



AGENDA AUDIT PANEL

Date: TUESDAY, 13 SEPTEMBER 2016 at 7.00 pm

Committee Room 4

Civic Suite

Lewisham Town Hall

London SE6 4RU

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COUNCILLORS

Councillor Jonathan Slater (Chair)

Councillor Helen Klier (Vice-Chair)

Councillor Chris Barnham

Councillor Bill Brown

Councillor Mark Ingleby

Independent Members

Paul Dale

Ian Pleace

Stephen Warren

Members are summoned to attend this meeting

Barry Quirk

Chief Executive

Lewisham Town Hall

Catford

London SE6 4RU

Date: 6 September 2016



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

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Agenda Item 1

AUDIT PANEL		
Report Title	MINUTES	
Key Decision		Item No. 1
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 13 September 2016

Recommendation

It is recommended that the Minutes of the meeting of the Audit Panel, which was open to the press and public, held on 8 June 2016 be confirmed and signed.

MINUTES OF THE AUDIT PANEL

Wednesday, 8 June 2016 at 7.00 pm

PRESENT: Councillors Jonathan Slater (Chair), Helen Klier (Vice-Chair), Chris Barnham, Bill Brown and Mark Ingleby

ALSO PRESENT: Chair welcomed Ian Pleafce and Steven Warren as observers to the meeting.

Apologies for absence were received from Paul Dale

1. Election of Chair and Vice Chair

RESOLVED

- i. that Councillor Slater be appointed Chair of the Audit Panel for the Municipal Year 2016/17.
- ii. that Councillor Klier be appointed Vice Chair of the Audit Panel for the Municipal Year 2016/17.

2. Minutes

RESOLVED that the minutes of the meeting held on 8 December 2015, which was open to the Press and Public, be confirmed as a correct record.

3. Declarations of Interests

None received.

4. Audit Plan 2015-16

The report was introduced by Darren Wells, Director, Grant Thornton. He informed the Panel that there was likely to be 2 significant risks based on information from their early audit. He also stated that there would be a slight change this year on how Grant Thornton arrived at their Value for Money conclusion. They would undertake a risk assessment and identify the significant risks, then they would do the work to offset those risks. He said they had not yet carried out the risks assessments, this would be done and the findings reported to the next Audit Panel meeting.

RESOLVED that the report be noted.

5. Pension Fund Audit Plan 2015-16

Jamie Bewick, Manager Public Sector Assurance, Grant Thornton introduced the report. He highlighted possible risks as a result of the valuation being incorrectly stated. Jamie Bewick added that some audit work might be necessary to assess the risk.

RESOLVED that the report be noted.

6. Pre-Audit Statement of Accounts 2015-16 -

The Head of Financial Services introduced the report, and the Acting Group Finance Manager – Core Accounting highlighted the main points in the report. Panel Members were told that the Statement of Accounts would be going to the Pensions Investment Committee the next day. It was noted that there was a slight decline in reserves.

The Head of Corporate Resources introduced the draft Pensions Fund Accounts and informed Panel Members that there had been little change and the accounts were down £6.7m approximately.

Councillor Ingleby received confirmation that the information on page 278 of the report on Financial Risk Management of the Pension Fund Accounts referred to last year's performance. The Chair said the Council's Governance priority on page 256 of the report was comforting to see, and asked Members to note this, as they need to ensure the Council was looking at the budget and responding to both internal and external activities.

It was noted that the Monitoring Officer holds quarterly meetings with senior officers to ensure the Council's Governance Framework was robust. The Council's performance was also reviewed against constant savings and changes taking place within the Council's structure.

RESOLVED that the report be noted.

7. Annual Assurance Report

The Head of Corporate Resources introduced the report.

Concerns were raised about the performance of Contract Management. The Head of Corporate Resources said there were two aspects to this service; Procuring and Contract Management. He said the section that deals with monitoring the procurement practice had been restructured and as a result some staff members had left. Recruiting to the current posts had proved difficult. It was noted that officers needed to ensure sufficient attention was given to this service.

The Chair said the responsible officer should be invited to the next meeting to explain to members why things were going wrong. The Chair asked who the responsible officer was, and was told the Head of Corporate Resources was responsible for this area.

The Head of Corporate Resources assured Panel Members that he would look through the past two years to find out which practices worked well and those that did not. He would then meet with the Managers for discussions to ensure practices improve. The Chair said he was happy with this suggestion and asked the Head of

Corporate Resources to see if there were any obvious patterns, and said he hoped officers had learnt from past mistakes.

Action >>>> Head of Corporate Resources

The Head of Corporate Resources said he would provide a briefing for Councillor Brown on the Council's System of internal control.

Action >>>> Head of Corporate Resources

Councillor Ingleby asked how officers intended to address the issue with Marzars company and was told that London Borough of Croydon would be dealing with this as Marzars was their contractor. The Head of Corporate Resources said Lewisham would continue their arrangements with Croydon to the next financial year to secure continuity but the Council's contract with Greenwich had come to an end and three people had been recruited to do the work internally.

Concerns were raised over the no assurance for Accounts Payable (core Financial Audit), and officers told they need to look at what caused the problems and how they would address them. The Head of Corporate Resources said he would investigate this further and report back to the Panel. The Executive Director Resources & Regeneration said a meeting with responsible managers would be organised as soon as possible and Action Plans put in place.

Action >>>> ED Res & Regen

RESOLVED that the Annual Assurance report for 2015/16 be noted.

8. Internal Audit Update

The Head of Corporate Resources introduced the report. He highlighted that the independent external PSIAS assessment took place in February 2016 and there were 2 advisory recommendations made by the assessors to improve standards;

- i. the Panel could meet with the Internal Audit Contract Manager to find out if she has any concerns as to the independence of the present audit arrangements, and
- ii. the Audit Panel should consider whether they would like to complete an effectiveness assessment that included an assessment of effectiveness of the internal audit service and Head of Internal Audit.

The Chair said he would be happy to meet with the Internal Audit Manager sometime in September, and Audit Panel Members would decide whether they would like to complete the assessment as a group.

The Head of Corporate Resources told the Chair that he could meet with the Internal Audit Manager and other staff in the section when he wished to.

Following a question from Councillor Ingleby about consultancy reviews, the Head of Corporate Resources said Audit Panel would only be consulted if a consultancy review required significant audit resources to complete. The Executive Director for

Resources and Regeneration said an example would be Contract Management work. The Head of Corporate Resources said this would be very rare.

RESOLVED that:

- i. the report be noted.
- ii. the proposed internal audit plan for 2016/17 be approved.
- iii. the Internal Audit Charter for 2016/17 be approved; and
- iv. the two recommendations from PSIAS relating to members be agreed.

9. Anti Fraud and Corruption Team (AFACT) Update

The Head of Corporate Resources introduced the report.

The Chair said he was aware of a lot of cases where people were trying to get properties under the Right to Buy Scheme using other people's names. He asked whether officers had noticed an increase of fraudulent activities in this area. It was noted that there had been an increase in the following cases; Right to Buy, sub tenancies, and inheritance tenancies. Officers have to ensure the processes were watertight to limit the risks.

RESOLVED that the report be noted.

Meeting ended:8.00pm

Chair.....

Agenda Item 2

AUDIT PANEL		
Report Title	DECLARATIONS OF INTEREST	
Key Decision		Item No. 2
Ward		
Contributors	Chief Executive	
Class	Part 1	Date: 13 September 2016

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 not 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	Final Accounts 2015/16 – Grant Thornton’s External Audit Reports		
Key Decision	No	Item No.	3
Ward	ALL		
Contributors	Executive Director for Resources and Regeneration		
Class		Date:	13th September 2016

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 2015/16 Main Accounts and Pension Fund Accounts.
- 1.2 The Grant Thornton report on its Value for Money conclusion on the Council’s arrangements in place for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness is included within the Main Accounts report.

2. RECOMMENDATION

- 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 and the Value for Money conclusion – Year ended 31 March 2016. **ATTACHED**

2 - Grant Thornton – The Audit Findings for the London Borough of Lewisham Pension Fund - Year ended 31 March 2016. **ATTACHED**

The Audit Findings for London Borough of Lewisham

Year ended 31 March 2016

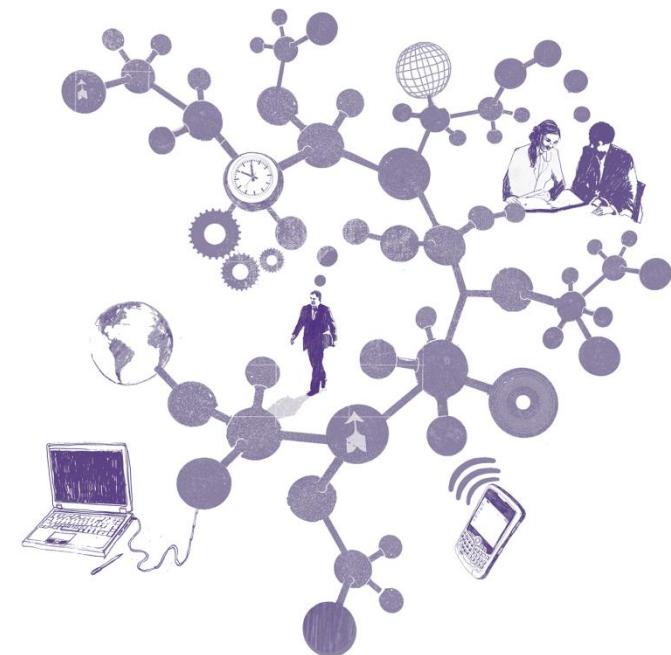
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Councillor Jonathan Slater
London Borough of Lewisham
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5 September 2016

Dear Councillor Slater

Audit Findings for London Borough of Lewisham Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of the Audit Panel, as those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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 and giving a value for money conclusion. 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.

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

Yours sincerely

Darren Wells

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Section 1: Executive summary

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1

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

Purpose of this report

This report highlights the key issues affecting the results of London Borough of Lewisham ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. 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, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated March 2016.

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

- housing benefits;
- responding to identified control weaknesses, particularly in operating expenses;
- finalising PPE valuation adjustments;
- additional queries arising from quality review procedures;
- review of the final version of the financial statements;
- obtaining and reviewing the management letter of representation;
- review of revised versions of the Annual Governance Statement;
- updating our post balance sheet events review, to the date of signing the opinion; and
- Whole of Government Accounts.

Key audit and financial reporting issues

Financial statements opinion

We have identified a number of significant adjustments affecting the Council's Comprehensive Income and Expenditure statement and balance sheet. From our work to date none of the identified adjustments affect the overall performance against the Council's revenue budget, although there are several which affect reported income and expenditure and asset values.

A separate schedule of adjustments has been prepared. Officers are still working through the overall impact of these on the primary financial statements, notes and collection fund. Some of the key adjustments affecting the accounts are as follows.

- There are a number of errors in the Council's accounting treatment of Property, Plant and Equipment, leading to some significant adjustments.
- The Council had not accounted correctly for NNDR in the collection fund. This requires multiple adjustments affecting all of the primary financial statements.
- There were several errors in the accounting treatment of grant income.

We have also recommended a number of adjustments to improve the presentation and disclosure of the financial statements. Further details are set out in section two of this report.

Subject to amendment of the issues we have highlighted, we anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Closedown arrangements

From 2017/18 all councils in England will be required to publish their audited financial statements by 31st July (currently 30 September). For an organisation as large and complex as London Borough of Lewisham this will be a significant challenge, requiring a major review of working arrangements.

In early 2016 we discussed this issue with the finance team and agreed to treat the 2015/16 audit as a 'dry run' for the earlier closedown. This plan entailed producing draft accounts by 31 May and the audit to be completed by 31 July. In April we gave a presentation to the finance department setting out the revised timetable and the audit requirements.

The Council successfully produced draft financial statements by 31 May, in line with the timetable agreed with management. Working papers were made available either at the start of our audit or when requested. By the end of July the audit was substantially further advanced than in the previous year.

However the target of completing the audit by the end of July was not achieved and some work, most notably housing benefits, had to be deferred to September. This was because of the volume of issues which arose and the Council's limited capacity to deal with the audit work in the shorter timescale. We have been in discussions with the finance team over lessons learned from this dry run and in particular how more capacity can be added to the finance team to complete the audit in a shorter and earlier timescale. Additional finance capacity during the audit would enable the Council to respond more quickly to queries, enabling the audit team to complete its work in a more efficient manner.

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

The draft version of the Annual Governance Statement did not make mention of the control issues which led to the limited assurance opinion from the Head of Internal Audit. We requested that the Council should make a fuller disclosure of control issues.

Controls

Role and responsibilities

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 the Council.

Findings

We draw your attention in particular to control issues identified in relation to the IT control environment, including access controls and separation of duties. Further details are provided within section two of this report.

We also had due regard in our testing strategy to the control weaknesses raised by internal audit and in the Head of Internal Audit opinion, particularly in relation to the accounts payable system which received a "no assurance" opinion. To mitigate this risk we tested a larger sample of expenditure, with a focus on the robustness of the supporting evidence.

Although ours was not specifically an audit of controls, our observations during the audit were consistent with those of internal audit. We noted weaknesses in access, separation of duties and authorisation. The number of staff in the finance team has reduced significantly in recent years. Additionally the Council moved to a shared financial services system in 2014. It is not clear that the Council has maintained a full and compliant system of internal control following these changes. The Council should re-evaluate its control framework and ensure new ways of working are understood and complied with by staff.

We have discussed these control issues with the Head of Financial Services, involving specialists in those discussions.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Key messages from our review are:

- The Council is making good progress in identifying savings schemes to meet its targeted savings from health and social care integration.
- As previously noted, significant weaknesses in financial controls have been identified and reported during 2015/16. The Council is taking action to mitigate this including reviewing the future of its financial shared service arrangements.
- There was a significant overspend on service budgets in 2015/16, which was mitigated by use of corporate contingencies and reserves. The Council has sufficient contingencies and reserves to ensure financial resilience for the foreseeable future.
- The Council continues to develop its medium term financial strategy to meet the savings required by 2020. Management have reported that future savings will need to focus on service transformation as well as efficiencies.
- The Council has reported mixed performance against its key performance indicators. Overall this is not directly linked to savings plans but rather to wider trends which also affect other neighbouring councils.

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

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Previously in 2014 we received an objection to that year's accounts, which was not material to the accounts and did not prevent us from giving an opinion that year. The elector withdrew their objection during 2016 and consequently we were able to close the 2014/15 audit.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit Panel in February 2017.

We have held initial meetings with officers to discuss our approach to the benefits certification where there were errors in the previous year, which could indicate a risk of errors in the current year.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Executive Director for Resources and Regeneration.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Executive Director for Resources and Regeneration and the finance team.

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
September 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £19,118k (being 1.75% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and we revised our overall materiality to £18,558k. Our lower materiality reflected an increased risk in the Council's system of internal control as highlighted by internal audit's findings.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect the accumulated effect of such amounts to have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £927k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate.

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Balance/transaction/disclosure	Explanation	Materiality level
Cash and cash equivalents	All transactions made by the Council affect the balance and it is therefore considered to be material by nature.	£500k
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£100k

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 (UK&I) 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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at London Borough of Lewisham, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including London Borough of Lewisham, mean that all forms of fraud are seen as unacceptable. 	<p>Our testing did not identify any significant issues.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> • Review of journal entry policies and procedures • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We did not identify, nor have we been made aware of, any unusual significant transactions.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against other risks

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Page 22	<p>Valuation of property, plant and equipment The Code requires the Council to ensure the carrying value at the balance sheet date is not materially different from current value. The Council considers the current value of its PPE assets annually, undertaking revaluations where deemed necessary to ensure that the PPE balance is fairly stated. This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> • Review of the competence, expertise and objectivity of any management experts used. • Walkthrough the system for PPE valuations • Review of management's processes and assumptions for the calculation of the estimate. • Review of the instructions issued to valuation experts and the scope of their work • Discussions about the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>Accounting for PPE is complex and as in previous years we have identified a number of significant issues with the Council's accounting treatment in this area.</p> <p>Management have agreed to amend the accounts for those issues we identified. Amendments are presented in section two of this report.</p> <p>Additional to the amendments listed, the valuer has stated in his report that there has been a material movement in the value of specialised assets in 2015/16. We have discussed with officers that this may mean that there is a material understatement of the value of assets which were not valued in 2015/16.</p> <p>This is likely to lead to a further material amendment to the value of PPE, the amount of which is still being discussed with management.</p>
	<p>Employee remuneration Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<ul style="list-style-type: none"> • Walkthrough payroll system, updating our understanding • Reconciliation of payroll to the General Ledger (for completeness) • Undertake analytical procedures e.g. trend analysis • Test a sample of transactions at the year end to confirm they are accounted for in the correct period (cut-off testing) 	<p>Our work has not identified any significant issues against the risk identified.</p>

Audit findings against other risks

Risks identified in our audit plan	Work completed	Assurance gained & issues arising
Operating expenses Creditors understated or not recorded in the correct period (Operating expenses understated)	<ul style="list-style-type: none"> • Walkthrough of operating expenses system, updating our understanding • Review and test the year end creditors control account reconciliation. • Test a sample of transactions at the year end to confirm they are accounted for in the correct period (cut-off testing) • Review your accruals policy and confirm that it has been properly applied 	<p>We tested an extended sample of transactions, to respond to the enhanced risk highlighted in the "no assurance" report. Officers are also carrying out their own retrospective review of expenditure which they plan to share with us before we give our opinion.</p> <p>Our work to date has not identified any issues in relation to the risk identified</p>
Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements. Page 23	<ul style="list-style-type: none"> • identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • undertake procedures to confirm the reasonableness of the actuarial assumptions made. • review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	We did not identify any issues in relation to the risk identified

Significant matters discussed with management

	Significant matter	Commentary
1.	Accounting treatment of National Non Domestic Rates (NNDR).	We found that the Council has not been accounting correctly for NNDR following the abolition of national pooling arrangements. We discussed this matter with management along with the appropriate accounting treatment. This has led to material changes in the accounts affecting multiple statements.
2.	Property, Plant and Equipment valuations (PPE).	We found multiple errors in the accounting treatment for PPE. This is a particularly complex area and has also been an issue in previous years. We recommend the Council reviews its arrangements for accounting for PPE.
3.	Minimum Revenue Provision	Management shared with us its proposals to change its arrangements for accounting for the Minimum Revenue Provision, following a review of asset lives. This affects the capital financing note to the accounts (note 31) and the effect is to create a notional income and expenditure benefit in the Council's budget reporting. The Council has disclosed this in the accounts. The amount is not material to our opinion on the accounts and we do not challenge the proposal.
4.	Financial controls	We have held a number of discussions with management around identified control weaknesses in financial systems. To mitigate the risk of this in our audit we have selected larger sample sizes than in previous years.

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Accounting policies, estimates and 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	The Council's policies on grants, contributions and other revenues are set out in the statement of accounting policies.	The revenue policies are reasonable and consistent with the Code.	 Green
Judgements and estimates	<ul style="list-style-type: none"> – Useful life of PPE, revaluations and impairments – Accruals – Valuation of pension fund net liability – Provisions – Impairment of debtors 	<p>As previously noted there were a number of significant errors with the Council's accounting for PPE valuations. The valuer's report noted a significant movement in the value of property replacement costs in 2015/16. This means the value of properties which were not revalued in year could be materially understated. The Council did not receive this part of the valuer's report until 7 June, which was after the draft accounts were produced. Officers are quantifying the effect of this, to reflect it in the accounts</p> <p>The Council's accounts are prepared on an accruals basis. We did not identify any issues with the accounting for accruals.</p> <p>We found the pension fund liability is consistent with the actuary's report and appropriately disclosed.</p> <p>Provisions are not material to our opinion and are appropriately disclosed.</p> <p>The impairment allowance for debtors is calculated in accordance with the Council's accounting policy. We note that at £63.9 million the impairment allowance now exceeds the balance of net debtors. The Council should review this and consider whether some of this should more appropriately be written off.</p>	 Red (PPE valuation)

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Judgements - local authority maintained schools premises	The accounting for schools is unchanged since the previous year and is disclosed at note 2 to the accounts	We reviewed the Council's critical judgements on schools in the 2014/15 audit and have not noted any new issues in 2015/16.	 Green
Going concern Page 26	The Executive Director for Resources and Regeneration has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continues to adopt the going concern basis in preparing the financial statements.	We are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements. The Council did not make an explicit statement of going concern in the financial statements, although this is implicit in the narrative statement and in the Council's Medium Term Financial Strategy. Management agreed to add a fuller disclosure to the accounts.	 Green
Other accounting policies	Accounting policies are set out in section 2 of the financial statements	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	 Green

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code 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 incidences of fraud as they are reported to the Audit Panel. There are no matters identified which are material to our audit opinion.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> • Note 30 (Related Party Transactions) made reference to the register of Members and Chief Officers Declarations of Interest. In our view this is not appropriate, as material transactions should be disclosed in the accounts. We were happy with officers' proposal to set an appropriate level of materiality for disclosures and to report transactions above this threshold in the accounts.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> • You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> • A standard letter of representation has been requested from the Council,
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> • We requested from management permission to send confirmation requests in relation to loans, bank accounts and investments. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> • Our review found no material disclosure omissions in the financial statements. A number of minor points were discussed with management.

Other communication requirements continued

	Issue	Commentary
Page 28	7. Matters on which we report by exception	<p>We are required to report on the following matters by exception:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading. <p>The draft version of the AGS stated there were no significant gaps or governance issues during 2015/16. It did not mention the adverse internal audit reports during the year and the limited assurance Head of Internal Audit opinion. Management agreed to amend the AGS so as to give a more balanced assessment.</p> <p>We did not identify anything in the Narrative Report which was inconsistent with our knowledge of the Council</p>
	8. Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>We plan to carry out this work before the end of September 2016.</p>

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. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as previously set out above. We also carried out a high level review of IT controls in respect of key financial systems and shared services.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1. Page 29	●	<p>We carried out a high level review of IT controls at the Council and at the shared service provider, focussing on the interface between the two.</p> <p>The review highlighted some significant issues specifically around separation of duties and access controls. These findings are consistent with our audit of last year and with reports from internal audit this year.</p> <p>We have reported these findings in detail to management in a separate paper and we have discussed these with the Head of Financial Services, involving our Senior IT Specialist in that discussion.</p>	<ul style="list-style-type: none"> Review and improve access controls and separation of duties in IT systems, with a focus on the detailed findings of our IT review.

Assessment

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

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.

Internal controls (continued)

	Assessment	Issue and risk	Recommendations
2.	● Page 30	<p>The Council's processes and quality control over PPE valuations are weak. We saw little evidence of checking of the valuer's report or of reconciliation between the report, the asset register and the accounts.</p> <p>When we carried out the reconciliation as part of our audit we noted several issues including</p> <ul style="list-style-type: none"> - Assets double counted - Assets which the Council does not own - Assets recorded at the wrong value 	<ul style="list-style-type: none"> • Strengthen quality control procedures to include management oversight of PPE valuations, to identify errors and omissions before the accounts are presented for audit.
3.	●	<p>The legislation for public inspection of the accounts has changed this year, with the introduction of the Local Audit and Accountability Act 2014.</p> <p>Although management knew about the revised legislation they were not aware that the public inspection period should include the first ten working days of July. Consequently they began the inspection period on 21 July, which ran for the full 30 day period as required.</p>	<ul style="list-style-type: none"> • For 2017 ensure full compliance with the public inspection requirements of the Local Audit and Accountability Act.

Assessment

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

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.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	In our 2014/15 Audit Findings report we reported that bank reconciliations were not taking place on a regular or timely basis.	<ul style="list-style-type: none"> Within the limited scope of our work on reconciliations we did not identify any issues with the frequency or timing of bank reconciliations.
2.	✗	<p>As part of our 2014/15 audit we carried out a high level review of IT arrangements at the new ledger shared services provider. We identified a number of control weaknesses. Similar issues were raised by internal audit in their review of the ledger.</p> <ul style="list-style-type: none"> We have shared the detailed findings with management. Key issues highlighted were as follows. We identified seven accounts with default passwords Excessive number of system administrators Multiple users for the same person Some individuals have excessive access levels Weak and inconsistent password policies Lack of segregation of duties Incomplete logging of activity Access rights that are not linked to an individual Access rights are not formally reviewed for appropriateness. 	<ul style="list-style-type: none"> As previously noted, similar issues were identified in our review of 2015/16

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Assessment

✓ Action completed
 ✗ Not yet addressed

Adjusted misstatements (Property, Plant and Equipment)

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management. There were no misstatements which management declined to amend.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail Page 32	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1 Sydenham school – double counted additions from 2014/15	13,388	(13,388)	
2 Revaluation incorrectly accounted (Heathside)	(1,437)	1,437	
3 Disposed dwellings still in accounts	6,232	(6,232)	
4 Surplus assets still in 'dwellings'	412	1,436 (412)	412
5 Disposal of asset already recognised in previous year	7,970	(7,970)	7,970
6 Disposed assets still in the accounts	2,513	(2,513)	
7 Revaluation differences on reconciliation	1,960	(9,630) (gross)	1,960
8 Adjustment to reserves (investment properties)		4,370 (gross)	
9 Assets under construction overstated	4,453	(8,961) (gross)	4,453

Adjusted misstatements (NNDR)

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1 Collection fund adjustment – reclassify £51.7 million payment to the national pool between the following headings - LBL share of precepts and demands £15.5 million - GLA share of precepts and demands £10.3 million - central gov share of precepts and demands £25.8 million Additional collection fund deficit £3.3 million			
2 Collection fund adjustment account		988	988
3 GLA / Gov share of deficit		2,304	2,304
Overall impact		3,292	3,292

Adjusted misstatements (grants and other)

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail Page 34	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1 NNDR grant income incorrectly taken to reserves	9,281	9,281	9,281
2 Adjustment needed between HRA and reserves	4,886	4,886	4,886
3 Creditors and CIES overstated in respect of cancelled recurring payments	1,215	1,215	1,215

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes above the threshold of £928k which were identified during the audit and which have been made in the final set of financial statements. Additionally there were numerous changes below this amount which we have not listed separately.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	Various	Note 30	Management to add details of material related party transactions during the year (note 30)
2 Misclassification	2,230	Note 29	Amendment to housing benefit grant income to match the grant claim
3 Misclassification	2,000	Note 29	Misclassification of public health grant
4 Misclassification	13,215	Note 29	Misclassification of grant income between general and specific grants
Misclassification	8,156	Note 9b	Misclassification between PPE additions and assets under construction
Misclassification	3,933	CIES	Misclassification of income between Adult social care and public health
7 Disclosure	5,003	HRA	Disclosure and misclassification error in the HRA and MiRS

Section 3: Value for Money

Page 3

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies the single criterion for auditors to evaluate:

37 *In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in July 2016 and identified the following significant risks, which we discussed and agreed with the Executive Director for Resources and Regeneration.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

- Consider how the Council can free up management capacity to focus on transformational change in services.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Health & Social Care Integration - The Council is working with partners in the local health economy towards greater health and social care integration. However the health economy is in significant financial difficulty which could create cost pressures for the Council and affect the Council's plans and assumptions around the Better Care Fund, social care funding and public health.</p>	<p>We will review the Council's plans and assumptions around health and social care integration particularly concerning the Better Care Fund. We will consider how the Council is managing associated cost pressures through working in partnership with local health bodies.</p>	<p>Health and Social Care Integration savings form a key part of the efficiency plan - £14.7m in total, £5.9m to be delivered in 2017/18. The Council has been working closely with Health for three years, particularly around the Better Care Fund monies allocated to social care. The process is overseen by the Adult Integrated Care Programme Board which reports to the Health and Wellbeing Board. One of the key projects supporting the savings target is looking at a whole system process for social care, including children's (a paper to the AICP Board was presented in April 2016 on this project). Progress has already been made on the appointment of shared joint posts, other aspects include enabling systems, such as IT, flexible working and estates. Another key project relates to the prevention agenda however, this is more about managing increasing demand, rather than making savings by reducing it. A new provider model is being set up for social care, which will drive financial benefits, but won't impact for several years. There is some benefit to the Council from increased Better Care Fund receipts to fund Housing options to reduce residential care, new extra care places and enablement services, that would otherwise have had to face cuts.</p> <p>The Council has made good progress in developing defined savings schemes to meet the £5.9m target. The Council is a relatively high spender on ASC according to its own benchmarking information - the bulk of the immediate savings target will come from reconfiguring day care services, transport and some renegotiation of price from providers of residential and domiciliary care. Some of the future savings are less clear and are expected to come from managing demand, which is more uncertain. There is some work to be done on re-ablement, to prevent people becoming dependent on high levels of care. The schedule of developed savings schemes for 2017/18 presented in the February 2016 Budget, included almost £3m of the £5.9m required from social care for the year 2017/18. The remainder are being developed for further review and approval in September 2016 and officers expect them to be fully developed by the time the budget is signed off in February 2017.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Significant risk	Work to address	Findings and conclusions
<p>Financial control - the Council transferred to a financial shared service provider in 2014/15 and also to a new internal audit provider. At the same time there have been staffing reductions within the Council. IA have issued a number of limited or no assurance reports and the Head of IA opinion gave limited assurance.</p>	<p>We will consider the Council's arrangements to maintain a sound financial control environment during a period of significant change. We will consider working arrangements with the shared service provider. We will review how the Council is responding to issues raised by its internal auditors.</p>	<p>We carried out a review of IT controls at the Council and at the shared service provider. This highlighted a number of issues around separation of duties and access controls. We discussed these issues with management, involving our senior specialist IT auditor in those discussions. Management acknowledged the issues and informed us they are considering what arrangements should be introduced when the current shared service agreement expires in 2018.</p> <p>Internal audit issued a number of limited assurance reports during the year and gave no assurance over the accounts payable system. To mitigate this we have carried out extended testing of expenditure in 2015/16. We also met with management, including systems specialists in the discussion, to discuss what action they are taking to address this. They informed us they have acquired a new system AP forensics to give an extra layer of checking of the regularity of invoice payments. We also discussed the Council's arrangements for initiating and authorising payments and awarding contracts. Management are reviewing this and they informed us they are carrying out a retrospective review of expenditure in 2015/16 and will share the result of this before we issue our opinion.</p> <p>While acknowledging there have been significant control issues in 2015/16 we have not identified material errors in our 2015/16 audit. Additionally management are responding to the issues raised.</p> <p>On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Significant risk	Work to address	Findings and conclusions
<p>In year financial management and monitoring - the Council overspent against its 2015/16 budget and had to draw on reserves, which is not sustainable in the long term. The Council faces similar budget pressures in 2016/17</p>	<p>We will review the cost pressures facing the Council in the current year, its response to these and its arrangements for managing them. We will consider the Council's intentions, approach and strategy towards its use of reserves.</p>	<p>There was a significant overspend on budget in 2015/16, as had been forecast - approximately £6.3m overspent on service budgets overall. However, as in past years the corporate finance team has implemented planned mitigating action to maintain a balanced financial position. A £3.2m corporate contingency had been set aside in the budget to manage risks and other budget pressures. A further £1.7m was covered by other one off underspends in the corporate budget, and the remaining £1.4m was drawn from earmarked reserves (accounting for the bulk of the £1.6m reduction in Earmarked reserves in the year, as reported in the financial statements).</p> <p>The Council has significant reserves set aside to provide a buffer against budget overspends, and only a fraction of these were used in 2015/16. Approximately £30m of earmarked reserves, covering cost efficiency and redundancy reserves, have been set aside to cover budget pressures and risks (out of £68m earmarked reserves set aside for specific purposes). A further reserve of £16.3m generated from accumulated new homes bonus receipts was also available to be used to support the financial position, but this was not required in year. Capital receipts reserves are also available, but do not form part of the planned contingency at this stage. Including the £3.2m corporate contingency built into the budget, the Council has the resilience to be able to fund a similar budget deficit in each of the next 4 years up to 2020. The Council recognises that despite the resilience provided by reserves and budgeted contingencies, it cannot continue to incur budget overspends indefinitely. The Council deliberately sets a challenging budget for its service managers in order to drive cost efficiency. Budget holders are held to account for delivering their budgets - the corporate finance team established that the service overspends were primarily due to demand pressures and were not related to the failure to deliver savings plans.</p> <p>The two key areas of service overspend were in the Children and Young People (£7.4m overspend) and Customer Services (£3.9m overspend) directorates, with the overall overspend of £6.3m being achieved through the mitigating effect of underspends on the other directorates.</p> <p>We concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Significant risk	Work to address	Findings and conclusions
<p>Medium term financial planning - The Council estimates that it needs to achieve £45 million of recurring savings or additional recurring income over the next three years. This is a significant challenge following on from efficiencies already made.</p>	<p>The Council plans to present its budget and savings proposals in July. We will review these proposals, consider how realistic they are and consider the arrangements that are in place to implement them. We will consider the Council's plans for commercialisation and how these are contributing to the financial strategy.</p>	<p>The Council has a good track record of delivering cost efficiencies. As noted above, the Council has significant reserves set aside to provide a buffer against budget overspends, and in addition, there are a number of areas of discretionary spend that could be used if alternative schemes can not be found. Therefore the Council has financial resilience to set a balanced budget for the foreseeable future.</p> <p>The Council stripped out the savings required for 2016/17 from the February budget presented to members, and also put forward £17.5m of savings schemes for 2017/18, a year in advance of need. The Council has set out its revised financial efficiency plan, which revises the Council's cumulative funding shortfall and saving target up to £62.4m in the 4 years up to 2020. Key savings areas include Health and Social Care Integration (£14.7m), Asset Rationalisation (£9.4m), Management and Corporate Overheads (£9.2m) with other significant contributions from Culture and Community, Environment, Customer contact and Early Intervention. The savings are front-loaded with £23.8m deliverable in 2017/18. A further £21 million proposals is due to be put before members in September leaving £24m still to be identified and agreed. We reviewed the breakdown of savings proposals agreed to date and confirmed that the programme appears reasonable, if challenging, taking into account the track record of delivering savings to date.</p> <p>The Lewisham Futures Board is well established. It meets weekly and supports the savings plans at a strategic level. Most savings have been focused on efficiencies in business as usual – so haven't yet required a corporate programme to deliver. Management believe that future savings will have to focus much more on service transformation, rather than efficiency savings. This might require a more overt corporately led process. This would still need to be driven by service managers but would need Corporate coordination & support. Management acknowledge that service managers do find it difficult to free up time for thinking & developing ideas, from business as usual demands.</p> <p>To support the established work of the Lewisham Future Programme in 2015 the Council adopted its Lewisham 2020 strategy, which was developed around a large scale consultation with the community (the Big Budget Challenge). This focuses on four themes for transformation and enabling approaches to support the implementation of service reductions, which are summarised in the efficiency plan.</p> <p>We concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Significant risk	Work to address	Findings and conclusions
<p>Maintaining quality of service provision - The Council has had to implement significant reductions in staff numbers over the last three years as a result of significant reductions in external funding. There is a risk that these impact on service quality and continuity.</p>	<p>We will consider the Council's arrangements to minimise the impact of cuts on service provision. We will do this through:</p> <ul style="list-style-type: none"> -discussions with management -review of reports or comments, if any, from external regulators -review of benchmarking data of Council performance against other similar organisations 	<p>Lewisham Council has reported mixed performance against achieving its corporate priorities as at the 31 March 2016 year end. Of the 23 key performance indicators used, 10 (50%) reported as green or amber against target and 10 indicators (50%) were reported as falling below target. In regard to the direction of travel achieved since the prior year 2015, there was a similar mixed picture with 9 (45%) showing improving performance and 10 that were declining. There were some significant achievements against the targets, such as successfully reducing number of people in temporary accommodation over the year, delivering the decent homes standard, residual waste and landfill targets were also met or exceeded and delivering financial benefit to the Council. There has also been some good achievements in making financial processes more efficient, particularly in regard to NNDR collection and Housing benefit processing.</p> <p>The key areas where performance is below plan relate to the roll out of Education Health and Care Plans (ECHP), Recycling targets, Crime, and Adult social care - in regard to the level of direct payments and delayed transfers of care. However none of these areas of weaker performance can be directly attributed to the impact of savings plans implementation, for example crime levels are affected by a range of drivers many of which are outside the council's control. From our benchmarking data we noted that neighbouring councils are affected by similar trends.</p> <p>The Council is addressing the findings of the most recent Ofsted inspection, rated as "requires improvement". The report focused around improvements to processes and systems - there was no indication that the issues raised had been directly attributable to savings plans or reductions in headcount. Paragraph 92 of the report states that 'The local authority has invested resources to ensure that caseloads are manageable and that all work is allocated. Staffing levels have been maintained, although there is a reliance on recently qualified social workers'.</p> <p>we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

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

Fees

	Proposed fee £	Final fee £
Council audit	193,233	TBC
Grant certification (Housing benefits)	25,569	TBC
Total audit fees (excluding VAT)	218,802	TBC

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The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services:	
• Housing capital receipts	TBC
• Teachers pension	TBC
• GLA Decent Homes	Not applicable
Non-audit services	0

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 6: Communication of audit matters

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

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 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 Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

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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
Page 50	Review capacity in the finance team to meet the earlier July audit deadline	High		
	Improve management oversight and control over accounting for PPE valuations	High		
	For 2017, ensure full compliance with the public inspection requirements of the Local Audit and Accountability Act 2014	High		
	Enhance quality control arrangements for the financial statements, to identify and correct errors before the accounts are presented for audit	Medium		
	Review the impairment of debtors, considering whether some debtors should more appropriately be written off	Low		
	Address the access and separation of duties issues highlighted in our IT controls review	Medium		
	Review the Annual Governance Statement, ensuring it gives a balanced view of control issues in the year.	Medium		

Appendix A: Action plan (continued)

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
	Set a level of materiality for disclosing Related Party Transactions and report all transactions above that level	Low		
Page 51	Consider how the Council can free up management capacity to focus on transformational change in services	Medium		

Appendix B: Audit opinion

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

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

We have audited the financial statements of London Borough of Lewisham (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). 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, the 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. 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 Executive Director of Resources and Regeneration and auditor

As explained more fully in the Statement of the Executive Director of Resources and Regeneration Responsibilities, the Executive Director of Resources and Regeneration 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 2015/16, which 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 Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Resources and Regeneration; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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:
present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or

we issue a report in the public interest under section 24 of the Act; or

we make a written recommendation to the Authority under section 24 of the Act; or

we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

The Authority 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 20(1)(c) of the Act to be satisfied that the Authority has made 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 Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

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We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Darren Wells
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Fleming Way
Manor Royal
Crawley
RH10 9GT

September 2016



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The Audit Findings for Lewisham Pension Fund

Year ended 31 March 2016

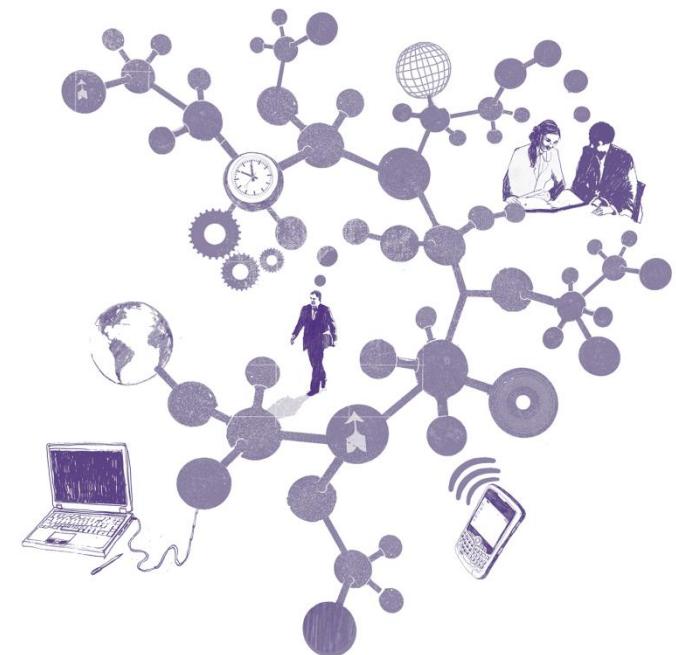
September 2016

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Councillor Slater
Chair of Audit Panel
London Borough of Lewisham
London
SE6 4RU

September 2016

Dear Councillor Slater

Audit Findings for Lewisham Pension Fund for the year ending 31 March 2016

This audit findings report highlights the significant findings arising from the audit for the benefit of the Audit Panel as those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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.

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

Yours sincerely

Darren Wells

Director

Chartered Accountants

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Section 1: Executive summary

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

Purpose of this report

This report highlights the key issues affecting the results of Lewisham Pension Fund ('the Fund') and the preparation of the fund's financial statements for the year ended 31 March 2016. 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, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Fund's financial statements give a true and fair view of the financial position of the fund and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance. This includes the Pension Fund Annual Report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B). We have also included our anticipated opinion on the Annual Report at Appendix C.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated April 2016.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Our audit is now substantially complete, although we still need to finalise some of our closing procedures.

Key audit and financial reporting issues

Financial statements opinion

We identified **three** adjustments affecting the Fund's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2016 recorded net assets available for benefits during the year of £1,041,754; the audited financial statements show net assets available for benefits during the year of £1,041,429k. This change is primarily driven by changes made to Debtors and Contributions.

We have also recommended a number of classification adjustments and amendments to improve the presentation of the financial statements.

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

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

Controls

Roles and responsibilities

The Fund'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 the Fund.

Findings

Our IT auditors carried out a high level review of IT controls and highlighted concerns over access and authorisation controls. We have discussed these with management. Further details are provided within section two of this report and the control issues are set out in more detail in the audit findings report on the main council accounts.

The way forward

Matters arising from the financial statements audit have been discussed with the Head of Corporate Resources

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
September 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

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This section summarises the findings of the audit, we report on the final level of materiality used and the work undertaken against the risks we identified in our initial audit plan. We also conclude on the accounting policies, estimates and judgements used and highlight any weaknesses found as part of the audit in internal controls. As required by auditing standards we detail both adjusted and unadjusted misstatements to the accounts and their impact on the financial statements.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £10,426k (being 1% of net assets). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £521k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate.

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Balance/transaction/disclosure	Explanation	Materiality level
Related party transaction	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing will be assessed individually, with due regard given to the nature of the error and its potential impact on users of the financial statements. We are unable to quantify a materiality level as the concept of related party transactions takes into account what is material to both the Pension Fund and the related party.
Cash and cash equivalents	The balance of cash and cash equivalents is usually material, and as the majority of your transactions affect the balance it is therefore considered to be material by nature also.	Any errors identified in excess of £500k will be considered as to whether they would affect the user understanding of the financial statements.

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 (UK&I) 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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1. Page 63	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Lewisham Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Lewisham Pension Council as the administering authority, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any material issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Provide summary of work performed, e.g.</p> <ul style="list-style-type: none"> • review of entity-level controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We did not identify any unusual significant transactions during our audit.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3. Page 64	Level 3 Investments – Valuation is incorrect Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	<ul style="list-style-type: none"> • We carried out walkthrough tests of the controls identified in the cycle. • Tested a sample of private equity investments by obtaining and reviewing the latest audited accounts for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31st March with reference to known movements in the intervening period. • Reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments. 	Our work has not identified any issues with the valuation of Level 3 investments reported at year end.

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
Investment purchases and sales	Investment activity not valid. (Occurrence)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none">• We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.• We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances.	Our audit work has not identified any significant issues in relation to the risk identified.
	Investment valuation not correct. (Valuation gross)		

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment values – Level 2 investments Page 6	Valuation is incorrect. (Valuation net)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances. • For direct property investments agreed values in total to valuer's report and undertaken steps to gain reliance on the valuer as an expert. 	Our audit work has not identified any significant issues in relation to the risk identified.
Contributions Page 6	Recorded contributions not correct (Occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence. • Rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained. 	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Controls testing over, completeness, accuracy and occurrence of benefit payments, • Tested a sample of individual pensions in payment by reference to member files. • Rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year and ensured that any unusual trends were satisfactorily explained. 	Our audit work has not identified any significant issues in relation to the risk identified.
Member Data Page 67	Member data not correct. (Rights and Obligations)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Sample tested changes to member data made during the year to source documentation. 	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates and 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	Accounting policies state that income is recognised on an accruals basis, as it falls due.	We did not identify any issues with the revenue recognition policy or with the application of the policy	 (Green)
Judgements and estimates <small>page 68</small>	Key estimates and judgements concern the valuation of investments and the valuation of the pension fund liability	Our review of your key judgements disclosed in the draft financial statements has confirmed they are complete and in accordance with our understanding of the Fund. Our testing has confirmed that the accounting policies in relation to these areas are in accordance with the CIFPA Code of Practice and have been correctly and consistently applied.	 (Green)
Going concern	Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed officer's assessment and are satisfied with their assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 (Green)

Assessment

● Marginal accounting policy which could potentially attract attention from regulators (Red)
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● Accounting policy appropriate but scope for improved disclosure (Amber)

● Accounting policy appropriate and disclosures sufficient (Green)

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	 (Green)

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code 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 and been made aware of cases of fraud as they have been reported to the Panel. We are not aware of any incidences which are material to the opinion.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> • From the work we carried out, we have not identified any related party transactions which have not been disclosed
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> • You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> • A standard letter of representation has been requested from the Fund.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> • We obtained direct confirmations from your fund managers and custodian for investment balances and from your bank for your cash balances (outside of the cash held by your fund managers). All of these requests have been returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> • Our review found no material omissions in the financial statements.
7.	Matters on which we report by exception	<ul style="list-style-type: none"> • We are required to report by exception where the Pension Fund Annual Report is inconsistent with the financial statements. The report has not yet been published and we have no issues we wish to report.

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. We considered and walked through the internal controls for Investment Income, Contributions, Benefits Payable, and Member Data as set out on pages 12 and 13 above.

In our audit of the Council's accounts we identified a number of concerns with authorisation controls and separation of duties at the Council. These were consistent with internal audit findings during the year, and are reported in more detail in the audit findings report for the Council's accounts. Those control weaknesses also affect the pension fund as it uses the same financial systems. Weaknesses in the control environment can lead to an increased risk of fraud or error.

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.

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported surplus/deficit for the year.

Detail	Pension Fund Account £'000	Net Asset Statement £'000	Impact on Fund £'000
1 The Council had raised debtors for invoices to Scheduled and Admitted bodies for which invoices had already been raised thereby duplicating the income in contributions.		(103)	(103)
2 The Council raised a number of debtors twice.		(387)	(387)
3 There is an additional pension fund debtor with London Borough of Lewisham which has not been included in the draft accounts.		166	166
Overall impact	£324		£324

Misclassifications and 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.
 Note - A number of other minor classification errors were identified which we have not stated below as they were below the trivial threshold.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	1,236	Note 5a - Investments	We have identified a misclassification error where Level 1 investments for financial assets at fair value through profit and loss has been overstated by £1,236k. This is given as £20,683k however should be £19,447k. This also impacts the Net asset statement which has been overstated on Equities:Global by £1,236k.
2 Misclassification	1,050 and 180 Euros	Note 13 – Capital Commitments	We have identified a misclassification error on Note 13 – Capital Commitments. The Fund have applied incorrect capital figures for the V- Cayman Partnership Fund (180 euros) and the V- Cayman Direct Fund (1050 euros). This should be reversed with V-Cayman Partnership Fund (1050 Euros) and V-Cayman Direct Fund (180 Euros).
Misclassification	several	Note 4 – Investment Income	The Fund have included incorrect figures for Note 4 - investment income. This agrees in totality to the General Ledger however individual elements have been split incorrectly between do not agree the following categories; Cash -£117k, equity £349k, fixed interest £574k, index linked £122k, Managed funds - £1,415k and Other £487k.

Section 3: Fees, non-audit services and independence

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01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

We confirm below our final fees charged for the audit.

Fees

	Proposed fee per Audit Plan £	Actual fees £
Pension fund scale fee	21,000	21,000
Total audit fees (excluding VAT)	21,000	21,000

The proposed fee variation for IAS 19 above takes account of the work we are required to undertake for admitted bodies with the PSAA regime and is consistent with that requested in prior years.

Fees for other services

Service	Fees £
Audit related services	Nil
Non-audit services	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

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01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 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 Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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Appendices

Appendix: Audit opinion

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

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

We have audited the pension fund financial statements of London Borough of Lewisham (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). 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/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. 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 Executive Director of Resources and Regeneration and auditor

As explained more fully in the Statement of the Executive Director of Resources and Regeneration's Responsibilities, the Executive Director of Resources and Regeneration 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/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund 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 pension fund 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 pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Resources and Regeneration; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund financial statements:

present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and of the amount and disposition at that date of the fund's assets and liabilities, and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the audited pension fund financial statements.

Darren Wells

for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Fleming Way
Manor Royal
Crawley
RH10 9GT
September 2016

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AUDIT PANEL			
Report Title	Final Accounts 2015/16 – London Borough of Lewisham’s response to Grant Thornton’s external audit reports		
Key Decision	No	Item No.	4
Ward	ALL		
Contributors	Executive Director for Resources and Regeneration		
Class		Date:	13th September 2016

Reasons for Lateness and Urgency

This report was not available for the original despatch date because the report by Grant Thornton on their findings during the audit of the main accounts had not been agreed with the Executive Director for Resources and Regeneration by that date. The report is urgent and cannot wait until the next meeting of the Audit Panel on 6 December 2016 because the Council has a statutory requirement to approve and publish its audited Statement of Accounts by 30 September each year and as part of the approval process the Audit Panel are required to report their comments to Council.

Where a report is received less than five clear days before the date of the meeting at which the matter is being considered, then under the Local Government Act 1972 Section 100(b)(4) the Chair of the Committee can take the report as a matter of urgency if he is satisfied that there are special circumstances requiring it to be treated as a matter of urgency. These special circumstances have to be specified in the minutes of the meeting.

1 PURPOSE

- 1.1 The purpose of this report is to respond to the external auditor's Audit Findings Reports on the 2015/16 audit of the Council's Main Accounts and Value for Money conclusion, and the 2015/16 Pension Fund Accounts. These are attached to the previous item on this agenda, and contain:

“... the key issues affecting the results of London Borough of Lewisham ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016 ... (and) whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared ... (and) whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its 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 informing and discussing with Members.

2 EXECUTIVE SUMMARY

- 2.1 The Council has a statutory requirement to approve and publish its audited Statement of Accounts by 30 September each year. The pre-audit 2015/16 Accounts were considered and noted by the Audit Panel on 8 June 2016. Since then, Grant Thornton have been carrying out their external audit, and the final audited 2015/16 Accounts will be submitted to Council for approval on 21 September 2016.

3 RECOMMENDATION

- 3.1 The Members of 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 external audit of the council's accounts and receiving the external 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 May 2016, 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 despatched, the audits were substantially complete and Grant Thornton report that subject to the satisfactory completion of their outstanding work they anticipate providing unqualified opinions on the financial statements and that they propose to give an unqualified value for money conclusion. Grant Thornton will give a verbal update on progress at the meeting and, along with senior council officers, will answer any questions as required.
- 5.2 The external auditor requests that Members:
- Note the adjustments to the financial statements in the reports
 - Approve the letters of representation on behalf of the Council
 - Agree the response to the proposed action plan (Appendix A).
- 5.3 Under the Council's constitution these matters are for the Council to determine. At full Council on 21 September 2016, Members will be invited to consider any comments from this meeting and recommended to note the Audit Findings reports and approve the audited Statement of Accounts.

6 AUDIT FINDINGS

- 6.1 The Grant Thornton audit findings have raised a few matters for Members to consider and it is important to note that these mainly relate to presentational or additional disclosures and ensure that the Council complies with the technical accounting regulations.
- 6.2 A number of misstatements and classification errors were identified and amendments to the Accounts agreed with the auditors. None of these affect the reported financial positions shown in the accounts and they do not affect the charge to the Council Tax or Housing Rents for the year.
- 6.3 The main areas to note from the Council's main accounts audit report are as follows:
- The key issues are outlined on page 6 – these relate to: Property, Plant and Equipment; Collection Fund – Non-Domestic Rates (NDR); Grant Income & Other. Further details are as follows:-
 - Property, Plant and Equipment (PPE): there were a number of accounting errors in this area, leading to some significant adjustments, as listed on page 22. This is a complex area, and it was made more challenging in 2015/16 by the enhanced deadline of 31 May. A much greater degree of management input and review is planned for this area in 2016/17.
 - Collection Fund – Non-Domestic Rates (NDR): this had not been accounted for correctly since the abolition of national pooling arrangements in 2013/14. Several material amendments were made to the statements as a result of this, as listed on page 23. Staff changeover was a contributory factor here, together with the tighter closing deadline, but plans are now in place for more robust managerial oversight in 2016/17.
 - Grant Income & Other: these adjustments are listed on page 24 – the most significant item (NDR grant income) is indirectly related to the NDR issue set out above, so the planned additional managerial input noted above will be applied here too in 2016/17. The overstatement of creditors noted on page 24 was caused mainly by an Oracle financial system error which has already been logged for resolution with the external database managers Capgemini.
 - As noted on page 6, the Council successfully produced draft financial statements by the enhanced deadline of 31 May, in preparation for the new statutory deadline of publishing the audited accounts by 31 July in 2017/18. However, it was not possible for the audit to be fully concluded by 31 July in 2015/16, although it had been substantially advanced relative to the previous year. Therefore, further planning around timing, working papers and use of resources will be undertaken by officers in consultation with Grant Thornton, in order to expedite the audit process for 2016/17.
 - No issues were identified with the timing and frequency of bank reconciliations in 2015/16 (as indicated on page 21). This is largely as a result of significant managerial input and review undertaken throughout the year.
 - A review of the Council's IT controls is outlined on page 19, and recommendations have been made in a detailed report to officers. The

issues raised are similar to those raised in 2014/15, as mentioned on page 21.

- A number of other misclassifications and disclosure changes which affect the notes to the accounts but not the main statements are outlined on page 26. These have all been agreed by officers and amendments have been made.
- The Value for Money conclusion is summarised on pages 28 and 29, with the detail being set out on pages 30 to 34.
- The Action Plan (Appendix A on pages 41 and 42) contains a number of recommendations which have all been agreed with Grant Thornton.

6.4 The areas to note from the Pension Fund accounts audit report are as follows:

- There were three non-material (total £324k) misstatements identified. These have been agreed by officers and the final accounts amended
- There were three misclassifications identified in the notes to the accounts (4, 5a and 13) relating to the nature of investments and how these are presented. These have been agreed and the final accounts amended.
- All the accounting policies, estimates and judgements were judged as reasonable and no recommendations have been made in respect of the audit of the Pension Fund accounts.

7 ANNUAL GOVERNANCE STATEMENT

7.1 This document has been updated from that considered at the Audit Panel on 8 June 2016 to reflect the comments of the external auditors. It will be submitted to Council on 21 September 2016 for approval.

8 FINANCIAL IMPLICATIONS

- 8.1** There are no direct financial implications resulting from this report.
- 8.2** The cost of the external audit of the main accounts for 2015/16 was £193,000, with an estimated £26,000 for the certification of grant claims. The Pension Fund external 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 21 September 2016 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 25 to 28 of the Local Audit and Accountability Act 2014 give electors the right to inspect and make copies of the Accounts; also to question the auditor and make an objection. The Accounts are required to be available for public inspection for 30 working days prior to the conclusion of the audit and an advertisement placed on the Council's website to publicise this fact. This public inspection period ended on 31 August 2016. It is also a requirement that notice of the conclusion of the audit is advertised on the Council's website.

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:

Selwyn Thompson, Head of Financial Services – 020 8314 6932

David Austin, Head of Resources – 020 8314 9114

Paul Calnan, Acting Group Finance Manager, Core Accounting – 020 8314 6167

Agenda Item 5

AUDIT PANEL			
Report Title	Internal Audit update report		
Key Decision	No		Item No. 5
Ward	ALL		
Contributors	Head of Corporate Resources		
Class	Part 1	Date: 13 September 2016	

1. Purpose of the report

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

- Progress against the internal audit plan;
- Progress of implementation of internal audit recommendations; and
- Final annual assurance report for 2015/16

2. Recommendations

2.1. It is recommended that the Audit Panel:

- Note the content of this report;
- Agree to complete an effectiveness self-assessment; and
- Approve the final annual assurance report.

3. Background

3.1. Internal Audit is a statutory service that provides management and members with independent assurance on the control environment within the Council.

3.2. Internal audit service is made up of an in-house team that is supported by external service providers.

3.3. The in-house team consists of the Head of Corporate Resources (Head of Internal Audit), the Internal Audit Contract Manager, and currently two principal auditors.

4. Executive Summary

4.1. Internal audit progress update - 2015/16 - All outstanding audits (12 corporate and four school) from the 15/16 audit plan are now final with no changes to the draft assurances reported in June.

4.2. Internal audit progress update - 2016/17 - the corporate part of the audit plan is now underway with 13 out of the 67 corporate to the issue of the 'Terms of Reference' stage or work in progress. There were three dropped audits and two new audits added to the plan since the last meeting.

The schools' audit plan is also underway with two finalised, two at draft and one at the report review stage.

4.3. Limited, No Assurance and Consultancy reports - there was one 'No Assurance' audit and three 'Limited' reports issued. These were all from the 2015/16 audit plan.

- 4.4. High or Medium recommendations not agreed – management agreed all high and medium recommendations made.
- 4.5. Follow up reviews - There were 13 corporate follow-up reviews completed since the last meeting. Of the 67 recommendations reviewed, 79% were either implemented or in progress. This is lower than usual, usually above 90%, and is an area for management action and continued monitoring.
- 4.6. Mid-year review of core financial (key) audits - Due to some of the core financials having negative assurance opinions in 2015/16, members requested an additional mid-year review be conducted on Accounts Payable, Accounts Receivable and Banking. While not all actions are yet completed this is broadly in line with the original planned completion dates. A further update will be provided at the next meeting.
- 4.7. Management progress against recommendations made - there were 17 re-occurring recommendations from core financial audits. The percentage of overdue to open recommendations for corporate reports is 32%, practically the same amount as reported last time (31%).
The schools percentage of overdue recs to open recs is 43% which is an improvement from the 72% reported last time.
- 4.8. Final annual assurance Report - the draft assurance report presented in June is now finalised. The only amendments to the draft to note are; the draft audit opinions are now final, and updates to the recommendations from the Public Sector Internal Audit Standards (PSIAS) external assessment following the Panel's decisions in June.
- 4.9. Any other business - The new in-house team is working on the 2016/17 plan with one further member due to start in September.
Members are to agree their one outstanding recommendation from the PSIAS assessment – whether to undertake an effectiveness self-assessment.

5. Progress against the internal audit plan for 2015/16.

Corporate Audits

- 5.1. The corporate part of the audit plan is also now complete with all 12 remaining audits finalised. There were no changes to the draft assurance levels reported in June.

Audit (Corporate)	Date of Final	Audit Opinion	Recs. Made		
			H	M	L
PFI Monitoring	13/08/16	Satisfactory	-	2	1
Anti-fraud and Corruption Team (AFACT)	15/06/16	Satisfactory	-	5	-
Non-current Assets 15-16 (Core Financial Audit)	15/05/16	Satisfactory	-	5	-
Appointeeships, deputyships and safeguarding of clients assets (both physical and financial)	07/06/16	Satisfactory	1	3	1
Accounts Payable 15-16 (Core Financial Audit)	07/06/16	No Assurance	6	4	-
Disaster Recovery / BCP	06/06/16	Satisfactory	1	2	-

Audit (Corporate)	Date of Final	Audit Opinion	Recs. Made		
			H	M	L
Housing - Bed and Breakfast, Hostels and temporary accommodation	06/06/16	Limited	1	5	1
Public Health - Statutory services and providing services back to the NHS and CCG	06/06/16	Satisfactory	1	4	-
Environmental Health - Food Safety, Hygiene and Standards	27/05/16	Satisfactory	1	4	-
Payments to Adult Care Providers 15-16 (Core Financial Audit)	27/05/16	Limited	-	9	1
Better Care Fund Framework	25/05/16	Limited	-	10	1
Direct Payments (was Personalisation) 15-16	24/05/16	Satisfactory	-	4	1

School Audits

- 5.2. The schools' part of the audit plan for 2015/16 is now complete with all four school reports now finalised.

Audit (Schools)	Date of Final	Audit Opinion	Recs. Made		
			H	M	L
Prendergast Hilly Fields College (Secondary)	29/07/16	Satisfactory	1	9	-
Prendergast Ladywell Fields College (Secondary)	29/07/16	Satisfactory	1	9	1
Prendagast Vale College (Secondary)	29/07/16	Substantial	-	3	1
Kilmorie Primary	22/04/16	Satisfactory	-	4	1

6. Progress against the audit plan for 2016/17

Corporate audits

- 6.1. The table below provides a summary of the status of the corporate part of the internal audit plan. It shows at least 19% of the plan is underway.

Original Plan	Extra Audits	Dropped Audits	Current Plan	Not Yet Started	ToR / Field-Workstage	Reports at Draft	Final Reports
68	2	(3)	67	54	12	-	1

- 6.2. The reports issued since the last meeting are listed below.

Audit (Corporate)	Date of Final	Audit Opinion	Recs. Made		
			H	M	L
Risk Maturity	28/07/16	Risk Managed	-	5	1

6.3. As expected, the audit plan changes throughout the year. Below is a list of the changes to the corporate plan since the last meeting:

Additional audits

- Street Licencing - management suggestion
- Better Care Fund - requested by the Executive Director for Resources.

Cancelled audits

- Broadway Theatre – due to reduction in activities, recent health and safety work and pending progress on Catford Town centre regeneration work
- Private Sector Licencing - scope to be covered in another audit
- General Election Preparation - deferred to another year given three successful elections run in 2016

6.4. School Audits

The table below provides a summary of the status of the schools' part of the internal audit plan.

Original Plan	Extra Audits	Dropped Audits	Current Plan	Not Started	Field-Work stage	Draft Reports	Final Report
27	-	-	27	25	1	2	2

6.5. There were two school reports issued since the last meeting, both with a positive opinion.

Audit (Schools)	Date of Final	Audit Opinion	Recs. Made		
			H	M	L
Rushey Green Primary	22/07/16	Satisfactory	-	10	5
Holy Cross Catholic Primary	07/07/16	Substantial	-	3	2

6.6. There were no changes to the schools' part of the audit plan.

7. **Limited , No Assurance and Consultancy reports**

Corporate Audits

7.1. There were three corporate 'Limited' opinion reports issued since the last meeting. All of them were from the 2015/16 audit plan:

- Housing - B&B, Hostels and Temporary Accommodation
- Payments to Adult Care Providers 15-16 (core financial) and
- Better Care Fund

7.2. In addition, there was one 'No Assurance' corporate report issued, again from the 2015/16 audit plan.

- Accounts Payable 15-16 (core financial)

7.3. The executive summaries for these reports, which the Panel have already seen in draft at the June meeting, are in appendix 2.

School Audits

- 7.4. There were no Limited or No Assurance reports for schools issued

8. High or Medium recommendations not agreed

- 8.1. Since the last meeting, management have agreed all High or Medium recommendations made by internal audit prior to finalisation.

9. Follow up reviews

Corporate follow-up reviews

- 9.1. Corporate audits with High or Medium recommendations are normally followed-up within nine months of the final report. The exception to this is core financials that are follow up at the next annual audit.
- 9.2. There were 13 corporate follow up reviews completed since the last report. The summary of the status of the recommendations are in the table below. Of the recommendations followed up, 79% were implemented or in progress. This is less than previously reported, typically above 90%, but still in the 80/20 acceptable split. This is an area for management action and continued monitoring by internal audit.
- 9.3. Details of the individual follow-ups are in appendix 3.

Implemented	In Progress	Superseded	Not Implemented	Total Recs
23	30	-	14	67
34%	45%	-	21%	100%

School follow up reviews

- 9.4. School audits with a negative assurance opinion (i.e. 'Limited' or 'No assurance') also receive a follow-up review. There were no school follow up reviews completed in this period.

10. Mid-year follow up reports on Core Financial Audits

- 10.1. The audit panel requested a midyear follow up on the key core financial audit due to the limited assurances in the last two years. The focus was on Accounts Payable, Accounts Receivable and Banking. This mid-year follow up is in addition to the normal follow up reviews that take place on an annual basis.

Audit	Implemented	In progress	Not implemented	Total no of recs
Accounts Payable	3	4	3	10
Accounts Receivable	-	2	4	6
Banking	2	2	-	4

10.2. It should be noted that some of these recommendation were not due to be completed until a later date than the mid-year review, so it is to be expected that some are currently not implemented or in progress.

10.3. A consolidation report on these follow-ups is presented at Appendix 5. It lists the issues, recommendations relating to the issues, and the progress at the time of the follow-up review. The actions for these audits is a priority for management to ensure controls are operating effectively in these key systems. Progress will be checked again in October with the annual audits of these core systems and progress reported to the next Audit Panel.

11. Management progress against recommendations made

Corporate Recommendations

11.1. The table below shows the status of the High and Medium recommendations as at the 26/08/16 for corporate recommendations.

11.2. The percentage of overdue to open recommendations is 32%, which is of the same order as the 31% reported at the last meeting. However, it should be noted that this snapshot of the status is during the summer holidays and taken when many officers are on leave and a rise in late updates often occurs.

Month of meeting	Current no. of open recs	No. of overdue recs	No. of open recs with 2+ changes	No. of recs that have been re-opened	No of re-occurring core financial rec	Percentage of overdue recs to open
Sept 16	139	44	16	11	18	32%
Jun 16	118	37	16	10	11	31%

11.3. To accompany the table above, appendix 4 lists the audits with recommendations that are either:

- Overdue (due date has passed)
- Two or more changes have been made to the due date,
- Re-occurring core financial recommendations, or
- Recommendations were re-opened at the time of the follow-up

11.4. The audits listed below detail the 17 recommendations that are re-occurring from the five recently issued core financial audits.

Accounts Payable - (5)

- To update procedure notes
- Briefing note to officers on paying suppliers to be created and available to all staff
- Report of amendments to supplier details should be run and reviewed regularly
- Reports for duplicate and high value payments should be run and reviewed.
- Approval forms should be held for all staff

Direct Payments - (2)

- Personal budget agreements should be held for each user
- Pre-payment card spreadsheet should include user start date issue of card

Non-current assets - (1)

- Software licencing support agreement to be signed

Payments to Adult Care Providers (5)

- Discharge notification forms should be sent to payments team prior to placement date
- Funding assessment forms to be processed prior to making payments.
- Payments to providers should be made within the council's authorised signatory limits
- Notifications of clients' deaths to be dealt with in a timely manner.
- Budget holders should review, sign and date monthly control reports in a timely manner.

Payments to Care Providers and Foster Carers - (4)

- Procedure notes should be annually reviewed and evidenced as such
- Preferred providers should submit the required documentation to the council by the agreed deadlines. Officers to meet with the providers to discuss the contracts.
- A review of the policy on charging for parental contributions towards the cost of looked after children (follow up on another borough's pilot scheme).
- Volume discounts for 13/14 and 14/15 to be invoiced and sequentially recovered. The 2012/13 cost volume discounts should be investigated and accounted for.

11.5. There were no corporate superseded recommendations since the last meeting.

School Recommendations

11.6. The table below shows the status of open High and Medium school recommendations as at the 26/08/16. The percentage of overdue to open recommendations is 43%. This is an improvement from the 72% reported last time. The detail is reported in appendix 4.

Month of meeting	Current no. of open recs	No. of overdue recs	Percentage of overdue recs to open
Sept 16	154	67	43%
June 16	116	84	72%

12. Final Annual Assurance Report.

12.1. The final annual assurance report is now presented for members' formal approval at appendix 6. There were only two changes from the draft report that was presented in June to the final. They were:

- Updates to the table showing work completed for the year from draft to final.
- The other was to Appendix 3, to update the completed dates to the Improvement Plan from the Public Sector Internal Audit Standards (PSIAS)

13. Any other business

13.1. The new in-house team is up and running. Two of the principal auditors started in July and the third is due to start in September. Internal audit continue to make use of the Croydon Framework (Mazars) and have attended a users forum to support the work to re-procure the framework from 2018. Mazars are conducting the core financial and

IT audits for 2016/17, along with some of the general audits in the plan. The Royal Borough of Greenwich is also conducting some of the school audits, but this will be the last year they will be able to assist us.

- 13.2. There is one recommendation that members need to agree that came out of the PSIAS assessment. "The Audit Panel should consider annually completing an effectiveness assessment".
- 13.3. The Chartered Institute of Public Finance and Accountancy (CIPFA) published a guide called "Audit Committees - Practical Guidance for Local Authorities and Police". In this guidance (appendix D), there is a self-assessment of 'good practice for audit committees'. This self-assessment can be found in appendix 7.
- 13.4. The National Audit Officer has a more comprehensive checklist that would complement CIPFA's self-assessment of good practice. It can be found at the link to their website:

<https://www.nao.org.uk/report/audit-committee-self-assessment-checklist-2-2/>

14. Legal implications

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

15. Financial implications

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

16. Equalities implications

- 16.1. No direct equalities implications have been identified, in terms of adverse impact, with respect to the Council's obligations under the Equality Act 2010.

17. Crime and disorder implications

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

18. Environmental implications

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

19. Background papers

- 19.1. There are no background papers.

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

Appendix 1 - Progress of the audit plan for 2016-17 - Corporate and Schools'

Corporate audit sorted by type Key = Core Financial= CF, IT = IT, Contract= CT, General = GN, and Grants= GR.

Type	Name of Corporate Audit	ToR	F/W Started	F/W Ended	Exit Meeting Held	Draft report	Final Report	Assurance Level	H	M	L
CF	Accounts Payable 16-17										
CF	Accounts Receivable 16-17										
CF	Banking 16-17										
CF	Budget Monitoring 16-17										
CF	Business Rates 16-17										
CF	Capital Expenditure 16-17										
CF	Client Contribution for Care Provision 16-17										
CF	Council Tax 16-17										
CF	Direct Payments 16-17										
CF	Housing Benefit and Council Tax Reduction Scheme 16-17										
CF	Main Accounting 16-17										
CF	Non-Current Assets 16-17										
CF	Payments to Adult Care Providers 16-17										
CF	Payments to Care Provider and Foster Carers for Looked After Children 16-17										

Appendix 1 - Progress of the audit plan for 2016-17 - Corporate and Schools'

Type	Name of Corporate Audit	ToR	F/W Started	F/W Ended	Exit Meeting Held	Draft report	Final Report	Assurance Level	H	M	L
CF	Payroll 16-17										
CF	Pensions 16-17										
CF	Treasury Management 16-17										
IT	BACS testing										
IT	Business Continuity Plans for ICT and the LB of Brent										
IT	Compliance with the Code of Connection (CoCo) and Public Sector Network (PSN).										
IT	Data Breaches - detection, reporting and Network Security										
IT	ICT Governance Arrangements with Brent										
IT	IT and Digital Strategy										
IT	Payment Card Industry Data Security Standard (PCI DSS)										
IT	PayPal Project (Advice only)										
IT	Virtual Private Network (VPN) / Mobile Working										
CT	Flagship Care Scheme for Older People accommodation										

Appendix 1 - Progress of the audit plan for 2016-17 - Corporate and Schools'

Type	Name of Corporate Audit	ToR	F/W Started	F/W Ended	Exit Meeting Held	Draft report	Final Report	Assurance Level	H	M	L
CT	Minor Works Programme (Schools)										
CT	Mobile Devices (Contract Monitoring)										
CT	Public Health - Target based payments to GPs										
CT	Pre contract and Tendering										
CT	Regeneration and Capital Programme Boards										
CT	Schools' Catering Contract										
CT	Supporting People										
GN	Adult Learning Lewisham										
GN	Apprenticeships, Graduates and other Professional Training Schemes										
GN	Blue Badges, Freedom Passes, Discretionary Passes and Taxi cards										
GN	Broadway Theatre										
GN	Budget Savings and Decision Making Framework										
GN	Building Control Approval										

Appendix 1 - Progress of the audit plan for 2016-17 - Corporate and Schools'

Type	Name of Corporate Audit	ToR	F/W Started	F/W Ended	Exit Meeting Held	Draft report	Final Report	Assurance Level	H	M	L
GN	Business Continuity Plans for Adult Social Care Providers										
GN	Community Budget with Southwark and Lambeth										
GN	Expenses reimbursed by payroll and Procurement card.										
GN	Financial Regulations / Constitution										
GN	General Election Preparation										
GN	Gifts and Hospitality and Declaration of Interests - Officers and Members										
GN	Home Care Provision										
GN	House in Multiple Occupation (HMO)										
GN	Income Generation Scheme / Project										
GN	Key Performance Indicators (KPIs) and Departmental Service Plans.										
GN	Lewisham Website and Intranet Content Usability										
GN	Licensing										
GN	Local Support Scheme										

Appendix 1 - Progress of the audit plan for 2016-17 - Corporate and Schools'

Type	Name of Corporate Audit	ToR	F/W Started	F/W Ended	Exit Meeting Held	Draft report	Final Report	Assurance Level	H	M	L
GN	Mental Capacity Act (MCA) and Deprivation of Liberty Safeguards (DOLS)										
GN	Monitoring of Child Care Providers										
GN	Monitoring of Lewisham Homes Management Agreement										
GN	No Recourse to Public Funds (NRPF) Case Framework										
GN	Ofsted Framework Rolling Plan - Children looked after and achieving permanence (Adoption / Experiences and progress of care leavers) -										
GN	Ofsted Framework - Rolling Plan Leadership Management and Governance -										
GN	Ofsted Framework Rolling Plan - Children who need help and protection -										
GN	Private Rented Sector Licensing Scheme.										
GN	Procurement Card Expenditure										
GN	Project Management Review Framework and Training										
GN	Risk Maturity Review					28/07/16	Risk Managed	-	6	-	
GN	Safe Guarding and Assurance Adults -										

Appendix 1 - Progress of the audit plan for 2016-17 - Corporate and Schools'

Type	Name of Corporate Audit	ToR	F/W Started	F/W Ended	Exit Meeting Held	Draft report	Final Report	Assurance Level	H	M	L
	Proactive Monitoring of Referrals										
GN	Sundry Debtor System and Suspense Controls										
GN	Vehicle Fleet - Purchase, Maintenance and Fuel Tank maintenance at Wearside										
GT	Troubled Families Programme Grant Submission										

School audits sorted by name

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School audit	F/w started	Draft Report	Final report	Assurance opinion	H	M	L
Brindishe Green Primary							
Brindishe Manor							
Clyde Nursery							
Dalmain Primary							
Deptford Park Primary							
Drumbeat School (Special)							
Good Shepherd Catholic School							
Holy Cross Catholic Primary			07/07/16	Substantial	-	3	2
Horniman Primary							

Appendix 1 - Progress of the audit plan for 2016-17 - Corporate and Schools'

School audit	F/w started	Draft Report	Final report	Assurance opinion	H	M	L
John Stainer Primary							
Lucas Vale Primary							
Marvels Lane Primary							
Myatt Garden Primary							
Rangefield Primary							
Ratherne Primary							
Rushey Green Primary			22/07/16	Satisfactory	-	10	5
Sandhurst Infant							
Sandhurst Junior							
St Augustine's Catholic Primary							
St Joseph's Catholic Primary							
St Mary's CE Primary							
St Stephen's CE Primary							
Stillness Infant							
Stillness Jnr							
Torrion Infant							
Torrion Junior							
Turnham Primary							

Appendix 2 - Executive Summaries from Limited, No Assurance or Consultancy Reviews



Executive Summary for Payments to Adult Care Providers 2015/16

Internal Audit Assurance Opinion	▲ Limited	Direction of Travel	↓	Risk Headings	H	M	L								
★ Substantial ● Satisfactory ▲ Limited ■ No Assurance. (See glossary for definitions)															
Introduction															
The background for this internal audit including the agreed scope and risks identified, are included in the Terms of Reference (ToR) which can be found on page 13.															
The findings in this report are by exception. This means only those areas where further management action is required to improve internal control are mentioned.															
Key findings that need attention (**identified in previous audit)															
<ul style="list-style-type: none"> - There is no evidence that the Payments team have undertaken the mandatory data protection course or any training log to confirm any training received; - **4 of the sample of 10 discharge notifications from the Brokerage Team to the Payment Team were not evidenced as processed in a timely manner; - **7 of the sample of 10 discharge notifications from the Brokerage Team to the Payment Team did not detail the funding status of the clients; - Two out of the 27 payments examined were not approved in line with the Council's authorised signatory limit; - Payments are not processed in a timely manner; - **The Payments Team were not always notified of client deaths in a timely manner with 9 of the 20 deaths sampled being notified after 3 weeks of the death dates; - **Budget monitoring reports sampled were not dated or signed; - The reasons for identified variances were not stated in the budget monitoring reports sampled; and - **the 'Older Adults Residential' and 'Older Adults Home Care' budget monitoring reports for March 2016 reported adverse £1.110m and £3.218m end of year positions respectively; however, expenditure values were in line with that of 2014/15 indicating that the budget setting process needs to be critically reviewed. 															
Follow up status of previous High & Medium recommendations <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th>Implemented</th> <th>In Progress</th> <th>Superseded</th> <th>Not Implemented</th> </tr> <tr> <td style="text-align: center;">-</td> <td style="text-align: center;">4</td> <td style="text-align: center;">-</td> <td style="text-align: center;">2</td> </tr> </table>								Implemented	In Progress	Superseded	Not Implemented	-	4	-	2
Implemented	In Progress	Superseded	Not Implemented												
-	4	-	2												

Follow up status of previous High & Medium recommendations

Implemented	In Progress	Superseded	Not Implemented
-	4	-	2

The followup for this audit will take place at the next annual review.

Management are required to update the progress any High or Medium recommendations on the Recommendations SharePoint site.

Changes to the scope

This audit was conducted in line with the agreed Terms of Reference. (or note changes)

Appendix 2 - Executive Summaries from Limited, No Assurance or Consultancy Reviews

Executive Summary for Housing – B&B, Hostels and Temporary Accommodation 2015-16



Internal Audit Assurance Opinion ▲ Limited

★Substantial ● Satisfactory ▲ Limited ■ No Assurance. (See glossary for definitions).

Introduction

The background for this internal audit including the agreed scope and risks identified, are included in the Terms of Reference (ToR) which can be found on page 11.

The findings in this report are by exception. This means only those areas where further management action is required to improve internal control are mentioned.

Key findings that need attention

- There are no Council specific procedure notes for processing temporary accommodation;
- While occupancy checks for nightly paid accommodation are undertaken on an ad-hoc basis, there is no overarching formal plan for these checks;
- There is no robust monitoring mechanism for occupancy checks on other temporary accommodation;
- Former tenant arrears increased from week 2 to week 47 by £386k (i.e. by 48%) for nightly paid accommodation;
- Private sector leased and hostel accommodation current and former tenant arrears increased from April 2015 to February 2016 (£1.66m to £1.74m); and
- Sample testing of nightly paid accommodation tenant payments identified a discrepancy between an invoice and Council records, which resulted in an overpayment of £1,581.

Risk Headings		H	M	L
●	1. Allocation of Accommodation	-	3	1
▲	2. Charging and Collection of Rents and Rates	1	1	-
●	3. Payments	-	1	-
Total		1	5	1

Follow-up

The follow up for this audit will take place within nine months from the date of the final report.

Management are required to update the progress any High or Medium recommendations on the Recommendations SharePoint site.

Changes to the scope

This audit was conducted in line with the agreed Terms of Reference.

Areas that worked well

Based on testing conducted by Internal Audit, it was noted that:

- There are agreements in place between the Council and Providers of temporary accommodation;
- Individual rent accounts are set up in a timely manner; and
- Payments to landlords are correctly processed.

Appendix 2 - Executive Summaries from Limited, No Assurance or Consultancy Reviews

Executive Summary for Better care Fund Framework 2015-16



Internal Audit Assurance Opinion ▲ Limited

★Substantial ● Satisfactory ▲ Limited ■ No Assurance. (See glossary for definitions).

Introduction

The background for this internal audit including the agreed scope and risks identified, are included in the Terms of Reference (ToR) which can be found on page 12.

The findings in this report are by exception. This means only those areas where further management action is required to improve internal control are mentioned.

Key findings that need attention

- The Section 75 Agreement was signed 8 months after commencement of the Better Care Fund (BCF) programme;
- The Section 75 agreement does not contain some required schedules;
- There are no terms of reference for the BCF core governance groups;
- There is no Issues Risk Register/Risk Log for the BCF;
- The BCF core governance groups - the Partnership Board, the Adult Integrated Care Programme Board and the Operational Working Group do not have regular meetings;
- It is not evidenced that the Partnership Board reviews the Better Care Fund performance targets and progress against National Conditions;
- The arrangements and responsibility for management information, including data quality and information governance are not defined;
- There are no arrangements in place for the audit of the accounts of the Better Care Fund Pooled Fund;
- The financial performance of the BCF is not evidenced as being regularly reviewed; and
- The quarterly BCF returns are submitted late.

Risk Headings		H	M	L
●	1. Governance and Risk Management	-	4	1
▲	2. Performance Management and Data Quality	-	3	-
●	3. Financial Structure	-	3	-
Total		-	10	1

Follow-up

The follow up for this audit will take place within nine months from the date of the final report.

Management are required to update the progress any High or Medium recommendations on the Recommendations SharePoint site.

Changes to the scope

This audit was conducted in line with the agreed Terms of Reference.

Appendix 3 - Follow up results

Audit Followed Up (Corporate)	Opinion	Final Rpt Date	F/up Rpt Date	Impl'd	In Progress	Supers'd	Not Impl'd	Total	
Procurement	Satisfactory	24/07/16	18/07/16	-	-	-	4	4	
Corporate Health and Safety	Satisfactory	23/09/15	16/06/16	3	1	-	-	4	
Non-Current Assets 14-15	Limited	10/06/15	20/05/16	3	1	-	-	4	
Procurement Card	Satisfactory	05/03/15	18/08/16	5	-	-	-	5	
SharePoint	Satisfactory	13/10/15	16/08/16	1	5	-	-	6	
Housing Grants and Housing Assistance Policy	Substantial	27/07/16	16/06/16	2	2	-	-	4	
Accounts Payable 14-15	Limited	09/06/15	07/06/16	3	3	-	3	9	
Youth Offending	Satisfactory	02/07/15	17/06/16	2	1	-	1	4	
South London and Maudsley (SLAM)	Satisfactory	18/06/15	27/05/16	-	4	-	2	6	
Payments to Adult Care Providers 14-15	Satisfactory	18/06/15	27/05/16	-	4	-	2	6	
Direct Payments 14-15	Limited	15/07/15	24/05/16	2	5	-	-	7	
Youth Service	Satisfactory	01/07/16	17/06/16	1	2	-	-	3	
Payments to Care Providers and Foster Carers 14-15	Satisfactory	09/06/16	06/06/16	1	2	-	2	5	
				Total	23	30	-	14	67

Appendix 4 – Status of Recommendations

Name of Audit (Corporate)	Opinion	Final Report Date	Recs Overdue	2+ chgs	Re-opened at F/up	Re-occurring (core only)	Comment
Capital Expenditure 15-16	Satisfactory	22/03/16	1				
Corporate Health and Safety	Satisfactory	23/09/15	1	1			Changed 2 times
Main Accounting 14-15	Satisfactory	18/06/15		1			Changed 4 times
Non-Current Assets 15-16	Satisfactory	20/05/16	2			1	
Pensions 2015/16	Satisfactory	01/04/16	2	1		2	Changed 2 times
Procurement 14-15	Satisfactory	24/07/15	3				
Accounts Payable 15-16	No Assurance	11/06/15	2		1	3	
Accounts Receivable 15-16	Limited	15/01/16	1	1		2	Changed 2 times
Banking 15/16	Limited	07/03/16		1		1	Changed 2 times
Business Continuity Plans - ICT and Telephony	Satisfactory	06/07/15		3			Changed 2, 3 and 4 times
Client Contributions for Care Provisions 15-16	Limited	01/04/16				2	
Disaster Recovery / Business Continuity Planning 15-16	Satisfactory	06/06/16	3				
Disaster Recovery for ICT Infrastructure	Limited	19/04/16		3			Changed 3 and 4 times

Appendix 4 – Status of Recommendations

Name of Audit (Corporate)	Opinion	Final Report Date	Recs Overdue	2+ chgs	Re-opened at F/up	Re-occurring (core only)	Comment
Payments Centre	Satisfactory	26/09/13		1	1		Changed 5 times
Registrars 15-16	Satisfactory	30/06/16		1			Changed 4 times
SharePoint 14-15	Satisfactory	13/10/15			2		
Direct Payments 15-16	Satisfactory	24/05/16	2			1	
Domiciliary Care Agencies	Satisfactory	22/02/16	1				
Food Safety, Hygiene and Standards	Satisfactory	27/05/16	4				
Learning Disability Respite - Contract Management	Limited	14/03/16	1				
Payments to Adult Care Providers 15-16	Limited	27/05/16	1			2	
Public Heath - Statutory Services	Satisfactory	06/06/16	5				
Public Health Contracts	Satisfactory	29/06/15	3		3		
South London and Maudsley NHS (SLaM)	Satisfactory	14/07/15	3				
Youth Offending	Satisfactory	02/07/15		1	3		Changed 2 times
Children's Centres Contract Management	Limited	14/04/16	5				

Appendix 4 – Status of Recommendations

Name of Audit (Corporate)	Opinion	Final Report Date	Recs Overdue	2+ chgs	Re-opened at F/up	Re-occurring (core only)	Comment
Payments for 2-4 year olds	Substantial	24/06/15		1			Changed 3 times
Payments to Care Providers and Foster Carers 15-16	Limit	27/05/16	2			4	
School Catering Contract - Client Monitoring	Satisfactory	09/07/14		1			Changed 5 times
Speech and Language Therapy	Substantial	20/05/16	1				
Youth Service	Satisfactory	01/07/15	1		1		Changed 2 times
		Total	44	16	11	18	

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Name of Audit (School)	Opinion	Final Report Date	Recs Overdue	2+ chgs	Re-opened at F/up	Comment
Adamsrill Primary School 15/16	Limited	26/08/15	1		6	Follow up complete
All Saints Primary 14-15	Satisfactory	11/03/15	1			
Althelney Primary 15/16	Satisfactory	10/03/16	4			
Brent Knoll Special 14/15	Satisfactory	19/12/14	1	1		Changed 2 times
Chelwood Nursery 15-16	Satisfactory	22/10/15	3	1		Changed 2 times
Coopers Lane Primary 14-15	Substantial	26/02/15	1			
Elfrida Primary School 14-15	Limited	05/03/15		1	1	

Appendix 4 – Status of Recommendations

Name of Audit (School)	Opinion	Final Report Date	Recs Overdue	2+ chgs	Re-opened at F/up	Comment
Forster Park Primary	Substantial	27/01/16	5			
Holbeach School 15-16	Satisfactory	03/02/16	10			
Kender School 15-16	Satisfactory	06/07/15	1			
Launcelot Primary	Satisfactory	23/02/16	6			1 - Changed 2 times 1 - Changed 3 times
Our Lady and St Philip Neri 15-16	Satisfactory	04/02/15	10			
Sedgehill 15-16	Satisfactory	30/04/16	1			
St James Hatcham 14-15	Satisfactory	26/02/15	9			
St Mary Magdalen's Catholic Primary 15-16	Satisfactory	02/07/15	2			
St Michael's Cof E Primary School	Substantial	30/11/15	3			
St Saviours RC Primary School 14-15	Substantial	30/04/15	2			
Sydenham Schools 15-16	Substantial	27/11/15	2			
Torridon Junior School 13-14	Substantial	07/04/14	1			
Trinity Through School 15-16	Satisfactory	13/11/15	6			
Turnham Primary School 13-14	No Assurance	31/07/14	9			
Watergate School 15-16	Limited	11/08/15	6			
				84	3	7

Appendix 5 – Mid Year Follow up Progress Report

1. Introduction / Background

- 1.1. The audit panel request a midyear follow up progress report on the audits listed below. This was due to the continuing negative assurance reports issued to core financial audits.
- Accounts Payable
 - Accounts Receivable and
 - Banking.
- 1.2. This mid-year follow up progress report will be in addition to the normal annual follow up reviews. Internal audit formally followed up on the progress of the high and medium recommendations in the reports listed above.

2. Findings

2.1. Accounts Payable - issued 7 June 2016 - No Assurance

Issues and Recommendation (Rec) - Accounts Payable	Progress to date
<p>1 - Issue - Lack of procedures notes and no update to the existing ones that take account of changes to oracle upgrade.</p> <p>Rec - Procedure notes to be reviewed and updated to include the changes brought about by the Oracle upgrade.</p> <p>(Re-occurring recommendation)</p>	<p>Not implemented – due October 2016 (one date change)</p> <p>Since the completion of the audit in June, there has been no further progress on updating procedure notes.</p>
<p>2 - Issue - Poor performance with paying invoices within the 30 days target. A suggestion back in Jan 16 to provide managers with a briefing note on how to managers had not been acted upon and notes on how to process not put in place</p> <p>Rec - A briefing note relating to 'Paying an Invoice' should be issued to all managers within the council.</p> <p>(Re-occurring recommendation)</p>	<p>Implemented</p> <p>The council now has a dedicated SharePoint site (which is accessed via the MySite page), that provides guidance to all officers.</p>
<p>3 - Issue - There was no monitoring mechanism for changes to supplier accounts. (This was to be a compensating control re lack of access control on supplier details - see rec 4).</p> <p>Rec - An exception report that details amendments to supplier details needs</p>	<p>In Progress – due November 2016</p> <p>A report is now generated detailing changes to supplier. Officers informed internal audit that management sample a number of the amendments on a monthly basis.</p>

Appendix 5 – Mid Year Follow up Progress Report

Issues and Recommendation (Rec) - Accounts Payable	Progress to date
<p>to be generated and reviewed by a manager on a regular basis.</p> <p>Management should have oversight of these amendments to ensure they are valid, correct and completed in a timely manner.</p> <p>(Re-occurring recommendation)</p>	<p>However, there was no evidence of a review and therefore internal audit could not confirm if the level of monitoring was sufficient.</p>
<p>4 - Issue - There is no segregation of duties for those who are involved in amending supplier details. One officer is allowed to process a change without any approval on the Oracle system</p> <p>Rec - To review the workflow process on changes to supplier details. To liaise with Oracle Partnership / Cap Gemini to help with implementation of the separation of duties.</p>	<p>Not Implemented – due September 2016</p> <p>The proposed changes to the amendment to supplier workflow has not been implemented. This has been escalated by the OneOracle partnership</p>
<p>5 - Issue - Reports to identify duplicate payments were not being used</p> <p>Rec - To progress the use of Fiscal or IDEA to produce reports to enable management to identify and duplicate payments.</p> <p>(Re-occurring recommendation)</p>	<p>In Progress – due November 2016 (re-opened)</p> <p>Progress is being made to use 'Fiscal' which would alert managers to possible duplications prior to payment. There is a delay in auctioning this due to confirmation of information sharing agreement.</p>
<p>6 - Issue - Invoices were paid without a purchase order (PO) being raised where a PO should have been made.</p> <p>Rec - Ensure officers are aware that all PO should be raised in all circumstances unless they are agreed exceptions.</p>	<p>Implemented</p> <p>The council now has a dedicated SharePoint site (which is accessed via the MySite page), that provides guidance to all officers.</p>
<p>7 - Issue - there are duplicate supplier details on the Oracle system. This could lead to a supplier being paid twice.</p> <p>Rec - To progress the date cleansing of the supplier details.</p>	<p>Not Implemented – due July 2016 (now implemented and work ongoing)</p> <p>While internal audit was informed that creating a supplier data care is undertaken, there is no arrangement in place for data cleansing of data already on the system.</p> <p>NB - it should be noted that to cleanse current supplier data needs to be done in conjunction with the other partners due to the setup of Oracle partnership.</p>
<p>8 - Issue - Approval forms were not available to view and as such unable to confirm if the person authorising the payment had the right permission levels.</p>	<p>In Progress – September 2016</p> <p>The project to implement an electronic process for authorised signatories is due to go live at the end of August.</p>

Appendix 5 – Mid Year Follow up Progress Report

Issues and Recommendation (Rec) - Accounts Payable	Progress to date
<p>Rec - Progress the review into directorate approval forms held for all staff (Re-occurring recommendation)</p>	
<p>9 - Issue - No evidence of authorisation for some payments processed via the feeder system Tribal. Current practice is that a manual signature is used as approval for payment. At the time of the audit, Tribal did not have authorisation process built in.</p> <p>Rec - All invoices must be evidenced as appropriately authorised. Management to liaise with IMT re the Tribal system, or put in place an alternative, manual arrangement.</p>	<p>In Progress – August 2016</p> <p>This recommendation has been escalated to IMT for resolution.</p>
<p>10 - Issue - There were invoices that were not paid within the 30 days requirement. None of those identified had been on hold.</p> <p>Rec - Consider the following when critically reviewing the underlying reason for the delays:</p> <ul style="list-style-type: none"> • Public Contract Regulations 2015 • Produce reports for un-receipted invoices • Produce report for late paid invoices • Target managers who do not comply with escalation process 	<p>Implemented</p> <p>The council now has a dedicated SharePoint site (which is accessed via the MySite page), that provides guidance to all officers.</p>

2.2. Accounts Receivable - issued 15 January 2016 - Limited

Issues and Recommendation (Rec) - Accounts Receivable	Progress to date
<p>1 - Issue - There is no separation of duties for staff members who raise invoices and who process write offs and credit notes.</p> <p>Rec - Access permissions should be restricted to ensure an officer is not able to raise, cancel or write off without additional approval.</p>	<p>Not Implemented. – due October 2016</p> <p>To include a separation of duties in Oracle would require a customisation of forms and a cost from Cap Gemini. Management should continue to explore this way this option or put in place a compensating control.</p>
<p>2 - Issue -At the time of the audit, the suspense account had a large backlog (£1.5m) unapplied, unidentified and unapplied receipts in the</p>	<p>In progress – due October 2016</p>

Appendix 5 – Mid Year Follow up Progress Report

Issues and Recommendation (Rec) - Accounts Receivable	Progress to date
<p>account.</p> <p>Rec - continue to work urgently to clear the suspense account. (Re-occurring recommendation)</p>	<p>Work in clearing the account is underway with good progress made. At the time of the review the total was just over £633k.</p>
<p>3 - Issue - there is no validation of account numbers when input. This leads to an increase of items in suspense.</p> <p>Rec - A functionality to validate customer account numbers should be investigated.</p>	<p>Not Implemented. – due October 2016</p> <p>Oracle does not currently allow reference numbers to be validated. Invoices raised do contain a barcode that validates the account when paid at the Post officer / PayPoint. Similar controls around Debit / Credit card payments, BACS and DD are in place.</p> <p>However, payments paid via a bank to not currently have a giro / barcode.</p>
<p>4 - Issue - There is no report to identify when an instalment plan is not being adhered to. A manual process to check instalment plans was put in place, but at the time of the audit was not being done.</p> <p>Rec - Continue to progress the testing and implementation of the system generated report (Re-occurring recommendation)</p>	<p>Not Implemented – due September 2016</p> <p>There is no system in Oracle to automatically generate notification of a break in an instalment plan. As such, this recommendation will not be able to be implemented. In addition, there is no a report that generates this information either.</p>
<p>5 - Issue - Debtor collection team stats reports are unable to be generated from Oracle since the upgrade.</p> <p>Rec - Continue to progress the implementation of the debtors collection team stats using the OBIEE (Oracle report bolt on). (Re-occurring recommendation)</p>	<p>Not Implemented – due September 2016</p> <p>No progress to date.</p>
<p>6 - Issue - Recovery action can be suppressed during the debt recovery process (dunning), so that reminder letters can be removed. A report that details those accounts where removal / stopping of recovery action is stopped, are only produced on an ad-hoc basis (3-4 months).</p> <p>Rec - Report of the reminder letters taking out of the dunning process should be produced and monitored on a regular basis.</p>	<p>In Progress – due September 2016</p> <p>The process of checking the accounts that were removed from the dunning process is ongoing. At the time of this review, 797 out of 1508 had been excluded from the dunning process, had been checked.</p>

Appendix 5 – Mid Year Follow up Progress Report

2.3. Banking - issued 7th March 2016 - Limited

Issues and Recommendation (Rec) - Banking	Progress to date
<p>1 - Issue - Procedure notes needed updating, linked to the SharePoint site or removed to reflect current practices.</p> <p>Rec - Procedure notes should be periodically reviewed and amended where applicable. Version control should also be put in place.</p> <p>(Re-occurring recommendation)</p>	<p>In Progress – November 2016 (two date changes)</p> <p>Procedure notes are now in place for some, but did not detail the version control information.</p>
<p>2 - Issue - Cash receipts that are not automatically allocated to an account are held in exceptions in the Account Income Management System (AIMS) (i.e. prior to going to the suspense account). These have to be manually allocated to the accounts. Receipts were held in the AIMS system for more than six months prior to being transferred to the general suspense account.</p> <p>Rec - Critically review the period that any un-allocated items in the exceptions account on AIMS is kept.</p>	<p>Implemented</p> <p>The oldest receipt on the AIMS exceptions account was dated 1s June 2016.</p>
<p>3 - Issue - There are a large amount of cash receipts (£1.7M) that were not manually allocated from the exceptions list in AIMS, transferred to the suspense account.</p> <p>Rec - The core financial team and the financial transaction team should continue to liaise with each other to help clear unidentified income accounts.</p>	<p>In progress – April 2016</p> <p>As at the 31/07/16- the unidentified income account was £290k. Reconciliation of this account is on-going.</p>
<p>4 - Issue - No reconciliation of the 'AIMS Daily Balancing Summary' was being produced. The bank reconciliation process is dependent on this summary and was several months behind.</p> <p>Rec - To keep the AIM Daily Balancing Summary up to date.</p>	<p>Implemented</p> <p>The summaries were completed to the end of July 2016.</p>

Appendix 5 – Mid Year Follow up Progress Report

Appendix 6 – Final annual assurance report

1. Purpose

- 1.1. The purpose of this report is to present members of the Audit Panel with the annual opinion on the effectiveness of the Council's system of internal control from the Head of Corporate Resources, in his capacity as the Head of Internal Audit (HIA).

2. Recommendation

- 2.1. Members are asked to note the final annual assurance report for 2015/16.

3. Executive summary

Background

- 3.1. This is a statutory report to be made annually by the Council's Head of Internal Audit.
Introduction
- 3.2. The Public Statutory Internal Audit Standards (PSIAS) define the required contents of this Annual Assurance Report.

Opinion

- 3.3. The opinion of the Head of Corporate Resources on the overall adequacy and effectiveness of the Council's risk management systems and internal control environment during 2015/16 is Limited (this is down from Satisfactory in 2014/15). The Schools opinion remains Satisfactory.

Qualifications to the opinion

- 3.4. Sets out the circumstances to help place this opinion in the appropriate context. There are two qualifications to the opinion, the higher than usual number of changes to the Internal Audit plan and some weaknesses in Risk Management practices through the year.

Summary of work assurance work completed which the opinion is derived

- 3.5. The internal audit plan 2015/16 initially had 85 pieces of audit work (59 Corporate and 26 Schools), not including follow-up reviews. By the end of the year this had decreased to 71 pieces of work (45 Corporate and 26 Schools).
- 3.6. In respect of the corporate audits 13 of the 41 reports issued (32%) were with a negative opinion; split core 5 of 17 (29%) and non-core 8 of 24 (33%). The schools audits were 2 of 26 reports (8%) with a negative opinion.
- 3.7. In addition, there were 16 corporate and two school follow-up reviews completed for the period.

Issues relating to the Annual Governance Statement

- 3.8. One of the three improvement areas noted in the AGS is in respect of internal control. From the internal audit recommendations in 2015/16 the common or more significant areas noted for improvement were: Budget Pressures; ICT Infrastructure; Contract Management; Human Capital; and Financial Control.

Statement of compliance with the PSIAS

- 3.9. The independent external review conducted in February 2016 confirmed that the Internal Audit Service complies with the Public Sector Internal Audit Standards.

Appendix 6 – Final annual assurance report

Quality Improvement Programme for Internal Audit

- 3.10. The focus for 2016/17 is to embed the newly recruited internal audit team to deliver a value for money service, maintain quality, and improve the service impact with better knowledge and understanding of the Council's operations.

4. Background

- 4.1. The Accounts and Audit (England) Regulations 2015 states, "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".
- 4.2. This report details the Head of Internal Audit's annual assurance opinion on the adequacy and effectiveness of the London Borough of Lewisham's internal control arrangements for the year from April 2015 to May 2016. This opinion and report contributes to the Council's Annual Government Statement (AGS).
- 4.3. The Council's Head of Internal Audit is the Head of Corporate Resources who has operational responsibility for the in-house Anti-Fraud and Corruption Team (A-FACT), Insurance and Risk Management, Corporate Health & Safety, Procurement Support, Strategic Finance, Pension Fund, and Treasury Management. He is also the Deputy Section 151 Officer.

5. Introduction

- 5.1. The PSIAS states that the Head of Internal Audit must deliver an Annual Assurance report that can feed into the Council's AGS as part of the financial statements. The annual report must provide an opinion on the overall adequacy and effectiveness of risk management and control. In addition, the report must also include:
- a summary of the work that supports the opinion;
 - the timeframe to which the opinion relates to;
 - statement on conformance with the PSIAS;
 - any scope limitations;
 - disclosure and details of any qualification/s;
 - consideration of related projects and other assurances providers;
 - the risk / control framework used for the basis of the opinion; and
 - any other issues that they are relevant to the governance statement.

6. Opinion

- 6.1. The Head of Internal Audit's opinion on the overall adequacy and effectiveness of the Council's risk management systems and internal control environment, including any qualifications to that opinion, is as follows:
- 6.2. "I have considered all of the work undertaken and reported on by the Internal Audit Service, Anti-Fraud and Corruption Team and other sources of assurance available to the Council for the audit year 2015/16. In my opinion, **Limited** assurance can be placed on the adequacy and effectiveness of Council's corporate internal controls framework in place and **Satisfactory** assurance can be placed on the Schools internal controls framework".

Appendix 6 – Final annual assurance report

- 6.3. This opinion is expressed using the same scale used for internal audit report opinions. The scale ranges from Substantial to Satisfactory, through to Limited and No Assurance. Definitions are provided at Appendix 4. The opinion for the 2015/16 corporate audits continues the direction of travel noted in 2014/15 and is down from last year's Satisfactory opinion.
- 6.4. I was part of the Annual Governance Statement (AGS) working party through 2015/16. The working party comprises a group of senior officers, chaired by the Head of Law, responsible for preparing and reviewing the Council's AGS.
- 6.5. The AGS has been updated and actions mentioned throughout the year. I am satisfied that the content of the statement is accurate and its completion has complied with the relevant CIPFA guidance. Issues that I judged relevant, such as the effectiveness of internal control, have been considered by the group and included where necessary.

7. Qualifications to the opinion

Internal Audit

- 7.1. Work continues to stabilise and improve the Internal Audit Service to deliver value for money for the Council. The plan for 2015/16 was mainly delivered by contractors; via the London Borough of Croydon framework with Mazars for corporate audits; and a service level agreement with the Royal Borough of Greenwich for school audits.
- 7.2. These arrangements have put a cost pressure on delivery of the plan. This, combined with reorganisations and the state of continuous change for a number of key services across the Council, has made the audit planning more difficult. And resulted in several changes to the plan and more audits than usual being cancelled or deferred than usual through the year.
- 7.3. For example; when it was announced that Children's Services were to be inspected by OFSTED a number of planned audits in this area were deferred to avoid duplication; and pending the move to the new IT shared service with Brent limited IT audits were undertaken as the results for 2015/16 were already known based on 2014/15 work.

Risk Management

- 7.4. There was an audit of Risk Management during 2015/16, which resulted in a satisfactory opinion for the process. However, as noted by the Internal Control Board (ICB); there were some weaknesses and delays through the year in management's updating of risk registers, completing service plans and undertaking appraisals with staff. Work is underway to address these challenges with a new 360 degree appraisal process for senior managers introduced for 2015/16 and a refreshed corporate focus on setting, communicating and monitoring objectives for 2016/17.
- 7.5. The risk of not being able to fully rely on the service plan objectives and risk register assessments is that internal audit reviews may not be directed where most needed and of most potential value to the Council.
- 7.6. The mitigation actions in 2015/16 have included; having the Head of Corporate Resources involved in a range of senior management functions so aware of the strategic direction for the Council; planning meetings with Heads of Services; monitoring sector and professional horizon-scanning reports; experienced auditor

Appendix 6 – Final annual assurance report

knowledge; reviewing committee reports; and keeping up to date with events / legislation that affect Local Government.

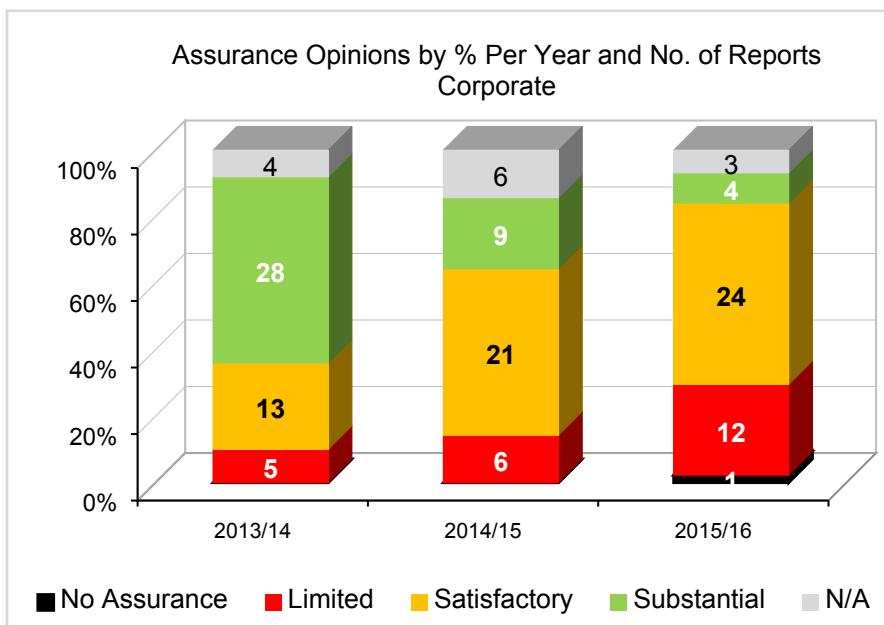
8. Summary of assurance work from which opinion is derived

Delivery of the Audit Plan

- 8.1. The internal audit plan 2015/16 initially had 85 pieces of audit work (59 Corporate and 26 Schools), not including follow-up reviews. By the end of the year this had decreased to 71 pieces of work (45 Corporate and 26 Schools).
- 8.2. The changes to the plan during the year were as follows:
- 8.3. Additional Audits - New
 - Arrangement for 18+ Children in Care – Requested by Head of Service
 - Processes for Payment to Main Providers
 - Troubled Families Claim (Last one of Phase 1)
 - Section 47 Referrals and Data Quality (see also cancelled / deferred)
- 8.4. Additional Audits – Split
 - COM / CYP Contract Management Audits split from two to four audits
 - Learning and Disability Respite
 - Employer Agents – Pupil Placements
 - Speech Language and Therapy
 - Domiciliary Care Agencies
 - Data Protection Act / Freedom of Information Act (DPA / FOIA) - split into two
 - Data Protection Act Compliance
 - Public Access to Information
- 8.5. Cancelled / Deferred
 - Audits cancelled due to internal audit resources
 - Archiving
 - Cultural Change and Managing Resistance
 - Dedicated Transformation Team / Lewisham Future Board
 - Monitoring of ad-hoc payments to children in care and providers (non-key controls)
 - Multi Agency Partnership Working
 - Private Sector Housing Agency (PHSA)
 - Procurement Process and Contract Register
 - Safeguarding Board – CYP – Serious Case Review Framework
 - Safeguarding and Assurance Adults – Proactive monitoring of referrals
 - Savings Proposals v's Results
 - School Policies – Thematic Review
 - School Improvement Inspections Reports
 - Special Educational Needs (SEN) Service – Post reorganisation
 - The Care Act 2014 – Changes to Strategy and Processes
 - Voluntary and Community Sector Contracts

Appendix 6 – Final annual assurance report

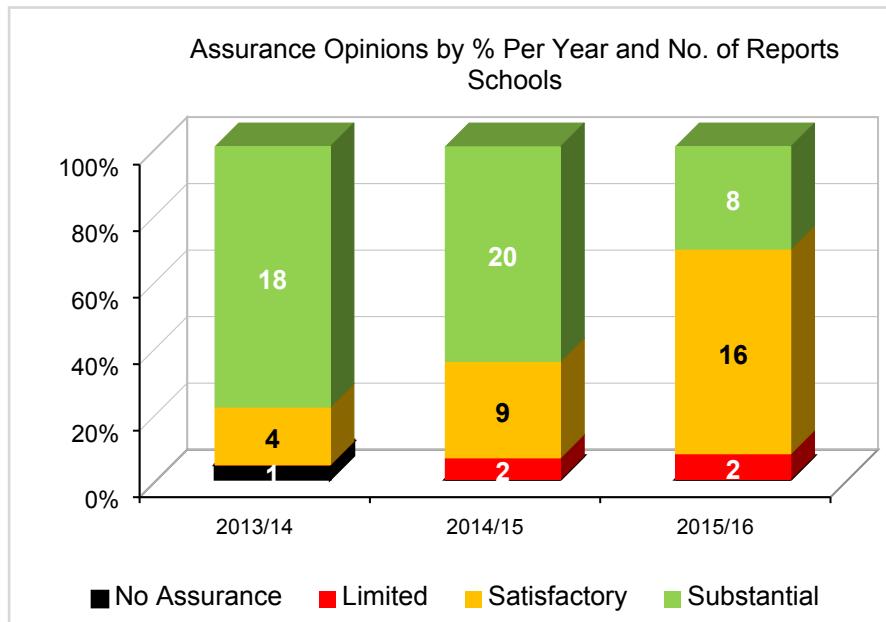
- Audits no longer required
 - Anti-Social Behaviour Service (no longer a single service)
 - Troubled Families Programme – Annual Grant Framework no longer a requirement to perform an annual audit.
 - IT Audits – Cancelled due to timing and contractor resources
 - Mobile / Home Working Access
 - Monitoring of Breaches, Spam Mail, Malware and Denial of Service Attacks
 - Public Sector Network Compliance (PSN)
 - Section 47 Referrals and Data Quality – cancelled from the 15/16 audit plan as key staff not available.
- 8.6. The graph below represents the percentage of audit assurance opinions (with the number of reports issued) for corporate audits issued. The definitions of assurance opinions – Substantial, Satisfactory, Limited and No Assurance – can be found at Appendix 4. N/A is for non-assurance work such as grants or consultancy reviews.
- 8.7. While some work is still at draft report stage, with the exception of one corporate audit, all audit assurance opinions are reported and have therefore been considered in preparing this report. It is not expected that on completion of the final audits that there will be any material changes to impact the assurance opinion as presented.
- 8.8. The results of the corporate internal audit work for 2015/16 has seen the number and proportion of Limited assurance reports issued continue to increase. This is in line with the previous Head of Audit assurance opinion, which stated last year overall opinion was satisfactory, and heading towards a Limited opinion.
- 8.9. In respect of the corporate audits 13 of the 41 reports issued (32%) were with a negative opinion; split core 5 of 17 (29%) and non-core 8 of 24 (33%). The schools audits were 2 of 26 reports (8%) with a negative opinion.



- 8.10. The graph below is the same as the above, but presents the school audit position.

Appendix 6 – Final annual assurance report

- 8.11. The number of Limited / No Assurance school reports remain low. The number and percentage of satisfactory assurance reports issued has increased since last year, but this is still a positive overall assurance position.



Core Financial Systems

- 8.12. Core financial systems are the key financial areas within the council. They are audited on an annual basis. The table below shows a comparison of assurance opinions for the last three years.

Key

SUB	Substantial	SAT	Satisfactory	LTD	Limited	NAS	No Assurance
↗	Improved since last year	↔	Same as previous year	↘	Deteriorated since last year		

Table

Core financial system	2013/14	2014/15	2015/16	DoT
1. Accounts payable	SUB	LTD	NAS	↘
2. Accounts receivable	SUB	LTD	LTD	↔
3. Banking	SUB	LTD	LTD	↔
4. Client contributions for residential & domiciliary care	SUB	LTD	LTD	↔

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Core financial system	2013/14	2014/15	2015/16	DoT
5. Payments to Adult care providers	SUB	SAT	LTD	↗
6. Main accounting	SUB	SAT	SAT	↔
7. Capital programme and expenditure	SUB	SAT	SAT	↔
8. Budget control and monitoring	SUB	SAT	SAT	↔
9. Business rates (NNDR)	SUB	SUB	SAT	↗
10. Council tax	SUB	SUB	SAT	↗
11. Direct payments	SUB	LTD	SAT	↗
12. Housing benefit and CTRS	SUB	SAT	SAT	↔
13. Looked after children payments	SUB	SAT	SAT	↔
14. Non-current (fixed) assets	LTD	LTD	SAT	↗
15. Pensions	SUB	SAT	SAT	↔
16. Payroll	SAT	SAT	SUB	↗
17. Treasury management	SUB	SUB	SUB	↔

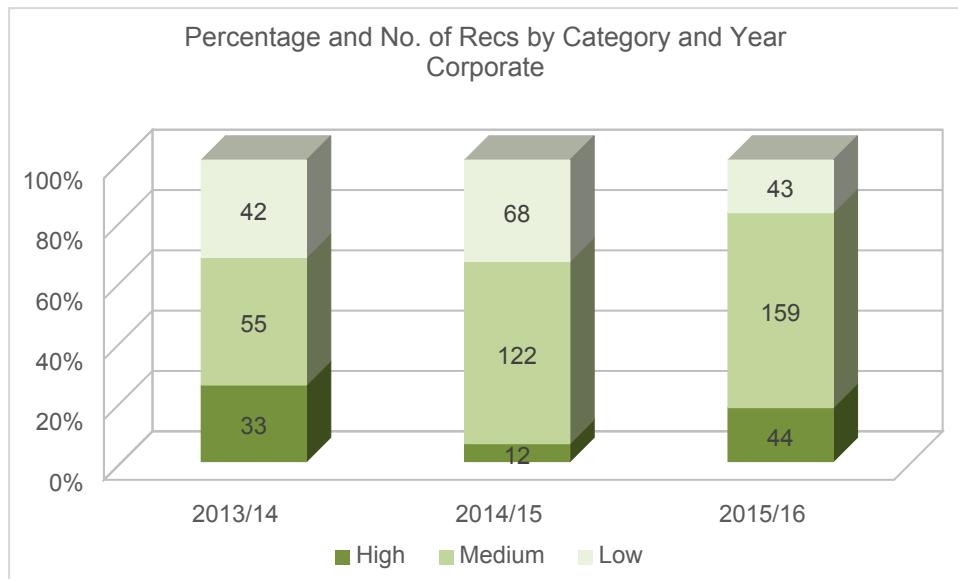
- 8.13. The ‘No Assurance’ audit opinion for a core financial audit is still at draft, and maybe subject to change.
- 8.14. There were five rather than six core financial audits with Negative audit opinions in 2015/16. However, these include the key core financial areas (Accounts Payable, Accounts Receivable and Banking) with negative opinions for the second year in a row.

Recommendations

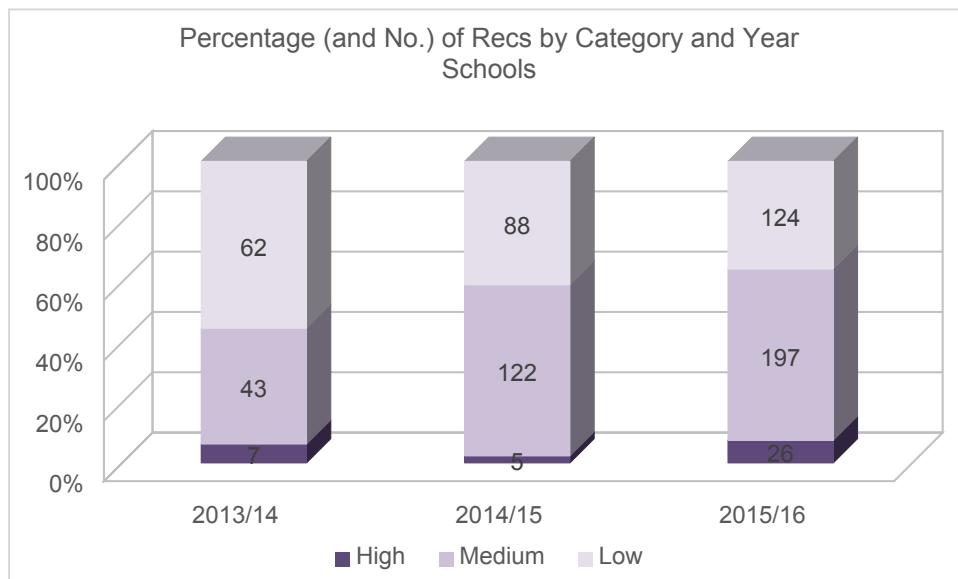
- 8.15. When internal audit make recommendations to management, they are categorised as ‘High’, ‘Medium’ or ‘Low’. Definitions of these categories are provided at Appendix 4.
- 8.16. Officers are responsible for updating the progress on implementation of their Corporate High and Medium recommendations to an internal SharePoint site.
- 8.17. Schools are unable to use this internal site and have to provide updates manually to the Children and Young People (CYP) directorate.
- 8.18. Internal audit reports are given quarterly to the Audit Panel and the Internal Control Board (ICB) on the status of recommendations. The status includes:
- No. of recommendations overdue;
 - No. of recommendations with two or more changes of due date;
 - No. of recommendations reopened at the follow-up review; and
 - No. of recommendations closed since the final report.

Appendix 6 – Final annual assurance report

- 8.19. The graph below presents the percentage (and number) of recommendations made by category for all corporate internal audits. It shows that there is an increase in percentage of High and Medium recommendations made during 2015/16.



- 8.20. The graph below is the same as the above, but for schools. This shows that percentage has remained pretty even for the last two years.



Follow-ups

- 8.21. Internal audit follow-up on all Corporate High and Medium recommendations, normally nine months after the final report. The exceptions to this are for the core financial reviews, which are reviewed at the next annual audit.
- 8.22. For schools, only those audits with a Limited or No Assurance opinion are followed-up. There were 16 corporate and two school follow-up reviews completed for the period.
- 8.23. The table below shows the number of recommendations reviewed and their status at the time of the follow-up review.

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Implemented	In Progress	Superseded	Not Implemented	Total Recs
64	29	-	8	101
63%	29%	-	8%	%

- 8.24. Internal Audit reports the progress of implementing these recommendations to the Audit Panel and the Internal Control Board (ICB) on a regular basis. A list of follow-up reviews conducted can be found in Appendix 2.

Anti-Fraud and Corruption Team (AFACT)

- 8.25. AFACT is responsible for conducting and managing fraud investigations internally and of those using Council services. This work is conducted with support from the Council's Human Resources and Legal Services teams. This work arises from the need for the Council to ensure confidence in the administration of public funds.
- 8.26. This recognises that the undermining of public confidence that can result from the discovery of a fraudulent or corrupt act can inflict much greater and more widespread damage than just the act itself.
- 8.27. The number and nature of investigations concluded in the year and actions taken are reported to the ICB and Audit Panel quarterly in the year. In 2015/16 the Council was also independently inspected and was given a positive opinion for its arrangements for conducting surveillance work under the RIPA powers.

Risk Management

- 8.28. Corporate Resources is responsible for ensuring the Council has an effective risk management strategy and policy in place. These were reviewed at ICB in 2015/16 in light of some of the challenges to maintaining risk registers reported by the Risk Management Working Party (RMWP). In addition, Directorate Management Teams (DMT) and the Executive Management Team (EMT) meet regularly to discuss risk, review the finances and monitor performance. Thereby enabling urgent matters to be escalated for action promptly outside the formal risk reporting cycle.
- 8.29. A more streamlined and structured approach was agreed for service plans and Directorate registers for which templates have been designed for use in 2016/17. The strategy and policy documents will now be updated to reflect these changes and put to ICB and Audit Panel for member approval in 2016/17.
- 8.30. In addition to the risk registers for management purposes, the Mayor and Cabinet and Members are appraised on risk management via the monthly management report which clearly maps risks to the Council's priorities and provides a narrative on changes to existing or emerging key risks.
- 8.31. Through the actions note above the Council continues to adjust its approach to risk management, seeking to maintain the quality of risk reporting in a manner that is proportionate to the management time available to sustain this work. In addition to the internal audit of the risk management process in 2015/16 a risk management maturity audit is in the plan for 2016/17 to assess the new arrangements.

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Other sources of assurance

- 8.32. Evidence for the effective mitigation of risk and focus on improving internal control comes from other sources than the work of internal audit. These are taken into consideration for preparing the annual assurance opinion and planning the work of internal audit for future years. For example:
- 8.33. Internally service planning, performance reporting and financial monitoring are tools available to management. In 2015/16, as noted by ICB, the approach to service planning was not consistent across services, budget monitoring had some re-occurring audit recommendations and the CYP OFSTED inspection made recommendations in respect of performance management. In addition the level of H&S incidents reported and motor vehicle insurance claims have been higher than usual. These are all areas for management attention and improvement going forward.
- 8.34. Externally inspections and accreditation reviews and statutory transparency reporting requirements are helpful measures to assess the effectiveness of service practice and performance. In 2015/16, from the relevant bodies, the Council received positive results from its legal services accreditation, RIPA inspection, and an extension to its Public Sector Network certificate. However, the OFSTED review of children's services concluded with 'needs improvement', the Council chose to allow its Investors in People accreditation to lapse, and performance around timely Freedom of Information and handling of complaints fell off considerably at the turn of the year (although now returning to be back on track).

9. Issues relevant to the Annual Governance Statement (AGS)

- 9.1. From a review of the internal audit recommendations made in 2015/16 some common areas for improvement around internal controls were noted. This does not mean they are wrong all of the time everywhere. However, these points were noted through more than one audit or source of assurance during the year.

Budget Pressures

- 9.2. Across the Council, services are continuing to work to find ways of operating with reduced budgets. This has resulted in controls being either:
 - reduced, e.g. checks being done quarterly rather than monthly;
 - transferred e.g. contracted out but with insufficient contract monitoring over finances or outputs/outcomes; or
 - non-compliance e.g. purchasing without obtaining correct quotes / tendering.

ICT Infrastructure

- 9.3. The ICT infrastructure during 2015/16 was not always fit for purpose. This resulted in:
 - Software applications suffering considerable downtime;
 - Inability to reconfigure or procure digital ways of working to help with control improvements or efficiencies;
 - Antivirus / cyber security not up to date or not in place thereby putting the Council at risk from outside threats; or
 - ICT kit not being refreshed and therefore operating very slowly resulting in considerable loss of productivity.

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Contract Management

- 9.4. The Council does not always prioritise the resources to ensure effective contract management arrangements are in place and value for money is being achieved. While the contracting out services may appear to be a budget / cost saving decision, without proper monitoring of the contract and retained risks it can end up being more costly in the long run.

Human Capital

- 9.5. The Council in 2015/16 completed its third voluntary severance scheme in five years and continues to implement a high number of service reorganisations associated with savings proposals. This continues to throw up gaps in the effective operation of controls where key experienced and knowledgeable members of staff leave.
- 9.6. This situation is exacerbated where internal audit is routinely identifying procedures and processes not being updated to reflect new ways of working and to help the transfer of knowledge and learning.

Financial control

- 9.7. From a core financial perspective, Accounts Payable and Accounts Receivable are the main transaction areas and impact all parts of the Council operating efficiently.
- Accounts Receivable – findings included the suspense account not cleared in a timely manner. Officers are able to raise and cancel invoices without a segregation of duties control. There is no automatic notification of breaks in instalments and the removal of reminder letters (dunning process) is not monitored to ensure prompt collection of debts.
 - Accounts Payable – findings included changes to suppliers are not being reviewed or there is no audit trail to identify what changes have been made. There is no dual control in the changes to supplier details. Exception reports on duplicate payments or high value payments are not run. There is not always approval for payment evidenced from a feeder system or manual payments. Some payments where there should be a purchase order are being processed as non-purchase orders (i.e. not shown as a commitment to spend). Delays in paying suppliers (i.e. over the 30 days threshold). Absence of routine data cleansing work, e.g. to review for duplicate suppliers.
- 9.8. The key risks being uncollected income or payment of monies not due, abuse of public funds, poor decision making based on weak budget forecasting and monitoring information, and reputational harm with suppliers and customers.

10. Statement of compliance with Public Sector Internal Audit Standards (PSIAS)

- 10.1. The standards require an external independent review of the internal audit service at least every five years. The internal audit service's external review took place in February 2016 by NHS Bart's internal audit service, London Audit Consortium (LAC).
- 10.2. LAC confirmed that the Internal Audit Service complied with the PSIAS. Recommendations made by LAC were made on how to improve the service, but the implementation of these are not mandatory to comply with the PSIAS. The detailed recommendations and proposed actions in response are set out at Appendix 3 to this report.

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- 10.3. The recommendations, where relevant, are also included in the Quality Improvement Plan (Section 11).

11. Quality improvement Plan (QIP) for Internal Audit.

- 11.1. Taking the recommendations made during the PSIAS assessment into account, the Internal Audit Service is pressing ahead with a restructure to recruit more in-house resource. This is partly a cost saving measure and a means to ensure better retained organisational knowledge to help support and contribute to the on-going change being driven through by management.
- 11.2. The emphasis for 2016/17 is to embed the team, updated working papers, and set revised key performance indicators before considering introducing trainee positions in 2017/18.

12. Role of the Head of Internal Audit

- 12.1. CIPFA Statement on “The role of the Head of Internal Audit in public service organisations, 2010” state that the Head of Internal Audit role in a public service organisation is based on five principles:
- 1) Championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and
 - 2) Giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.
 - 3) Must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee;
 - 4) Must lead and direct an internal audit service that is resourced to be fit for purpose; and
 - 5) Must be professionally qualified and suitably experienced
- 12.2. The annual review of the Head of Internal Audit concluded that all of the above principles were met.

13. Background Papers

- 13.1. Internal Audit and A-FACT papers to the Audit Panel throughout 2015/16.

For queries on this report, please contact the Head of Corporate Resources on 020 8314 9114 or by email at david.austin@lewisham.gov.uk

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2015/16

Corporate Audits

Lead Dir.	Auditable Area	Assurance Level Given	H	M	L	Risk Headings / Area Tested During the Review	Date of final Report
CUS	Accounts Payable 2015/16 (Core Financial Audit)	No Assurance	6	4	-	Set up of new suppliers, Payments, Reconciliations, and Performance Indicators	07/06/16
CUS	Accounts Receivable 15-16 (Core Financial Audit)	Limited	2	4	1	Completeness of income, Documentation and Authorisation, Income recording and Debt Recovery	15/01/16
CUS	Banking 15/16 (Core Financial Audit)	Limited	1	3	1	Payments, Cheque Printing and Security, Feeder systems (access) and Reconciliations	07/03/16
CUS	Client Contributions for Care Provision 15/16 (Core Financial Audit)	Limited	2	8	1	Eligibility and Financial Assessments, Recovery of Client contributions and Deferred Contribution Scheme	01/04/16
CUS	Backup and BCP for Adult Social Care System	Limited	2	1	-	Backups and Disaster Recovery Plan (DRP) and Business Continuity Plan (BCP)	04/04/16
COM	Learning and Disability Respite – Contract Management	Limited	-	8	-	Contract and Contract Variations, Payments, Contract Monitoring and Management Reporting.	14/03/16
CYP	Children's Centres – Contract Management	Limited	1	5	2	Contract and Contact Variation, Payments, Monitoring and Reporting	14/04/16
RRE	Commissioning and Procurement Board	Limited	1	6	-	Governance, Reporting, Monitoring and Adherence to the OGC gateway process,	04/05/16
RRE	Adherence to the Local Transparency code 2014	Limited	1	2	-	Publishing and Verification of Data	03/05/16
COM	Public Health – Statutory Services	Limited	2	4	-	Contract Formalities, Budgetary Control, Management Information and Reporting	06/06/16
COM	Better Care Fund	Limited	-	10	1	Governance and Risk Management, Performance Management and Data Quality, Financial Structure	27/05/16

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2015/16

Lead Dir.	Auditable Area	Assurance Level Given	H	M	L	Risk Headings / Area Tested During the Review	Date of final Report
COM	Payment to Adult Care Providers (Core Financial Audit)	Limited	-	10	2	DPA and Statutory Requirements, Set up of provider payments, Payments, Budgetary Control	27/05/16
CUS	Housing – Bed and Breakfast, Hostels and Temporary Accommodation	Limited	1	5	1	Allocation of temporary Accommodation, Charging and collection of rents and rates, Payments to Landlords	06/06/16
RRE	Budget Monitoring 15/16 (Core Financial Audit)	Satisfactory	-	3	1	Budget Setting, Loading and Virements, Budgetary Controls, and Management Reporting	01/03/16
CUS	Business Rates (NNDR) 15/16 (Core Financial Audit)	Satisfactory	1	-	2	Setting of the Business rates, Billing, Liabilities, Discounts, Reliefs and Collection Recovery and Enforcement	07/03/16
RRE	Capital Expenditure 15/16 (Core Financial Audit)	Satisfactory	-	1	-	Project Governance and Management, Payments, and Programme Budget and Expenditure Monitoring	22/03/16
CUS	Council Tax 15/16 (Core Financial Audit)	Satisfactory	1	-	2	Setting of the Council Tax, Billing inc, Write offs, Refunds, Discounts, Reductions, Disregards and Liabilities, Valuation Office List and Data Protection	07/03/16
CUS	Housing Benefit and Council Tax Reduction Scheme (Core Financial Audit)	Satisfactory	-	4	2	Applications, Payments, Overpayment, Debt Recovery, System Reconciliation and Exception Reporting	21/04/16
RRE	Main Accounting (Core Financial Audit)	Satisfactory	-	2	3	Financial Systems Administration, Feeder Systems, Journals and Reconciliations and Final Accounts	16/02/16
RRE	Non-Current Assets 15/16 (Core Financial Audit)	Satisfactory	-	2	2	Asset Management, Transfer of assets, and Reconciliation	25/04/16
COM	Direct Payments 15/16 (Core Financial Audit)	Satisfactory	-	4	1	Assessment and Payments, Utilisation Monitoring, and Budget Monitoring	24/05/16

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2015/16

Lead Dir.	Auditable Area	Assurance Level Given	H	M	L	Risk Headings / Area Tested During the Review	Date of final Report
CYP	Payments to Child Care Providers and Foster Carers (Core Financial Audit)	Satisfactory	1	5	1	Payments, Budgetary Control, Exception Reporting	07/06/16
RRE	Pensions 15/16 (Core Financial Audit)	Satisfactory	-	4	-	Governance Arrangements, Contributions and Payables, Investments and Management Fees and Reconciliation	01/04/16
RRE	Corporate Health and Safety Framework	Satisfactory	-	4	5	Training and Communication, Risk Mapping, Audits and Inspections and Management Reporting	23/09/16
RRE	Risk Management	Satisfactory	-	3	1	Risk Identification and Evaluation Process, and Risk Monitoring and Management Reporting	17/02/16
CUS	Housing Register and Offers	Satisfactory	1	2	1	Housing applications, Bidding process and Offers	11/04/16
CUS	Recycling and Incineration Arrangements – Contract Monitoring	Satisfactory	-	3	1	Contract and Contact Variation, Payments, Monitoring and Reporting	10/11/15
CUS	Registrars	Satisfactory	-	3	1	Income and Reconciliations, Stock Control, Performance Monitoring and Customer Satisfaction	16/10/15
COM	Domiciliary Care Agencies – Contract Monitoring	Satisfactory	-	5	1	Contract and Contact Variation, Payments, Monitoring and Reporting	22/02/16
CUS	Public Access to Information (inc Freedom of Information)	Satisfactory	-	7	1	FOIA / EIR requirements and ICO recommendations, Access to information and exemptions and ICO codes of practice	04/05/16
CUS	Data Protection Act – Compliance	Satisfactory	-	6	-	DPA and ICO recommendations and DPA requests	04/05/16
CYP	Leaving Care (18+ Arrangements)	Satisfactory	1	3	1	Assessment of Needs and Pathway plan, placement for housing, Monitoring of aftercare support	07/06/16
CYP	Employer Agents- Pupils Places Programme – Contract Monitoring	Satisfactory	1	4	2	Contract and Contact Variation, Payments, Monitoring and Reporting	20/05/16
COM	Food Safety, Hygiene and Standards	Satisfactory	1	2	-	Food Safety, Hygiene and Standards arrangements, Enforcement of the Food Safety Act, Budget and Performance Reviews	27/05/16

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2015/16

Lead Dir.	Auditable Area	Assurance Level Given	H	M	L	Risk Headings / Area Tested During the Review	Date of final Report
RRE	Anti-Fraud and Corruption Team (AFACT)	Satisfactory	-	2	3	Fraud strategy, Reporting and processing of cases, and Data security	15/06/16
CUS	Appointeeships, Deputyships and Safeguarding of Client Assets	Satisfactory	1	3	1	Application and eligibility of appointeeships and Deputyship, income and expenditure, safeguarding of client assets	27/05/16
CUS	Disaster Recovery and Business Continuity Plans	Satisfactory	1	2	-	DR / BCP planning, BCP returns, Property Inspections, Emergency Planning Exercise	07/06/16
RRE	PFI Monitoring	Satisfactory	-	2	1	Contracts, Variations and Additions, Governance arrangement, Contract monitoring and report and payments	15/08/16
RRE	Payroll 15/16 (Core Financial Audit)	Substantial	-	1	1	Starters and Leavers, Benefits, Deductions, Amendments and Payments	11/04/16
RRE	Treasury Management 15/16 (Core Financial Audit)	Substantial	-	2	-	Cash Flow Forecasting, Investments and Loans Recording, Unauthorised Access and Performance Monitoring and Reporting	09/02/16
CUS	In-house Bailiff Service / Enforcement Agency	Substantial	-	1	-	Recovery process including Seizing and Selling of Goods and Cash Payments, Transfer of Cases to External Bailiffs and Complaints Process	01/03/16
CYP	Speech and Language Therapy – Contract Management	Substantial	-	2	-	Contract and Contact Variation, Payments, Monitoring and Reporting	20/05/16
CYP	Troubled Families Programme – Claim Submissions (Phase 1 last claim)	Grant	-	-	-	DCLG require internal audit to sample check the grant claim	Throughout the year
CYP	Troubled Families Programme – Claim Submissions (Phase 2 claims for year)	Grant	-	-	-	DCLG require internal audit to sample check the grant claim	Throughout the year
CYP	Processes for Payments to Main Care Providers	Consultancy	2	4	-	Compliance with Organisational and Management requirements, Set up and termination of commitments	14/06/16

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2015/16

School Audits

Lead Dir.	School	Assurance level given	H	M	L	Areas / Risks tested during the review	Date of final report
SCH	Watergate	Limited	1	12	10	Procurement, Banking, Budget Monitoring, Governance, Recruitment, Payroll, DPA, Income and Asset Management	11/08/15
SCH	Adamsrill School	Limited	1	15	6	As above	26/08/15
SCH	Abbey Manor College	Satisfactory	-	11	10	As above	16/09/15
SCH	Athelney Primary School	Satisfactory	-	7	1	As above	10/03/16
SCH	Bonus Pastor RC College	Satisfactory	1	8	10	As above	15/12/15
SCH	Chelwood Nursery	Satisfactory	1	12	3	As above	22/10/15
SCH	Deptford Green Secondary	Satisfactory	-	8	4	As above	15/10/15
SCH	Edmund Waller Primary	Satisfactory	1	8	-	As above	18/09/15
SCH	Forest Hill Secondary	Satisfactory	-	11	5	As above	25/02/16
SCH	Holbeach Primary	Satisfactory	-	10	1	As above	03/02/16
SCH	Kender Primary	Satisfactory	-	7	2	As above	06/07/15
SCH	Launcelot Primary	Satisfactory	-	7	4	As above	23/02/16
SCH	Our Lady and St Philip Neri RC Infant and Jnr	Satisfactory	3	9	9	As above	04/02/16

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2015/16

Lead Dir.	School	Assurance level given	H	M	L	Areas / Risks tested during the review	Date of final report
SCH	Trinity All Through CE Secondary	Satisfactory	2	6	2	As above	13/11/15
SCH	Sedgehill Secondary	Satisfactory	3	7	-	As above	26/04/16
SCH	Kilmorie Primary	Satisfactory	1	11	1	As above	22/04/16
SCH	Prendergast Hilly Fields College (Secondary)	Satisfactory	1	9	-	As above	29/07/16
SCH	Prendergast Ladywell Fields College (Secondary)	Satisfactory	1	9	1	As above	29/07/16
SCH	Addey & Stanhope Secondary	Substantial	-	2	2	As above	19/08/15
SCH	Conisborough College - (Colfe's Associated School)	Substantial	-	2	13	As above	15/10/15
SCH	Fairlawn Primary	Substantial	-	4	-	As above	02/10/15
SCH	Forster Park Primary	Substantial	-	5	10	As above	27/01/16
SCH	St Mary Magdalen's Catholic	Substantial	-	5	1	As above	02/07/15
SCH	St Michael's CE Primary	Substantial	-	4	8	As above	19/10/15
SCH	Sydenham Secondary	Substantial	-	6	7	As above	27/11/15
SCH	Prendergast Vale College (Secondary)	Substantial	-	3	1	As above	29/07/16

Appendix 2 – Follow up Review Conducted in 2015/16

Lead Dir.	Audit Followed –Up	Original Opinion	Original Final Rpt Date	Follow-up Rpt Date	Implem- eted	In Progress	Supers- eded	Not Implem- ented	Total
RRE	Insurance -In house Processes 14/15	Substantial	08/06/15	19/01/16	1	1	-	-	2
RRE	Project Management 13/14	Satisfactory	16/07/15	26/02/16	-	3	-	2	5
RRE	Budget Setting and Monitoring 14/16	Satisfactory	29/04/15	01/03/16	3	3	-	-	6
RRE	Main Accounting 14/15	Satisfactory	18/06/15	16/02/16	2	1	-	-	3
RRE	Treasury Management 14/15	Substantial	11/06/15	09/02/16	1	1	-	-	2
RRE	Capital Expenditure 14/15	Satisfactory	24/06/16	22/03/16	4	1	-	-	5
RRE	Pensions 14/15	Satisfactory	31/03/16	01/04/16	7	1	-	1	9
RRE	Payroll 14/15	Satisfactory	12/05/16	11/04/16	7	1	-	-	8
RRE	Programme and Project Management 14-15	Satisfactory	29/06/15	11/04/16	3	1	-	-	4
CUS	Accounts Receivable 14/15	Limited	18/06/15	15/01/16	3	3	-	1	7
CUS	Housing Benefit and CTRS 14/15	Satisfactory	30/06/15	21/04/16	1	1	-	1	3
CUS	Banking 14/15	Limited	10/06/15	07/03/16	2	-	-	-	2
CYP	School Catering Contract 13/14	Satisfactory	09/07/14	11/02/16	4	1	-	-	5
CYP	Payments for 2 to 4 Year Olds 14/15	Substantial	24/06/15	07/03/16	-	1	-	1	2
COM	Public Health Contracts	Satisfactory	26/05/15	14/04/16	1	2	-	1	4

Appendix 2 – Follow up Review Conducted in 2015/16

Lead Dir.	Audit Followed –Up	Original Opinion	Original Final Rpt Date	Follow-up Rpt Date	Implem- ented	In Progress	Supers- eded	Not Implem- ented	Total
COM	Client Contributions for Care Provision 14/15	Limited	30/06/15	01/04/16	2	2	-	1	5
SCH	Elfrida Primary School 2014/15	Limited	05/03/15	14/12/15	13	1	-	-	14
SCH	St Bartholomew's CE Primary 2014/15	Limited	15/09/14	02/07/15	10	5	-	-	15

Appendix 3 – Action Plan for Improvements for the Internal Audit Service

Recommendation	Action Plan	Responsible Officer	Due by
1. Mazars to share declarations of interest with LBL or complete LBL pro-formas	<p>Agreed.</p> <p>All current contractor staff who work on a regular from 2016 on the LBL basis will complete</p>	Internal Audit Contract Manager	Completed.
2. Mazars should provide details of their internal and external quality review audits that presently demonstrate compliance with their ISO9001 quality system and through this, compliance with IA standards.	<p>Agreed.</p> <p>Mazars have provided evidence of the compliance with ISO9001 since the external assessment took place</p>	Internal Audit Contract Manager	Completed
3. Mazars should be asked to either share their gifts/ hospitality register or be required to participate in the LBL system.	<p>Not agreed.</p> <p>Until Mazars procures services on our behalf, the need for a gifts and hospitality register is not required.</p>	n/a	n/a
4. So as to improve clarity, paragraph 5.5 of the Audit Charter 2015/16, it should be reworded thus: <i>As the HIA has line management responsibility for a number of operational activities not relating to internal audit, to safeguard audit objectivity whenever these systems are audited by the internal audit team, the IACM will operate independently of the HIA and will for these matters report directly to the CFO</i>	<p>Agreed</p> <p>A review of the Charter for 2016/17 has taken place, and wording amended to reflect this recommendation.</p>	Internal Audit Contract Manager	Completed
5. Consideration should be given to renaming the Internal Audit Contract Manager post as Operational HIA to make clearer the remit of the post. The job description could also state:	<p>The restructure will make the internal audit contractor manager's role redundant, therefore a new Job Description will be created and these points will be taken into consideration.</p>	Head of Corporate Resources	December 16

Appendix 3 – Action Plan for Improvements for the Internal Audit Service

Recommendation	Action Plan	Responsible Officer	Due by
<ul style="list-style-type: none"> the post holder's authority to act independently of the HIA in regard to audits of systems managed by the HIA and the reporting line directly to the CFO in such instances; that the IACM will deputise for the HIA in regard to internal audit matters only 			
<p>6. Consider introducing a standard paragraph into project ToRs and audit reports stating that the auditor has no conflict of interests.</p> <p>This will demonstrate that independence is considered as part of project planning. It will therefore strengthen the assurance presently made in the Audit Charter and the Annual Assurance Report that the internal audit service complies with the PSIAS (and therefore operates with appropriate independence)</p>	<p>Agreed.</p> <p>A standard statement has been put into the Terms of Reference for 2016/17 audits , declaring that relating to that particular audit, they have no known impairment to their independence, will remain impartial throughout the review and have no conflict of interests to declare</p>	Internal Audit Contract Manager	Completed.
<p>7. The Audit Panel and the Internal Control Board (ICB) should consider holding in-camera meetings with the Internal Audit Contract manager to ascertain if this manager has any concerns as to the independence of the present arrangements. This should be done at least annually in general terms and whenever an audit of a system managed by the HIA is undertaken.</p> <p>The CFO should provide similar support to the IA Contract Manager in regard to the audit of</p>	<p>Agreement to be confirmed by Audit Panel, ICB and CFO.</p> <p>HIA comment: While in principle this is a good idea, there may be an easier way to implement this.</p> <p>Audit Panel – an annual meeting / or email from the chair to the Internal Audit Contract Manager should suffice.</p> <p>ICB – TBC</p> <p>CFO – TBC</p>	TBC	TBC

Appendix 3 – Action Plan for Improvements for the Internal Audit Service

Recommendation	Action Plan	Responsible Officer	Due by
any system managed by the HIA			
8. The Audit Panel should consider annually completing an effectiveness assessment that includes an assessment of the effectiveness of the internal audit service and HIA. A number of assessment templates exist. The NHS typically uses one prepared by the Healthcare Financial Management Association (HFMA).	To be agreed with the Audit Panel. Self-assessment of the audit panel (or committee) are available.	TBC	TBC
9. LBL should consider asking Mazars to periodically declare compliance with their staff appraisal and training systems (note: the need to conduct appraisals and operate training programmes for staff seem not to be in the scope of the ISO9001 system and therefore independent inspections by BSI cannot be relied upon for this purpose)	The Internal Audit Contract Manager will request A statement by Mazars when they complete their register of interests forms.	Internal Audit Contract Manager	Completed.
10. When submitting draft reports to the IACM Mazars should provide written confirmation that the working papers and draft report have been subject to their normal quality assurance process and all review points have been addressed.).	Not agreed as felt it is an over control. However, the IACM will put in the protocol that this a requirement, but report to the IACM if there is a break with the protocol.	Internal Audit Contract Manager	Completed.
11. Liaison with external audit should be strengthened.	Agreed Although the HIA meets with them on a regular basis this is in relation to his other activities (i.e pensions). Discussion	HIA and External Audit	June 16

Appendix 3 – Action Plan for Improvements for the Internal Audit Service

Recommendation	Action Plan	Responsible Officer	Due by
	with External Audit will take place to see how it can be improved		
12. Performance management systems are a key component of internal control. Consideration should be given to cyclically auditing the performance management arrangements of individual directorates, if an overall review is considered too large an undertaking. A risk based approach to determining the most suitable areas for review should be adopted	Agreed in principal. The HIA and IACM will consider this during the next round of planning.	Head of Audit / Internal Audit Manager (new post)	December 2016
13. ASQs are valuable in measuring the effectiveness of the service and motivating IA staff. Efforts should be made to improve the current level of client feedback by adopting the following strategies: <ul style="list-style-type: none"> • following up promptly where returns have not been made, • responding to replies very promptly to demonstrate that feedback is valued 	Agreed When the in-house team is in place, this will form part of their PI.	Internal Audit Contract Management	Completed

Appendix 6 – Final Assurance Report

Assurance Opinion Definitions

Level	Definition
Substantial Assurance ★	A strong framework of controls is in place to ensure that the service area is more likely to meet their objectives. In addition, the controls in place are continuously applied or with only minor lapses.
Satisfactory Assurance ●	A sufficient framework of controls is in place, but could be stronger to improve the likelihood of the service area achieving its objectives. In addition, the controls in place are regularly applied, but with some lapses.
Limited Assurance ▲	There are limited or no key controls in place. This increases the likelihood of the service area not achieving its objectives. Where key controls exist, they are not regularly applied.
No Assurance ■	There is no framework of key controls in place. This substantially increases the likelihood that the service area will not achieve its objectives. Where key controls do exist, they are not applied.

Definitions of Category of recommendations.

High	It is crucial that this recommendation is implemented immediately. This will ensure that service area will significantly reduce its risk of not meeting its objectives.
Medium	Implementation of this recommendation should be done as soon as possible, to improve the likelihood of the service area meeting its objective.
Low	Implementation of this recommendation would enhance control or improve operational efficiency.

APPENDIX D

Self-assessment of Good Practice

This appendix provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement: Audit Committees in Local Authorities and Police and this publication. Where an audit committee has a high degree of performance against the good practice principles then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

Good practice questions		Yes	Partly	No
Audit committee purpose and governance				
1	Does the authority have a dedicated audit committee?			
2	Does the audit committee report directly to full council? (Applicable to local government only.)			
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?			
4	Is the role and purpose of the audit committee understood and accepted across the authority?			
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?			
Functions of the committee				
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement? ■ good governance ■ assurance framework ■ internal audit ■ external audit ■ financial reporting ■ risk management			

Good practice questions	Yes	Partly	No
<ul style="list-style-type: none"> ■ value for money or best value ■ counter-fraud and corruption. 			
8 Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?			
9 Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?			
10 Where coverage of core areas has been found to be limited, are plans in place to address this?			
11 Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?			
Membership and support			
12 Has an effective audit committee structure and composition of the committee been selected? This should include: <ul style="list-style-type: none"> ■ separation from the executive ■ an appropriate mix of knowledge and skills among the membership ■ a size of committee that is not unwieldy ■ where independent members are used, that they have been appointed using an appropriate process. 			
13 Does the chair of the committee have appropriate knowledge and skills?			
14 Are arrangements in place to support the committee with briefings and training?			
15 Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			
16 Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?			
17 Is adequate secretariat and administrative support to the committee provided?			

Good practice questions	Yes	Partly	No
Effectiveness of the committee			
18 Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			
19 Has the committee evaluated whether and how it is adding value to the organisation?			
20 Does the committee have an action plan to improve any areas of weakness?			

Agenda Item 6

AUDIT PANEL		
Report Title	ANTI FRAUD AND CORRUPTION TEAM (A-FACT) UPDATE	
Key Decision	NO	Item No. 6
Ward	ALL	
Contributors	Head of Corporate Resources A-FACT Group Manager	
Class	Date: 13 September 2016	

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.
- 2.2. The Panel is also asked to agree the proposed approach to KPIs at 6.1 and appended respectively.

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	2016/17	2015/16	Change		2015/16	2014/15
	P3 YTD	P3 YTD	Number	%	FY	FY
b/f	11	45	-34	-76%	45	30
New	48	24	24	100%	102	97
Closed	-32	-32	0	0%	-136	-82
c/f	27	45	-18	-40%	11	45
Of which						
E'ee cases	3	4	-1	-25%	17	19
- resulting in action	2	2	0	0%	10	10
Other cases	29	28	1	4%	119	63
- resulting in action	15	5	10	200%	27	31

- 3.2 The two employee cases were:

- A-FACT obtained evidence relating to an employee that committed a criminal offence whilst on duty, this resulted in their demotion.
- An incident where an employee had obtained access to data without going through the proper processes. Whilst the employee had not done this with any wrongful intent they were advised of the correct procedure and measures put in place to prevent a reoccurrence.

- 3.3 "Other Cases" include applications for support by those who have No Recourse to Public Funds, Blue Badge fraud, Council Tax fraud, and reviews of financial or service processes to prevent or deter fraud.

Analysis of Non Employee Cases	Total Cases	Fraud Proven	Evidence provided to assist assessment	Action taken	NFA
No Recourse to Public funds	9	1	7	0	1
Blue Badge	1	1	0	0	0
False ID/Doc verification	2	1	0	0	1
Ctax Fraud	2	2	0	0	0
Proactive/Process review	2	0	0	2	0
Enquires for other orgs. etc..	13	0	0	0	13
	29	5	7	2	15

- 3.4 A-FACT are continuing to assist the No Recourse to Public Funds team with their work by undertaking visits and gathering evidence. However there may be considerable delay in a final assessment being made due to legal challenge etc. Therefore rather than keep investigation cases open for extended periods it has been decided to report on all cases where significant evidence is provided to assist an assessment.

Lewisham Homes

- 3.5 A-FACT continues to undertake investigation work on behalf of Lewisham Homes under a Service Level Agreement which has been extended for 2016/17. 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.

4 Housing Application 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 Housing App Investigations	2016/17	2015/16	Change		2015/16	2014/15
	P3 YTD	P3 YTD	Number	%	FY	FY
b/f	1	42	-41	-98%	19	38
New	23	2	21	1050%	28	46
Closed	-11	-11	0	0%	46	-65
c/f	13	33	-20	-61%	1	19
Resulting in action	8	5	3	60%	25	42

- 4.2 The Audit Commission have previously stated that there is a significant value associated with preventing fraudulent applicants from being housed. The Cabinet

Office have now taken over their role in respect of the National Fraud Initiative and have increased the estimated savings figure for the recovery of a social tenancy to £75,000 based on the cost of providing temporary accommodation for a family. The figure for a fraudulent application is yet to be revised, so until clarified the lower figure of £18,000 will be used to calculate savings from this work. The eight successful cases in the most recent period represent a saving of £144,000.

5 DCLG/ RSL Partnership Cases

- 5.1 Since January 2012 A-FACT have worked with local housing partners to tackle fraud related to social housing.

Summary of Housing App Investigations	2016/17	2015/16	Change		2015/16	2014/15
	P3 YTD	P3 YTD	Number	%	FY	FY
b/f	1	176	-175	-99%	176	33
New	32	18	14	78%	76	269
Closed	-14	-173	159	92%	246	126
c/f	19	21	-2	-10%	6	176
Resulting in action	6	6	0	0%	16	38

- 5.2 The Cabinet Office, which has now taken over the running of the National Fraud Initiative, has revalued the saving on the recovery of a social tenancy and is now using a higher figure of £75,000. On this basis the recovery of six tenancies equates to £450,000.
- 5.3 This is a key risk area the Council is focusing on given the level of housing pressure in London and the inequality of tenancies going to those who are not in need while others are on the waiting list. As previously reported, the team is therefore recruiting two investigators for two years to assist with this work.

6 Other Progress in the period

- 6.1 A-FACT were audited by the Council's Internal Audit Service and achieved a Satisfactory Assurance. The audit made five Medium recommendations

Recommendations/Finding	Response	Target date
A-FACT does not formally identify fraud risks faced by key areas of the Council	Key fraud risks identified and included in service plan of work	Sep 16 – Done Plan developed for implementation
A-FACT has not developed a proactive plan of work	Service plan developed to include some areas of key fraud risk as above	Sep 16 – Done Plan developed for implementation
A-FACT has not developed KPIs to encourage	A-FACT have reviewed possible KPIs, beyond those reported here already, and this is not considered	Oct 16 – WIP Mid-Year

performance in key areas	helpful. However, the team will endeavour to report on total savings, losses identified, and recoveries in future reports to help monitor fraud risk. Where appropriate notional valuation figures will be based on established opinion such as values used by the National Fraud Initiative.	report
The Anti-Fraud & Corruption Policy requires updating	Anti-Fraud & Corruption Policy now updated see Appendix 1	Sep 16 - Completed
Manager reviews were not evidenced as regularly conducted	New case management system (operational since Apr 16) requires management review of all cases every 28 days. This is now happening.	Implemented and ongoing

- 6.2 The new case management system has been successfully implemented. This will allow for more detailed reporting on the teams work. The case management system also interfaces with an internal matching tool which will be used for planned proactive work.
- 6.3 The DCLG funded London Fraud Hub is moving forward with CIPFA recently winning the contract to supply data analytics. The Hub will match data from across London to prevent fraud and identify losses for investigation and recovery. Lewisham have signed the required Memorandum of Understanding (MOU) to progress this work.
- 6.4 The Cabinet Office are currently drafting standards for investigations and the investigatory profession in central government. The team manager was invited to sit on the Cross Sector Advisory Group which has been developing these standards and has provided input from a local government perspective.



Anti-Fraud and Corruption Policy

Date last Reviewed August 2016

Approved by: Submitted for approval Audit Panel September 2016

Version No 1

Review date August 2017

Document Owner Carol Owen, Anti-Fraud & Corruption Team Manager

Appendix.1



Anti-Fraud and Corruption Policy

Introduction:

Fraud within the public sector is estimated to cost the taxpayer billions of pounds each year. Detected cases of fraud and corruption are on the increase and tackling public sector fraud is a major priority of the current government. Local authorities, which bear the brunt of loses through fraud, are now taking active steps to reduce and eliminate fraud at all levels within their organisations.

Lewisham Council has a zero tolerance to fraud and to this end the Council is committed to preventing fraud and corruption within all aspects of the Council's daily life, whether internal or external to its workings.

Lewisham is committed to establishing, and the public has a right to expect, the highest standards of probity and conduct in the administration of the borough. To this end, the Council is determined to eradicate fraud, financial malpractice and any other irregularity, which may call into question the integrity of the Council's operations.

The London Borough of Lewisham will take all appropriate measures to prevent, deter, detect and remedy fraud and this policy document is a statement of the Council's anti-fraud strategy.

The policy will ensure that the Council, its Councillors and its officers conduct themselves so as to be beyond reproach, above suspicion and fully accountable. No financial malpractice will be tolerated. Perpetrators can expect the Council to take a range of actions such as prosecution, disciplinary measures and restitution.

The aim is for Lewisham to be at the forefront of ensuring public probity in local administration and governance.

This policy supplements but does not replace the current Anti-Bribery Policy for the London Borough of Lewisham.

The Council has an Anti-Fraud and Corruption Team (A-FACT) dedicated to the deterrence, prevention, detection and investigation of any fraud or irregularities within Council proceedings. In addition, the Council's Internal Audit Section undertake annual plans based upon risk assessment, aiding management in its responsibility to ensure robust systems and enhancing the effectiveness of internal control.

The Council expects

- Only the highest standards from its members and employees;
 - Nolan principles;
 - Member Code of Conduct;
 - Employee Code of Conduct;
- Managers to be responsible for ensuring that adequate controls, to minimise the risk of fraud, are in place;
- Members and employees to report incidents of irregularity to A-FACT;
- Contractors to act with integrity and adhere to the Council's Anti-Fraud and Corruption Policy and the Code of Practice for Contractors, Suppliers & Service Providers.

Definition of Fraud and Corruption:

Fraud:

Fraud is the illicit gaining of cash or other benefits by deception. The definition is wide-ranging but covers any actions by employees, Councillors, clients, partners, agents, consultants and contractors intended to misappropriate funds or other Council assets for personal gain.

The Fraud Act 2006 has placed the act of fraud into three categories:

- Fraud by misrepresentation;
- Fraud by failing to disclose information; and
- Fraud by abuse of position.

Corruption:

For the purpose of this policy corruption is defined as

'the offering, giving, soliciting or acceptance of an inducement or reward which may influence official action or decision making. These inducements can take many forms including cash, holidays, event tickets, meals etc'.

The public is entitled to expect the highest standards of behaviour from all those employees, Councillors, clients, partners, agents, consultants and contractors who work in local government. Conduct must never be influenced by improper motives. Councillors and employee are expected to maintain the highest standards of integrity and should abide by the Seven Principles of Public Life, as recommended by the Committee on Standards in Public Life (The Nolan Committee).

The Council is seeking to develop and maintain an environment which makes fraud and corruption undesirable to contemplate and difficult to perpetrate. All practicable steps are being taken to minimise the risk and effect of fraud and corruption by its Councillors, employees, customers or clients. The need for appropriate controls is acknowledged and the Council will seek to sustain such controls in the administrative, financial, operational and computer systems employed in the delivery of external and internal services and management.

Councillors: As elected representatives of the public, Councillors have a duty to be fair, honest and open in their roles. They are bound by legislation, the Council's Standing Orders, the Council's Member Code of Conduct and adopted policies and procedures.

In particular, Councillors are required to declare and register any pecuniary interest they may have in companies, charitable organisations, voluntary groups or other relevant organisations. They are required to abstain from any debate or vote which pertains to matters involving any such organisations in which they have an interest, and are required to leave the room during such debates.

All allegations of fraud and corruption involving Councillors will be investigated and treated equally, regardless of the perpetrator. Action will be taken in accordance the Council's procedure for handling complaints of breach of the Member Code of Conduct including referral to the Police if appropriate.

Management: It is the responsibility of all managers to ensure that there are appropriate and adequate controls in place within the systems for which they are responsible to minimise the risk of fraud. The Council expects that current recommended best practice would be followed at all times. Controls will be designed to deter, prevent and detect all forms of fraud and corruption and also identify a clear pathway for investigation.

Employees: All Council employees are bound by the Council's Code of Conduct and Disciplinary Code. Employees are also bound by the Council's Standing Orders, Financial Regulations, Financial Instructions and the Code of Practice for Receipt of Gifts & Hospitality. In addition employees who are members of professional bodies will also be expected to abide by any codes of conduct and/or professional ethics issued by those bodies.

All allegations of fraud and corruption by employees will be thoroughly investigated. Employees found to have improperly benefited from the Council through offences of fraud, theft, serious financial malpractice, or of using their position for personal gain or the gain of others, will be subject to disciplinary action. Where an allegation of gross misconduct is proven, an employee may be summarily dismissed. The Council will also seek to prosecute all offenders and recover lost monies or assets.

Initiatives may be conducted from time to time to ensure the continued integrity of those employed by the Council.

Contractors; Partners and Agents: The Council expects all of its contractors, suppliers, agents, partner organisations and individuals, to act with honesty and integrity. Client officers will be responsible for monitoring their actions and for ensuring that their terms of reference, agreements and/or contracts include a clause to the effect that the contractor must abide by the Council's Fraud Policy and co-operate with fraud investigations by Council officers. The Council will seek to ensure that all its dealings will be conducted on the same basis and expects its Councillors and employees to lead by example.

Agency employees engaged by the Council are bound by the same rules as direct Council employees and are expected to uphold those principles contained in the Code of Conduct. Failure to do so will result in termination of their engagement.

The Public: Members of the public receive financial assistance and support from the council through a variety of sources. These include council housing, temporary accommodation, children's act payment, direct care payments, renovation and other housing related grants, right to buy discounts blue badges, voluntary sector grants and discounts on council tax and business rates.

The Council has a responsibility to protect public funds, assets and services from fraudulent activity. All allegations of fraud or other misuse of public funds by those receiving support from the Council will be thoroughly investigated by the Anti-Fraud & Corruption Team. The Council will seek to prosecute offenders and recover lost monies. Where a claimant is also an employee disciplinary action will be pursued.

Systems: Under the Local Government Act 1972, S151, each Council appoints an officer, at Lewisham the Executive Director for Resources & Regeneration, whose statutory duty is to ensure that proper arrangements are made to administer the Council's finances and financial systems. The Council acknowledges this role, supports the duties of the post and considers the Executive Director's advice on changes to systems of control, financial administration and associated rules and regulations.

The Council operates a system of managerial and financial control whereby the Executive Director for Resources & Regeneration has a formal responsibility for the finances of the Council, but in practice responsibility for financial control and administration is devolved to officers in directorates. Under the system of financial devolution, Heads of Resources represent the Executive Director for Resources & Regeneration in the directorates and also support other Executive Directors and Budget Holders in discharging their financial and budgetary responsibility.

The authority recognises that prevention is better than cure and all managers must ensure that as far as possible their systems are protected by sound internal controls. It is the responsibility of all managers to establish and maintain systems of internal control and to ensure that the Council's resources are properly applied to the activities intended. This includes the responsibility for the prevention and detection of fraud, corruption and financial malpractice.

The Strategy:

Prevention:

Lewisham Council is committed to the aim of removing all forms of fraud and corruption from the Public Sector and in particular the activities, operations and services where the Council is a stakeholder, this is achieved by maintaining and promoting:

- An anti-fraud culture – A-FACT Service Plan;
- Internal Audit's continued role in assessing systems and controls – Internal Audit Plan;
- An awareness of fraud and corruption through a programme of employee and member training;
- The Council may publicise fraud issues and successful prosecutions;
- Council Policies which emphasise the role and responsibilities of the Employee, Manager and Member:
 - Constitution;
 - Financial Regulations;
 - Financial Procedures;
 - [Member Code of Conduct](#);
 - [Employee Code of Conduct](#);
 - [ICT Acceptable Use Policy](#);

- [Whistleblowing](#);
- [Gifts and Hospitality](#);
- A-FACT Prosecutions & Sanctions Policy
- Contract of employment;
- Relevant departmental manuals.
- Pre-employment vetting of all new employees, agency workers and consultants;
- Joint working with other Public Sector organisations and enforcement agencies
- An Anti-Money Laundering Policy;
- The Code of Practice for Contractors, Supplier & Service Providers.

Deterrence:

Prosecution:

The Council has the right to refer attempted or actual cases of theft, fraud or corruption, by members of the public, clients, elected members, employees, agency workers, partners, consultants and contractors for criminal prosecution. The decision to consider Prosecution and/or other sanction will be made with reference to the Anti-Fraud & Corruption Teams Prosecutions and Sanctions Policy.

In all cases where fraud and corruption are found recovery action will be taken to ensure monies are recovered wherever possible.

The Council will seek to optimise the publicity opportunities associated with its anti-fraud and corruption activity.

The Council will seek to make use of the asset recovery provisions of the Proceeds of Crime Act 2002.

Disciplinary Action:

Employees found to be involved in theft, fraud or corruption will face disciplinary action, but may also be prosecuted, depending upon the circumstances of the case.

Elected members will face appropriate action if found to be involved in theft, fraud or corruption against the authority. All cases will be referred to the Council's Monitoring Officer for referral to the Standards Committee. Prosecution may be considered depending upon the circumstances of the case.

Detection and Investigation:

Data Matching & Data Sharing:

The Council pro-actively uses data matches from such sources as the National Fraud Initiative (NFI). The Council will also share information using legislation or legal gateways available to us and our partners.

Referrals:

Referrals are received from many sources, some of these are listed:

- Internal Audit;
- Managers;

- Officers;
- A-FACT hotline;
- Anonymous letters;
- Whistleblowing Policy.

Investigation of Fraud and Irregularity:

The Anti-Fraud and Corruption Team investigates all fraud and irregularity reported to the Council. All members of A-FACT are accredited counter fraud officers. The Team encompasses Special Investigations and Housing Tenancy Investigations. The team will utilise all methods available to detect and investigate fraud. This includes data matching, open source research, surveillance and intelligence lead investigation

The Team undertakes all investigations in accordance with the requirements of the following legislation:

- Human Rights Act 1998,
- Data Protection Act 1998,
- Criminal Procedures and Investigation Act 1996,
- Regulation of Investigatory Powers Act 2000,
- Police and Criminal Evidence Act 1984,
- Internal Procedures as appropriate.

The Team liaises with external bodies such as:

- Police,
- Cabinet Office <https://www.gov.uk/government/organisations/cabinet-office>
- Department for Works and Pensions www.dwp.gov.uk
- Home Office
- HM Revenues and Customs
- Other local authorities and Public Bodies

The Team will also liaise with other enforcement teams within the Council as appropriate.

Report a fraud or irregularity:

Internal referrals:

Please raise your concerns with your line manager or their line manager. If you are unable to do this please contact the A-FACT Manager directly on **0208 314 7909** or **carol.owen@lewisham.gov.uk**. All referrals will be treated confidentially.

External Referrals:

If you wish to report a fraud please contact us

Fraud Hotline no: 0800 0850119

Or

Email A-FACT on ‘reportfraud@lewisham.gov.uk’.

Or

**Write to the
A-Fact Manager
Room 204, Town Hall Chambers,
Catford SE6 4RY**

All referrals are treated confidentially,

Conclusion:

Lewisham Council is committed to an anti-fraud culture, it expects the highest standards from all Members, Officers, Agency Workers, Consultants and Contractors.

However, the prevention and detection of fraud and corruption is everyone's responsibility, therefore we must ALL

