

Progress report

Audit Panel March 2011

London Borough of Lewisham

Audit 2010/11

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

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

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

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'Protecting the Public Purse' 13**

Introduction

- 1** The purpose of this paper is to provide the Audit Panel with a report on progress in delivering our responsibilities as your external auditors.
- 2** This update also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Panel. It includes issues that are relevant to you as a Local Authority.
- 3** Finally, if you require any additional information regarding the issues included within this briefing, please feel free to contact me or Geoffrey Banister using the contact details at the end of this update.

Susan Exton

District Auditor

March 2011

Audit progress

Key messages

- 4 Since the last Audit Panel, my team's main focus has been on:
- liaising with the finance team regarding the audit of the 2010/11 financial statements, and progress on the transition to International Financial Reporting Standards (IFRS),
 - discussing my proposed work programme and scale of fees.

Progress on the 2010/11 audit

Opinion on the 2010/11 financial statements

5 I have agreed a report with a list of expected working papers to support the financial statements with officers for both the main audit and the pension fund. Preparing the working papers at the same time as the financial statements should save time and good working papers will facilitate the audit progress.

6 My team is currently carrying out reviews of your financial systems. This work is being carried out in two stages. The first stage is to update and document my understanding of your financial systems. This stage of the review is in progress.

7 The second stage of the review involves testing the operation of key controls in material financial systems. This work is carried out on a cyclical basis and is co-ordinated with the work on testing key controls by Internal Audit. My audit team plans to commence the second stage of the review in March 2011.

Value for money conclusion 2010/11

8 From 2010/11, the Audit Commission has introduced new requirements for local value for money (VFM) audit work at those bodies where auditors were previously required to give a use of resources assessment. The VFM conclusion based on the following two reporting criteria, as specified by the Audit Commission are:

- the organisation has proper arrangements in place for securing financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

9 Further details on these criteria have been shared with officers. The guidance is available on the Audit Commission website at <http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/valueformoneyconclusion.aspx>

10 My focus in 2010/11 will be on whether:

- the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

International Financial Reporting Standards (IFRS)

11 Local authorities will prepare their accounts under IFRS from 2010/11. In the Audit Commission publication, Progress on the transition to IFRS in Local Government, published in October 2010, the Commission highlighted the key steps local authorities should aim to complete by end of December 2010. These were:

- restating balances for 2009/10;
- producing skeleton accounts for 2010/11;
- identify all lease arrangements;
- commence work on componentisation of assets;
- engage with other areas of the Council eg solicitors, valuers;
- consider reporting segments; and
- prepare for the technical accounting requirements for employee benefits and group accounts.

12 The report concluded that:

- larger more complex authorities were finding the transition to IFRS more challenging because of the scale of activities they need to undertake;
- authorities needed to maintain and increase the momentum in identifying and resolving any remaining issues. Even seemingly minor issues that are left unresolved can create problems during preparation of accounts. They can also lead to more audit queries, with impacts on costs and resources; and
- audit panels are a key source of assurance for managing risk and maintaining an effective control environment. They need to challenge officers and ensure IFRS transition plans are on track.

13 The Audit Commission has undertaken a further national survey on the implementation of (IFRS) in local government. The Commission is aiming to determine what progress local authorities have made in implementing IFRS as at January 2011 and identify the key challenges faced by local authorities in their implementation.

14 I have completed the survey at the Council and have discussed findings with Council officers. The arrangements have been assessed using a traffic light system of red, amber and green. I have assessed the Council's IFRS preparations at red. I am concerned that the target dates in the original timetable, which officers now accept was overly ambitious, have not been achieved, and that there is now limited time to resolve remaining issues. Consequently, I was unable to review the Council's work in January 2011 as originally planned.

15 In my 2009/10 Annual Audit Letter, I reported that my experience in other sectors has shown that despite an apparent long lead time, it is important for the Council retains its focus and plans for early completion of this work. For the 2010/11 financial statements there is a lot of work to do especially around International Financial Reporting Interpretations Committee 4 (IFRIC 4), determining whether an arrangement contains a lease and restating the 2009/10 accounts.

16 I understand that officers now accept that their original timetable for completing the work was overly ambitious. Also the IFRS core project team must necessarily rely on other Finance Department staff that support the service directorates. These staff have been particularly busy in recent months supporting the budget process, and have not always been as able to focus as fully on IFRS as they would otherwise have done. Additionally the reorganisation in the Finance Department led to a short period of uncertainty over roles and responsibilities. A new fixed asset system is being implemented as part of the IFRS transition, and although officers believe that this will prove more efficient in the long-term the implementation process has temporarily added to the Finance Department's workload. This was to be reviewed by Internal Audit in February 2011, to give the Council assurance over the accuracy of the process but due to the implementation work not being complete this work has been delayed. Officers report that progress has been made over the last couple of months with the transition to IFRS but that there is still much to do.

17 In line with the Council's latest timetable for IFRS work to be completed at the end of February I allocated resources to review the Council's re-stated 2009/10 accounts and other key areas at the beginning of March 2011. To date I have only received employee benefits and capital grants.

18 There is now a risk that if significant issues emerge at this stage, the Council will only have limited time available to address any issues before the accounts are prepared. This may result in additional audit time being needed to audit any outstanding issues during my final accounts audit. Later emerging issues may affect the timeliness and nature of my audit opinion on the accounts.

19 The Council needs to ensure that further slippage does not occur which might impact on it producing timely IFRS compliant accounts for 2010/11. The Executive Director of Resources should monitor progress being made by officers in preparing IFRS compliant accounts and take appropriate action to achieve the final deadline of preparing IFRS compliant accounts for 2010/11 by 30 June 2011. These financial statements will be presented to the June 2011 Audit Panel for approval.

20 Within the 'Recent Publications' section below, I include a link to the latest Audit Commission technical briefing paper on IFRS which officers and Panel members may find useful. This guidance covers reporting on operating segments and includes practical issues that the Council should consider.

Consultation on proposed work programme and scale of fees

21 The Audit Commission has consulted on its proposed work programme and scales of fees for 2011/12. The announcement made on 13 August 2010 proposing the Commission's abolition implies (although it has still to be confirmed) that 2011/12 may be the Commission's final year in its current form. If so, this will be the last time it will publish a work programme and set scales of audit fees.

22 The Commission proposes to carry through its existing, pre-August, plans for fees that were part of a three-year programme to deliver cost cuts of about £70 million. These involve fee rebates for 2010/11 and lower fees for 2011/12.

2010/11 fees and rebates

23 I have discussed and agreed an audit fee of £472,300 with the Executive Director of Resources and Chief Executive for 2010/11. In recognition of the extra work and hence increased audit fee required by International Financial Reporting Standards the Audit Commission agreed to bear that cost in-house and rebated £27,049 in April 2010.

24 Additionally The Commission has rebated 1.5 per cent of the 2010/11 scale fee for district councils, police and fire and rescue authorities, and 3.5 per cent for single-tier and county councils. The Council thus received a £16,099 rebate in January 2011 (3.5 per cent of the scale fee). The Commission will also not charge inspection fees for work already carried out in this financial year on the managing performance part of the organisational effectiveness assessment. This is because there was no value to the work once CAA ended.

2010/11 Pension fund audit

25 In light of the results of the 2009/10 audit I intend to charge £35,000 for the 2010/11. The Audit Commission will keep the current fee for pension funds for a fund such as the Council's under review and will analyse the

costs of 2009/10 audits to determine whether any further changes are required.

2011/12 fees

26 The Commission's proposals for 2011/12 are for reductions in total audit fees. These reflect the new approach to local value for money (VFM) audit work, and reductions in the ongoing audit costs associated with introducing IFRS. The proposals are:

- no inflationary increase in 2011/12 for audit and inspection scales of fees and the hourly rates for certifying claims and returns;
- a reduction in scale fees resulting from our new approach to local VFM audit work of 2 to 20 per cent; and
- a reduction in scale audit fees of 3 per cent for local authorities, police and fire and rescue authorities, reflecting lower ongoing audit costs after implementing IFRS.

27 The Commission has published the final scales of fees for 2011/12 at the end of February 2011. The proposed scale of fees for the London Borough of Lewisham is £425,074.

Pension fund audits

28 I intend to keep the current fee for pension funds (£35,000 for a fund such as the Councils) under review and will analyse the costs of 2010/11 audits to determine whether any further changes are required.

Certification work

29 The Act requires the Audit Commission to charge fees for certification work that cover the full cost of the work I undertake. The Audit Commission set a schedule of hourly rates for different levels of staff.

30 The Audit Commission are not proposing to uplift for inflation the hourly rates for certification work in 2011/12.

Fees beyond 2011/12

31 Because of the Secretary of State's announcement, about the proposed abolition of the Commission, we cannot say anything at this stage about audit fees beyond 2011/12. The Commission, with other stakeholders, is working with CLG to help it develop proposals for a new local public audit framework.

32 The new audit arrangements and their implications for audit fees, the timetable for implementing them, and the transitional arrangements have yet to be determined. The new arrangements will need to be reflected in legislation, which CLG is planning to introduce in 2011.

Recent publications

IFRS: reporting on operating segments

33 The latest of the Audit Commission's series of IFRS technical papers concentrates on reporting operating segments and can be accessed here: <http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/financialmanagement/ifrs/Pages/IFRSoperatingsegments.aspx>

34 The briefing covers principles and practical issues that authorities should consider when reporting on operating segments, and addresses the following questions.

- What are operating segments?
- Which operating segments should be reported separately?
- When can segments be aggregated?
- What are the required disclosures?
- What lessons can local authorities learn from the NHS experience?
- What issues do local authorities need to consider?

35 All of the Audit Commission's briefing papers on the countdown to IFRS in local government can be downloaded from the website.

Auditing the accounts 2009/10

36 The Audit Commission's report, [Auditing the Accounts 2009/10](#), summarises the quality and timeliness of financial reporting by councils, police authorities, fire and rescue authorities and local government bodies.

37 The report covers:

- auditors' work on the 2009/10 financial statements;
- the results of auditors' 2009/10 local value for money work;
- the public interest reports and statutory recommendations issued by auditors since December 2009; and
- the key financial management and financial reporting challenges for 2010/11.

38 The report congratulates seven councils, one police authority and three local government bodies for early publication. There is great interest in financial transparency by public bodies at the moment and we believe that early publication of audited accounts is an important contribution to openness and accountability.

39 The Commission reports that auditors were unable to give opinions on the accounts by 31 October 2010 at seven councils (2 per cent of the total) and 11 local government bodies (12 per cent). The report also names two councils where the auditor gave a qualified opinion.

40 All police authorities and fire and rescue authorities published their audited accounts by 31 October and none received a qualified audit opinion.

Consultation on proposed work programme and fees

41 The Audit Commission is consulting on its proposed work programme and scales of fees for 2011/12. The announcement made on 13 August 2010 proposing the Commission's abolition implies (although it has still to be confirmed) that 2011/12 may be the Commission's final year in its current form. If so, this will be the last time it will publish a work programme and set scales of audit fees.

42 The Commission proposes to carry through its existing, pre-August, plans for fees that were part of a three-year programme to deliver cost cuts of about £70 million. These involve fee rebates for 2010/11 and lower fees for 2011/12.

43 The [proposed work programme and scales of fees for local government, housing and community safety \(PDF, 298kb\)](#) consultation document proposes significant reductions in audit fees of between 5 and 20 per cent, reflecting both the new approach to local VFM audit work and a reduction in the ongoing audit costs associated with the introduction of IFRS. The [proposed scale of fees for each audited local government, housing and community safety body](#) are also available. In relation to 2010/11 fees, the Commission will rebate:

- 1.5 per cent of the 2010/11 scale fee for district councils, police and fire and rescue authorities; and
- 3.5 per cent for single tier and county councils.

Audit Commission Annual Quality Report

44 In October 2010 the Audit Commission published the Annual Quality Report for its own Audit Practice.

45 The report – which can be found on the Audit Commission's website - summarises the results of the quality review of the work of the Commission's own staff as auditors to NHS and local government bodies. It also includes the views of the Audit Inspection Unit that carried out an independent review of our work.

46 The publication of this report is one of a range of measures aimed at demonstrating our commitment to delivering high quality audit work. It assures audited bodies and stakeholders about the arrangements in place and the underlying strength of our Audit Practice. The report also compares our Audit Practice with the major accountancy firms and the other audit agencies.

47 The headline message was that the quality of the audit practice's work continues to meet professional standards and there has been a measurable improvement in quality compared with the prior year.

Protecting the Public Purse - Audit Commission national report October 2010

48 In our report *Protecting the Public Purse: fighting fraud against local government and local taxpayers*, we describe what has happened in the field of fraud detection and prevention since 2009 and set out the findings from our recent fraud survey. We identify fraud risks and urge local councils and related bodies to focus on them.

49 Last year England's councils detected:

- around £99 million worth of benefit fraud;
- over £15 million worth of council tax fraud; and
- £21 million worth of other types of fraud including false insurance claims and abuse of the disabled parking 'blue badge' scheme.

50 In addition nearly 1,600 homes have been recovered by councils with a replacement cost of approximately £240 million.

51 We also describe the action taken by some councils to tackle fraud and provide links to tools to help councils improve their counter-fraud defences. Although the report focuses on local government, our updated checklist gives all organisations providing public services another opportunity to consider how effective they are at responding to the risk of fraud.

52 The report also contains a useful checklist for those responsible for governance and I have replicated this for you at Appendix 1.

Financial management of personal budgets

53 The Audit Commission published the above report in October 2010. The report examines personal budgets in adult social care and considers the financial management and governance implications for councils. A personal budget is an allocation of money given to a person to spend on a support plan. The individual budget-holder develops their support plan with social care professionals to meet a jointly agreed set of needs and outcomes.

54 The report reviews the approaches to transition from providing services to providing personal budgets, the choices for allocating money, and how councils can plan for the financial implications.

55 It also considers changes in social care commissioning and the governance arrangements needed for personal budgets.

56 It is aimed at finance staff and staff in adult social care departments interested in personal budgets. The report includes a self-assessment checklist to help councils review progress in implementing personal budgets and identify areas for improvement.

Contact details

57 If you would like further information on any items in this briefing, please feel free to contact either myself, Geoffrey Banister.

58 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

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Appendix 1 A checklist for those responsible for governance from 'Protecting the Public Purse'

General

- 1) Do we have a zero-tolerance policy towards fraud?
- 2) Do we have an appropriate approach, counter-fraud strategies, policies and plans?
- 3) Do we have dedicated counter-fraud resources?
- 4) Do the resources cover all the activities of our organisation?
- 5) Do we receive regular reports on fraud risks, plans and outcomes?
- 6) Have we assessed our management of counter-fraud resources against good practice?
- 7) Do we raise awareness of fraud risks with:
 - new staff (including agency staff);
 - existing staff;
 - elected members; and
 - our contractors?
- 8) Do we work appropriately with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?
- 9) Have we agreed to work with relevant organisations to ensure effective sharing of knowledge and data about fraud?
- 10) Do we identify areas where our internal controls may not be performing as well as intended?
- 11) Do we maximise the benefit of our participation in the Audit Commission NFI and receive reports from it on outcomes?
- 12) Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?
- 13) Do we have effective whistle-blowing arrangements?
- 14) Do we have effective fidelity insurance arrangements?

Fighting fraud in the post recession environment

- 15) Have we reassessed our fraud risks in the light of the current financial climate?
- 16) Have we amended our counter-fraud action plan as a result?
- 17) Have we reallocated staff as a result?

Housing tenancy

18) Do we take effective action to ensure that social housing is allocated only to those who are eligible?

19) Do we ensure that social housing is occupied by those to whom it is allocated?

Procurement

20) Are we satisfied that procurement controls are working as intended?

21) Have we reviewed our contract letting procedures since the investigations by the OFT into cartels and compared them with best practice?

Recruitment

22) Are we satisfied our recruitment procedures:

- prevent the employment of people working under false identities;
- validate employment references effectively;
- ensure applicants are eligible to work in the UK; and
- ensure agencies are supplying us with staff to undertake the checks we require?

Personal budgets

23) Where we are expanding the use of personal budgets for social care, particular direct payments, have we introduced appropriate safeguarding arrangements proportionate to risk and in line with recommended best practice?

Council tax

24) Are we effectively controlling the discounts and allowances we give to council tax payers?

Housing and council tax benefits

25) In tackling housing and council tax benefit fraud do we make full use of:

- the NFI;
- Department for Work and Pensions Housing Benefit Matching Service;
- internal data matching; and
- private sector data matching?