	
CUS	Housing and Council Tax Benefit - IT parameters (part 1)	Review initial controls, parameters prior to Key audit. (Assurance)	22/06/13	22/07/13	Substantial
CUS	Housing and Council Tax Benefit - IT parameters (part 2)	Review initial controls, parameters prior to Key audit. (Assurance)	22/06/13		
CUS	Web Payments	Review the security and resilience of the online payment systems that has taken over from the cash office (Assurance)	27/07/13		
CUS	NNDR - Key controls	To include parameters and new regs etc. (Assurance)			
CUS	Trade waste - contract review	Review the Clienting arrangement for trade waste (not dry recycling). (Assurance)			
CUS	Payment Centres	Review of the new payment centres in terms of role allocation and automation. (Assurance)			
CUS	Parking Contract	Review the monitoring of the new contract, including payments, recovery, KPI and partnership working. To include how personal information is shared between parties. (Assurance)			
CUS	Housing Options Centre	Review of the decision making process, management of service, meeting of objectives and application process. (Assurance)			
CUS	Enforcement	To review the efficiency & productivity of the team. (Assurance)			
CUS	Banking	Key Controls (Assurance)			

Appendix 1 - Progress on the 2013/14 Audit Plan

Lead Dir.	Name of Audit	Scope	Date APS Issued	Date Audit Finalised	Opinion
CUS	Council Tax	Key Controls (Assurance)			
CUS	Accounts Receivable	Key Controls (Assurance)			
CUS	Housing and Council Tax Benefit -	Key Controls (Assurance)			

Lead Dir.	Name of Audit	Scope	Date APS Issued	Date Audit Finalised	Opinion
COM	South London and Maudsley (SLAM)	Review the governance and operational management in respect of LBL interest in relation to SLAM (Assurance)		Cancelled	
COM	Supporting People Programmes	To review the objectives and outcomes. Including working with the Penrose organisations. (Assurance)		Cancelled	
COM	Block Nursing Contract	Review the block nursing contract monitoring and outcomes / savings (Assurance)	28/06/13		
COM	Safeguarding (Adults)	Review the structure and process of the new Safeguarding Adults team. (Assurance)			
COM	Fusion Leisure Contract	Review the monitoring of the contracts, KPIs and H&S, and benefits of outcomes.			
COM	Personal Budgets. Individual Budgets and Direct Payments	To review all three areas - including, assessing, monitoring, allocation and outcomes (Assurance)			
COM	Adult Social Care - new ways of working	To be advised.			
COM	Youth Offending Team	To review the objectives and outcomes of the service. (Assurance)			
COM	Client Contributions for Residential & Domiciliary Care	Key controls (Assurance)			
COM	Payments to Residential and Domiciliary Care	Key controls (Assurance)			

Appendix 1 - Progress on the 2013/14 Audit Plan

Lead Dir.	Name of Audit	Scope	Date APS Issued	Date Audit Finalised	Opinion
CYP	Fostering and residential orders	Individual reviews process and payment reviews to be performed on a 3 year rolling basis (Assurance). Adoption now separated from this review.	09/05/13	22/07/13	Substantial
CYP	Adoption (Additional review)	Review the process and payment of Adoption. (Assurance). Additional audit as original Fostering, Adoption and Residential Orders review is split in to two reviews.	21/05/13		
CYP	NEETs Targets and outcomes (previously Re-organisation of Youth Service)	Review of the targets set and outcomes in relation to NEET (Not in Education, Employment or Training). (Assurance)	12/06/13		
CYP	Troubled Families Programme	Review the framework of the programme as required by the DCLG. (LBL)	24/06/13		
CYP	Estates management	In light of the reorganisation, review of estates management and their statutory maintenance procedures in line with agreed SLA with schools (Assurance)			
CYP	Childrens' Disability Payments	Review of the process for the administration, application, assessment & payment. (Assurance)			
CYP	Pathfinder SEND	Review of the process for the administration, application, assessment & payment relating to SEND. (Assurance)			
CYP	Looked after Children Payments to Providers	Key controls (Assurance)			
CYP	Leaving Care	Review the objectives and outcomes of the support of children leaving care. (Assurance)			

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Lead Dir.	Name of Audit	Scope	Mth F/W Started	Date Audit Finalised	
SCH	Good Shepherd Catholic Primary.	Standard School Testing Programme	May 13	10/06/13	Substantial
SCH	Lee Manor Primary.	Standard School Testing Programme	May 13	31/05/13	Substantial
SCH	Rangefield Primary.	Standard School Testing Programme	Jun 13	04/07/13	Substantial
SCH	John Stainer Primary.	Standard School Testing Programme	Jun 13	20/06/13	Substantial

Appendix 1 - Progress on the 2013/14 Audit Plan

Lead Dir.	Name of Audit	Scope	Mth F/W Started	Date Audit Finalised	
SCH	Rushey Green Jnr.	Standard School Testing Programme	Jul 13	22/07/13	Substantial
SCH	Dalmain Primary	Standard School Testing Programme	Jul 13	19/07/13	Substantial
SCH	Horniman Primary.	Standard School Testing Programme	Jul 13	20/07/13	Substantial
SCH	Turnham Primary	Standard School Testing Programme (LBL)	Jul 13	31/07/13	No Assurance
SCH	Brindishe Green Primary.	Standard School Testing Programme			
SCH	Deptford Park Primary.	Standard School Testing Programme			
SCH	Holy Cross Catholic Primary.	Standard School Testing Programme			
SCH	Lucas Vale Primary	Standard School Testing Programme			
SCH	Marvels Lane Primary	Standard School Testing Programme			
SCH	Myatt Garden Primary.	Standard School Testing Programme			
SCH	Rathfern Primary.	Standard School Testing Programme			
SCH	Sandhurst Junior	Standard School Testing Programme			
SCH	St Augustine's Catholic Primary	Standard School Testing Programme			
SCH	St Marys CE Primary	Standard School Testing Programme			
SCH	Stillness Infant.	Standard School Testing Programme			
SCH	Stillness Junior.	Standard School Testing Programme			
SCH	Torridon Infant.	Standard School Testing Programme			
SCH	Torridon Junior.	Standard School Testing Programme			
SCH	Drumbeat School (Spec)	Standard School Testing Programme			

Appendix 2 - Superseded internal audit recommendations

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Audit	Opinion	Recommendation superseded	Level	Comment
<p>NNDR 12 -13 CUS09</p>	<p>Substantial</p>	<p>Office procedures and guidance notes should be reviewed to ensure that they fully reflect current service delivery requirements. The procedures and guidance notes will also need to reflect the role of the Systems & Property Team and the interrelationship with NNDR.</p>	<p>Medium</p>	<p>17/07/13 - Superseded. IA comment - This rec was previously made in 11/12. As such closed this rec down and any updates need to be made to 1.1 for the NNDR 11/12 review</p>
<p>Application implementation for HR and Payroll</p>	<p>No Assurance</p>	<p>IT Disaster Recovery (DR) - Disaster Recovery arrangements for ResourceLink should be established and proven</p>	<p>Medium</p>	<p>12/06/13 - follow up conducted by internal audit. see report attached. Confirmed superseded. Closed down rec. 16/04/13 - Update - Michelle Ouzman - This action will be incorporated into the BC/DR audit and the IM&T Strategy Roadmap. Gap analysis currently being undertaken 19/02/13 - target date changed from 31/01/13 to 03/06/13 - Roger Fowles - Work is jointly underway with Capita to review Departmental Business Continuity plans to determine the expectations of a Corporate ICT DR plan</p>

Appendix 3 - Recommendations overdue and with multiple changes.

Dir.	Name of Audit	Final Report Date	H O/D	M O/D	2+ chgs	Comment
RRE	Disaster Recovery for ICT Infrastructure	19/04/13	1	6		Update provided but no new due date.
RRE	Generic Contract Review – Group School PFI	12/04/12		4	2	Target date changed 2 times. Changed from CYP to RRE due to restructure.
RRE	ONEOracle Project Management	19/04/13		1		
RRE	Treasury Management	05/02/13		1		
COM	Community Equipment Consortium	30/05/13		3		Updates provided but no new due dates
CYP	Special Educational Needs	06/06/13	3	7		
SCH	Clyde Nursery	13/05/12		2	2	Target changed 2 times
SCH	Kender Primary School	18/01/13	1	3		F/up due in Oct 13. Not chasing sch until after.
SCH	Rushey Green Primary School	22/07/13		1		(due date 11/7 – not indicated implemented in the audit report)
SCH	St Michael's Primary School	09/10/12		3		
Not overdue but with multiple changes of date.						
CUS	Brockley Housing PFI Contract	03/02/12			1	Target date changed 7 times
CUS	NNDR 2011/12	16/04/12			1	Reopened as 2012/13 report had same recommendation.
COM	Community Libraries Contracts	28/09/12			1	Target date changed 2 times
CYP	Payments for Looked After Children	2010/11			1	Target date changed 3 times
CYP	School Data Handling Controls	2011/12			2	Target date changed 2 times

Appendix 3 - Recommendations overdue and with multiple changes.

Dir.	Name of Audit	Final Report Date	H O/D	M O/D	2+ chgs	Comment
SCH	Adamsrill Primary School	04/10/12			1	Target changed 3 times.
SCH	Athelney Primary School	28/06/12			1	Target date changed 2 times
SCH	Fairlawn Primary School	14/11/12			4	Target date changed 2 times
SCH	Grinling Gibbons Primary School	11/02/12			1	Target date changed 4 times
SCH	Holbeach Primary School	27/09/12			2	Target date changed 2 times
SCH	Trinity CE Secondary School	23/11/12			1	Target date changed 2 times
Total			5	31	20	

Appendix 4 - No Assurance, Limited and Consultancy reviews.

Explanations for Assurance Opinion and Design of Controls and Comply with Controls.

Each internal audit assurance review gives an opinion on the controls in place based on the fieldwork conducted. We also define whether the recommendations made will help with the design of the control or help with compliance with the control. See table below to explaining these opinions.

Level	Design of Controls Framework	Comply with Controls Framework
Substantial Assurance ★	Robust framework of controls ensures objectives are likely to be achieved.	Controls are applied continuously or with minor lapses.
Satisfactory Assurance ●	Sufficient framework or key controls for objectives to be achieved but could be stronger.	Controls are applied with some lapses.
Limited Assurance ▲	Risk of objectives not being achieved due to the absence of key internal controls.	Significant breakdown in the application of controls.
No Assurance ■	System of control not in place. Absence of basic controls resulting in inability to meet objectives.	Fundamental controls are not complied with.

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Definition of Category of Recommendation

We also rate each recommendation made. This gives management an indication of the importance of the recommendation and urgency for action. Implementing recommendation can mitigate risks to the achievement of their service objectives.

High	Action is imperative to ensure that the objective for the area under review is met. The recommendation must, where possible, be implemented immediately and, if the timeframe is longer than three months, an explanation should be provided.
Medium	Requires action to avoid exposure to significant risk in achieving the objective for the area under review. The recommendation should be implemented as soon as possible and if the timeframe is longer than six months an explanation should be provided.
Low	Action is advised to enhance control or improve operational efficiency. This is a recommendation that would enhance control within the service and therefore should be considered for implementation within six months.

Appendix 4 - No Assurance, Limited and Consultancy reviews.

London Borough of Lewisham

Executive Summary

Adult Assessment & Care Management – Long Term & Complex Cases COM08

Internal Audit Assurance Opinion	Direction of Travel	
★ Substantial		
● Satisfactory		
▲ Limited	✓	N/A
■ No Assurance		
C Consultancy		

The background for this service, including the agreed scope and risks identified, are included in the Audit Planning Sheet (APS) which can be found [here](#).

Internal Audit report by exception only. We mention only those areas where further management action is required to improve internal control.

These management actions are set out in the recommendation table on page 2.

D = Design of Controls C = Comply with Controls.

See glossary and contacts on page 4 for definitions and further details. For full risk identified and please see the APS.

Risk Headings	D	C	Recs		
			H	M	L
Risk 1. Milestones and Exit Plans	7		1	6	
Risk 2. Staffing Levels & Cost					
Risk 3. Level of Intervention	2	1		3	
Risk 4. Managerial Oversight of Case Load Weighting	1	1		2	
Total Number of Recommendations	10	2	1	11	0
Opinion of Design and Compliance	●	★			

Performance of Fieldwork

Internal Audit has incorporated some of the findings of the review of a sample of 20 cases by the Lead Operations Manager for Adult Community Services. The Service Manager for Safeguarding & Risk is addressing issues arising from the findings that have not been incorporated in the key findings of this Internal Audit Review.

Internal Audit is not responsible for the accuracy of the findings. This work confirmed Internal Audit findings.

Key Findings that Need Attention

- Internal Audit evidenced from a review of a sample of Long Term & Complex cases that they were being allocated, monitored, supervised and closed. However there are no formal procedures to record these processes.
- Milestones and exit plans are not formally identified and recorded for Long Term & Complex cases.
- There is no evidence of regular monitoring of the length of time cases remain open and the rate of closure of Long Term & Complex cases. Further, there are no key performance indicators governing the closure of Long Term & Complex cases.
- Reasons for delays in the allocation of cases are not routinely recorded and monitored by management.
- There is no evidence that the immigration status of clients with no recourse to public funds is regularly monitored.
- Key decisions made verbally for cases are not formally recorded as part of the monitoring process.
- Case direction and supervision notes are recorded manually and not captured on the Integrated Adult System (IAS).
- Case updates were not routinely undertaken on the Integrated Adult System (IAS).
- Actual case loads of social workers for Long Term & Complex cases do not agree with performance monitoring information.
- The caseload weighting tool for the prioritisation and allocation of cases is not being used by management.

Further Considerations

- Staff levels and costs are considered to be reasonable. There was an overall net underspend of £68k at 31 March 2013 for the Safeguarding & Risk section.

Comment by Interim Head of Adult Assessment & Care Management

- The Audit Commission Report recommends that no more than 10% of Adult Social Care Spend is spent on staffing. Lewisham are currently spending 12% of the budget and efficiencies on staffing could be made in this area.

Changes to Scope

This review was conducted in line with the original scope as agreed in the APS.

Appendix 4 - No Assurance, Limited and Consultancy reviews.

	Direction of Travel
★ Substantial	
● Satisfactory	
▲ Limited	✓ N/A
■ No Assurance	
C Consultancy	

The background for this service, including the agreed scope and risks identified, are included in the Audit Planning Sheet (APS) which can be found [here](#).

Internal Audit report by exception only. We mention only those areas where further management action is required to improve internal control.

These management actions are set out in the recommendations table on page 2.

D = Design of Controls C = Comply with Controls.

See glossary and contacts on page 11 for definitions and further details. For full risk identified and please refer to the APS.

Risk Headings	D	C	Recs		
			H	M	L
Risk 1. There may not be a formal management structure for the administration of the contract.	▲	●	2	2	1
Risk 2. Poor procurement practises may be leading to over-purchasing.	●	●		3	
Risk 3. Monitoring of budgets and budget contributions.	●	★		1	
Risk 4. Performance assessments may not be sufficient to identify inefficient practices.	▲	★	1		
Total Number of Recommendations	9	1	3	6	1
Opinion of Design and Compliance	▲	●			

Key Findings that Need Attention

- The Section 75 Agreement between the Lewisham partnership, which determines pooled budgetary arrangements and management responsibilities, is at an early undeveloped stage.
- There is insufficient procurement information to enable effective statistical monitoring of the contract to be undertaken.
- Strategic Management Group meetings are not held on a regular basis.
- There is no clear guidance to staff in respect of cost savings in the re-issue of refurbished equipment in preference to purchasing new equipment.

Areas of good practice where controls worked well

- Meetings between stakeholders at an operational level are held monthly.
- Controls within the Transforming Community Equipment Services (TCES) purchasing system restrict the range and value of items individual purchasing officers can purchase.
- There are detailed guidance instructions for the use of the TCES purchasing system.
- The TCES system maintains an audit trail of all purchases.
- Access to refurbished equipment is to be made available to all boroughs participating in the consortium.
- Only the Joint Commissioning Officer is able to set up new purchasing staff onto the TCES system.

Changes to Scope

This review was conducted in line with the original scope as agreed in the APS.

Appendix 4 - No Assurance, Limited and Consultancy reviews.

Internal Audit Assurance Opinion	Direction of Travel	
★ Substantial		
● Satisfactory		
▲ Limited		
■ No Assurance	✓	↘
C Consultancy		

The background for this audit, including the agreed scope and risks identified, are included in the Audit Planning Sheet (APS) which can be found on page 22.

Internal Audit report by exception only. We mention only those areas where further management action is required to improve internal control.

These management actions are set out in the recommendation table from page 2

D = Design of Controls C = Comply with Controls.

See glossary and contacts on page 21 or definitions and further details. For full risk identified and please see the APS on page 22

Risk Headings	D	C	Recs		
			H	M	L
Risk 1. Governance	▲	●	2	3	1
Risk 2. Inventory / Assets	■	★	2	1	-
Risk 3. Banking	★	★	-	-	-
Risk 4. Budget Monitoring	●	▲	2	3	-
Risk 5. Income	★	★	-	-	-
Risk 6. Recruitment	●	●	-	2	-
Risk 7. Payroll	★	★	-	-	1
Risk 8. Procurement	■	▲	1	5	2
Risk 9. Data Security	★	●	-	1	-
Total Number of Recommendations	14	12	7	15	4

Changes to Scope

This review was conducted in line with the original scope as agreed in the APS. At the Chair of Governors request, the review was brought forward from November 2013, as initially arranged.

Key Findings that Need Attention

- The School's Financial Controls Document did not contain good governance and financial procedures and should be redrafted. It referred to the Academies Handbook and obsolete Rainbow Pack.
- Some minutes of committee meetings were unavailable for review. Where minutes were reviewed, financial information was not kept with the minutes as evidence of what was discussed.
- The terms of engagement and roles fulfilled by the Responsible Officer do not comply with the guidelines for an Academy School.
- Staff with financial responsibilities as well as some governors had not completed a 'Register of Interests' form.
- Multiple asset registers were maintained and they did not contain all known assets (Kindles and mobile phones identified during testing) nor did they contain the expected information categories needed for an asset register.
- Assets that were written-off were not identified on the asset register. The write-off forms were not completed in full, or completed sufficiently to prevent additional items being placed on the form after authorisation.
- Virement limits in the School's Financial Controls Document are not clearly defined. In addition, the virement forms did not always state a valid reason for the virement. The forms were only signed by the Chair of Governors and not the Head Teacher in line with the school's Financial Controls Document.
- The member of staff presenting financial information to the finance and general purpose committee is also the clerk to that committee. In addition, the Responsible Officer is also the clerk to the governors. Both situations create conflicts of interest.
- The school did not retain on file evidence of the right to work in the UK for New Starters, in line with Boarder Agency requirements.
- New members of staff had two references as required, but from people with the school (Teachers or Governors) and not external reference(s).
- Purchase orders were not consistently raised for goods and service.
- The procurement process was not clear in the Schools Financial Controls Document and it was unclear what the signatures were authorising on the invoice (i.e. budget check, goods services rec'd, or authorised for payment).
- The school did not adhere to their own procurement rules or those of the Council in terms of seeking quotes or tenders for significant expenditure.
- The school did always chose the lowest quote, and did not evidence justification of their decision in such cases.

Appendix 5 – Follow-up reviews conducted since the last audit panel meeting.

Dir.	Audit Name	Original Audit Opinion	Final Rpt date	F/up Rpt Date	Rec Cat.	Implemented	In Progress	Superseded	Not Implemented	Total Recs
RRE	Cyber Security	Limited	23/07/12	31/05/13	H		1			7
					M	2	3	1		
RRE	Implementation of HR and Payroll System (ResourceLink)	No Assurance	06/09/12	11/06/13	H					8
					M	5	1	1	1	
RRE	Information Governance Control Framework	Satisfactory	03/08/12	11/06/13	H					3
					M	3				
RRE	Counter Fraud Policies and Procedures	Consultancy	14/06/12	12/06/13	H					2
					M	1	1			
RRE	Members Allowances and Expenses	Substantial	19/10/12	24/06/13	H					2
					M	2				
RRE	Gifts and Hospitality	Limited	15/10/12	27/06/13	H		3		1	7
					M			3		
RRE	Major Grants	Satisfactory	30/05/12	12/06/13	H					3
					M	3				
CUS	NNDR – Application Implementation	Limited	17/08/12	28/05/13	H					1
					M			1		
COM	Community Libraries Contract	Satisfactory	28/09/12	12/06/13	H	1	1			2
					M					
COM	Monitoring of Small Grants	Consultancy	05/10/12	16/07/13	H					4
					M	2	2			
COM	Personal and Individual Budgets	Consultancy	05/10/12	16/07/13	H					6
					M	4	2			

Appendix 5 – Follow-up reviews conducted since the last audit panel meeting.

Dir.	Audit Name	Original Audit Opinion	Final Rpt date	F/up Rpt Date	Rec Cat.	Implemented	In Progress	Superseded	Not Implemented	Total Recs
CYP	Looked After Children Payment 11-12	Substantial	30/05/12	12/06/13	H					2
					M	1	1			
CYP	Data Handling Controls in Schools	Limited	14/05/12	26/06/13	H		1			9
					M	7	1			
SCH	Holbeach Primary School 2012/13	Limited	27/09/12	01/07/13	H		1			6
					M	4	1			
SCH	Fairlawn Primary School 2012/13	No Assurance	14/11/12	04/07/13	H	4	1		1	16
					M	7	3			
						46	23	2	7	78

Agenda Item 6

AUDIT PANEL		
Report Title	ANTI FRAUD AND CORRUPTION TEAM (A-FACT) UPDATE	
Key Decision	NO	Item No. 6
Ward	ALL	
Contributors	Interim Head of Audit & Risk A-FACT Group Manager	
Class	Part 1	Date: 12 September 2013

1. Purpose of the Report

- 1.1. The purpose of this report is to present the Audit Panel with a review of the work of the Anti-Fraud and Corruption Team (A-FACT) in the last period.

2. Recommendations

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

3. Special Investigations

- 3.1. Details of work and comparative figures for the same period in the prior year are shown below, along with the previous two full year figures for reference.

Summary of special investigations work	2013/14	2012/13	Change		2012/13	2011/12
	P4 YTD	P4 YTD	Number	%	FY	FY
b/f	41	32	9	28%	32*	84
New	28	32	-4	-13%	103	61
Closed	(29)	(18)	11	61%	-94	-115
c/f	40	44	-6	-13%	41	30
Of which						
E'ee cases	8	11	-3	-27%	35	53
- resulting in action	4	2	2	100%	21	20
Other cases	21	7	14	200%	59	62
- resulting in action	4	0	4	400%	13	10

* corrected figure (two added)

- 3.2. The majority of the cases classified as "Other" relate to enquiries to assist other organisations or Boroughs with their investigations. The four which resulted in action for Lewisham included:

- Prosecution for the fraudulent use of a Blue Parking Badge resulting in a £200 fine, £200 costs and a £20 victim surcharge payment. It is estimated by the National Fraud Authority that a Blue badge has a notional value of £825 per year.
- Action against the daughter of a Lewisham Pensioner who had failed to inform the Council that her mother had died. A-FACT was able to prove that the Lewisham Pensioner had died earlier than the daughter claimed but due to the daughters age and poor health the case was not deemed suitable for prosecution. She will however have to repay the overpaid pension.

- 3.3. The increased focus on those cases likely to obtain results has continued to improve the teams success rate.

Employee Related cases

- 3.4. Of the 29 cases closed 8 concerned employees. Of these employee cases 4 concluded with action being taken. The form that action took is detailed below:

Analysis of employee fraud	2013/14	2012/13	Change		2012/13	2011/12
	P4 YTD	P4 YTD	Number	%	FY	FY
Dismiss. & Convicted	0	0	0	0%	2	2
Convicted & recommended disciplinary action	0	0	0	0%	1	
Resigned/Dismissed	1	1	0	0%	5	9
Other disciplinary	2	1	1	100%	3	8
Monies repaid	0	0	0	0%	1	0
Management action	1	0	1	100%	6	1
Identity issue cleared	0	0	0	0%	3	0
Total	4	2	2	100%	21	20

- 3.5. The four cases where action was taken included:

- A senior officer at a school who received an appropriate sanction for a number of financial irregularities.
- An employee who misused a Blue Badge to park in the Laurence House car park received an appropriate sanction.

- 3.6. Quarterly reports continue to be issued to each Executive Director with a summary of all cases being dealt with by Special Investigations in their Directorate. This ensures that the risk of fraud is considered in the context of the demands of the service, priorities are agreed, and progress on investigations communicated.

Lewisham Homes

- 3.7. A-FACT continues to undertake investigation work on behalf of Lewisham Homes under a Service Level Agreement. This equates to just under one full time equivalent member of staff and a proportion of the police officer's time. The outcome of these investigations is reported by Lewisham Homes to their Audit Committee.

Pre-employment Checks

- 3.8. A-FACT support Human Resources by undertaking part of the Council's recruitment checks. Each potential employee of the Council is required to complete a pre-employment check focusing on any issues relating to benefits, council tax, rent and personal business interests which may cast doubt on the individual's integrity or potential conflicts for their work going forward.

Summary of pre-employment checks	2013/14	2012/13	Change		2012/13	2011/12
	P4 YTD	P4 YTD	Number	%	FY	FY
Checks completed	72	97	-25	-26%	246	334
Action taken	3	4	-1	-25%	16	21

- 3.9. In the three cases where action was required to confirm the declarations made all were subsequently resolved satisfactorily.

4 Benefit Investigations

- 4.1 Details of work and comparative figures for the same period in the prior year are shown below, along with the previous two full year figures for reference.

Summary of benefit investigations work	2013/14	2012/13	Change		2012/13	2011/12
	P4 YTD	P4 YTD	Number	%	FY	FY
b/f	210	349	-139	-40%	349	381
New	160	100	60	60%	304	264
Closed	79	230	-151	-66%	443	-296
c/f	291	219	72	33%	210	349
Sanctions resulting	22	25	-3	-12%	78	84
Of which						
Admin penalty	0	3	-3	-100%	7	11
Caution	13	16	-3	-19%	54	52
Prosecution	9	6	3	50%	17	21
Overpayment value £	225,473	253,873	-28,400	-11%	616,761	640,355

- 4.2 There have been nine prosecutions in the period April to July. A-FACT are hoping to do a press release on a number of these cases in the near future, subject to agreement from Communications.

- 4.3 There has been no further update on the formation of the Single Fraud Investigation Service which was meant to bring together the work of the DWP, HMRC and Local Authority benefit fraud teams. This was meant to happen from April 2013 originally and at present the back stop is the completion of the rollout of Universal Credit in 2017/18.

5 Housing Investigations

- 5.1 Details of work and comparative figures for the same period in the prior year are shown below, along with the previous two full year figures for reference.

Summary Housing investigation work	2013/14	2012/13	Change		2012/13	2011/12
	P4 YTD	P4 YTD	Number	%	FY	FY
b/f	76	48	28	58%	48	72
New	19	19	0	0%	105	66
Closed	(68)	(28)	40	143%	-77	90
c/f	27	39	-12	-31%	76	48

Summary Housing investigation work	2013/14	2012/13	Change		2012/13	2011/12
	P4 YTD	P4 YTD	Number	%	FY	FY
Resulting in action	5	7	-2	-29%	24	18

- 5.2 The large number of closed cases is due to the near completion of a proactive project looking at new applications for housing on the basis of overcrowding. This involved looking at 117 applications for housing on the grounds that the applicants were residing in overcrowded accommodation and who had presented for housing following Lewisham's new Housing Allocation policy which came into effect on the 29th October 2012. The project's objective was to assist the Housing Register Team in a gatekeeper role to prevent those applicants who were not eligible for housing being accepted onto Lewisham Housing register. To date 108 of these cases have been accepted on to the Lewisham Register with one proven as fraud, and a further seven still under investigation.
- 5.3 Since the last report, five cases have been successfully concluded. These relate to four fraudulent homelessness applications and one fraudulent Housing register application.
- 5.4 The Audit Commission have stated that there is a significant value associated with recovering tenancies and preventing fraudulent applicants from being housed. They estimate that the average cost of temporary accommodation for a family for a year is £18,000. On this basis A-FACT have either recovered or prevented tenancies being wrongly allocated in five cases, representing a saving of £90,000.

6 DCLG Housing Bid funding

- 6.1 Since January 2012, using DCLG funding A-FACT have an additional investigator to work with local housing partners to tackle fraud related to social housing. Work is being directed by Strategic Housing (Customer Services) and delivered by A-FACT working in Lewisham and with the South East London Housing Partnership (SELHP).
- 6.2 In the last period five properties were recovered following work with L&Q and Regenter B3/Pinnacle. Importantly, from this work Lewisham also earns the nomination rights on these properties. There are also a number of cases due to be completed in the coming months, once eviction notices are served etc..
- 6.3 On the basis of the Audit Commission figures for the value of social housing, as detailed in para 5.3, the recovery of five tenancies equates to £90,000.
- 6.4 Following the successful work noted above, the London Borough of Lewisham has secured funding of £100k annually from the DCLG to continue this project in 2013/14 and 2014/15. A-FACT have worked with SELHP and are currently in the early stages of agreeing to work with Family Mosaic and Hexagon Housing to tackle subletting across the region.

7 Publicity

- 7.1 A-FACT has not issued any press releases in this period. However, they have been filming for the forthcoming Saint & Scroungers TV series. This builds on the positive feedback from participation in a previous series.

8 Fraud Awareness Training

- 8.1 Although A-FACT have not delivered any training sessions in this period they have a number of sessions scheduled over the summer and early autumn. These include general Fraud Awareness session for new employees at their induction event and

more training for our housing partners, at the request of SELHP and delivered on a chargeable basis.

9 Metropolitan Police Seconded

- 9.1 Detective Constable Norris is on secondment to A-FACT from the Metropolitan Police.
- 9.2 As Lewisham A-FACT have become more proficient in securing prosecutions, we have started to uncover more sophisticated frauds which require the powers of arrest and search in order to be addressed effectively. The Police Seconded continues to enable the team to deal with cases that we wouldn't otherwise be able to progress.

10 Legal Implications

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

11 Financial Implications

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

12 Equalities Implication

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

13 Crime and Disorder Implications

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

14 Environmental Implications

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

15 Background Papers

- 15.1 There are no background papers reported.

If there are any queries on this report, please contact
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