

## LONDON BOROUGH OF LEWISHAM

### Minutes

MINUTES of a meeting of the AUDIT PANEL, which was open to the press and public, held on WEDNESDAY 22 JUNE 2011 at LEWISHAM TOWN HALL, CATFORD, SE6 4RU at 7p.m.

### Present

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

### Independent Member

Mr Webb

### Audit Commission

Sue Exton - District Auditor

Geoffrey Banister - Audit Manager

### RSM Tenon Ltd

Chris Harris - Director of Internal Audit

### Officers

Janet Senior - Executive Director for Resources

David Austin - Interim Head of Audit & Risk

Richard Lambeth - Group Manager - Accounting

Andreas Ghosh - Head of Personnel & Development

### Observers

Paul Dale

Mike Robinson

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### Action

#### 1. ELECTION OF CHAIR AND VICE CHAIR

RESOLVED that

- i. Councillor Michael Harris be appointed as Chair of the Audit Panel for 2011/12
- ii. Councillor Philip Peake be appointed as Vice Chair of the Audit Panel for 2011/12

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2. MINUTES (page

RESOLVED that the Minutes of the meeting of the Panel held on 23 March 2011, which was open to the press and public, be confirmed and signed.

3. DECLARATIONS OF INTERESTS (page

3.1 The Chair declared a personal non prejudicial interest as a member on the Board of Lewisham Park Housing Association.

4. AUDIT COMMISSION PROGRESS REPORT

4.1 Geoffrey Banister, Audit Manager, Audit Commission introduced the report. He highlighted that the Council's overall performance on grant claims during 2009/10 had improved, but stressed that the Council should aim to reduce errors and try to keep within its deadlines.

ED  
Resources

RESOLVED that the report be noted.

5. LONDON BOROUGH OF LEWISHAM DRAFT AUDIT OPINION PLAN

5.1 The Chair said at the Panel's March meeting he had asked the Group Accountant if the 27 May deadline would be met, and assurances were given to Panel members that the deadline would be met. The Chair said he was concerned that this had turned out not to be the case, and added that the same thing had happened the previous year. The Group Manager, Accounting said that there were separate people working on the pension funds and the main accounts. He added that there had been substantial findings on the main accounts but he was confident that they would be delivered on time. The Group Manager, Accounting said that for the pension funds, officers were working to rectify the position. He added that an interim officer had been given the responsibility and Management would like to finish the audit activity to facilitate termination of the contract of the interim staff.

RESOLVED that the report be noted.

6. LONDON BOROUGH OF LEWISHAM PENSION FUND DRAFT AUDIT OPINION PLAN

6.1 The Chair asked whether Councils were making the right

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judgment in actuarial assumptions and asset values. He added that officers need to examine the skills and experience of the Council's IFRS experts they were relying on to make these assumptions. Geoffrey Banister stated that if the expertise was available to do the work, then more effort should be made to complete the work on time. He added that since the Panel's last meeting in March 2011, he had not received any reports from the Council. He also said that the Pension fund report was delayed, and the Audit Commission received just 20% of the papers. He said that this was an improvement from the same time last year, when the Audit Commission had not received anything from the Council.

- 6.2 The Group Manager, Accounting informed members that the Council was slightly earlier with their papers than the previous year. He added that officers hoped to sign off by the end of the week and the papers would then be with the Audit Commission by 1<sup>st</sup> July. He stated that discussions had already taken place on a lot of the papers. The Chair asked how much the Council had to pay for late fees, and was told that last year the late fee was £15k.
- 6.3 Sue Exton, District Auditor, from the Audit Commission stated it was about the same time last year when the Panel had received information on assets. She said that the Audit Commission would need to see what the issues were and how best they could be addressed, especially with investments and reconciliations. The Chair asked if these were new, and what they were. Geoffrey Bannister informed members that there were some unquoted policy that the Council were involved with that were not listed on the stock market. These include private equity investment, overseas investments, or building sharing. He highlighted that special audit would need to be put in place to address this.
- 6.4 Geoffrey Bannister said that it was part of the service they had provided, and they were not new, but the Audit Commission had noticed that the reconciliations had not been done since October 2010. Councillor Mallory said that he was concerned that there were different processes for some of the Council's investments, he added that he was particularly concerned that the Council was investing in private equity. The Chair said that these concerns could be raised at the Pension Investment Committee. Sue Exton from the Audit Commission said that because of the complexity of the investments an audit fee had to be charged.

Interim  
Head of  
Audit &  
Risk

RESOLVED that the report be noted.

7. DRAFT STATEMENT OF ACCOUNTS 2010/11

- 7.1 The Group Manager, Accounting introduced the report and informed members that the Executive Director would be signing the accounts off at the end of the week with the aim to send it to the Audit Commission to ensure it was received by 30 June.
- 7.2 The Chair asked what the effect of IRFS was, and the Group Manager, Accounting said that it had not affected the Council's pension, but there was a major effect on the full stock valuation of housing. It was noted that it was down from 37% in 2008/9 to 25% in 2009/10 i.e. from £900m to £600m. This meant a reduction in social housing. It was also noted that the government had also reduced CAF from £650m to £350m. The Chair asked if officers had checked to ensure that Lewisham was in line with other local authorities. Members were informed that a London Forum had been set up over the last 18 months, where issues were usually raised and discussed. Lewisham had always been represented in that forum. The Chair asked if the reduction in social housing would affect Lewisham's ability to borrow. The Group Manager, Accounting said that it would not affect the Council's borrowing threshold. Members were informed that the Council's borrowing was regulated, and in a crisis they would examine the Council's overall debt, before a decision was made, as the Council has a limit to the amount it could borrow.
- 7.3 The Chair said that the report showed that the pension fund was still unsatisfactory. It was noted that liabilities in the pension funds are down by £30m, and the pension fund is up £45m. It was noted that the figures that came though were extremely low, last year they were £20m, now they are down to £1.5m. Geoffrey Bannister from Audit Commission said that the figures were very volatile and might go up again. The Executive Director for Resources said that officers had pursued this over the years, but they have not yet reached a satisfactory agreement with the Audit Commission. She added that the Council still find it unsatisfactory because of the variable. Geoffrey Bannister said the Audit Commission, does not agree with the Council on this issue. The Executive Director for Resources said that the Council would continue to pursue this to reach an amicable agreement. The Chair asked if other authorities have been contacted to discuss this issue. The Executive Director for Resources said that some local authorities were in a similar position whilst some were not, as their contract had been worded differently. She added that they hope to get some

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accounting practices in place to reflect this situation. The Executive Director for Resources said that they await the outcome of the Hatton report which would include some recommendations that might be helpful.

RESOLVED that the report be noted

8. HEAD OF INTERNAL AUDIT ANNUAL REPORT 2010/11

8.1 The Interim Head of Audit & Risk introduced the report. He apologised for its late circulation. He added that there had been a slight change in the reporting format this year and that the overall opinion on satisfactory assurance was positive. He said that that working with Chris Harris, RSM had been very positive.

8.2 The Chair asked for confirmation that the number of checks on potential recruits had reduced from 443 to 279. This was confirmed and reflected a drop in level of recruitment over the past year. The Chair said that it had not been made clear what level of fraud staff who had resigned had committed, he also asked if allegations were being pursued effectively by Human Resources. The Chair then asked for the process of pursuing an individual suspected of fraud. The Head of Audit & Risk and the Executive Director for Resources explained the process, which included Management and Human Resources involvement.

8.3 Members asked whether officers were aware of the Council's policy on fraud. The Head of Audit & Risk highlighted that induction was mandatory for new staff members wherein they were made aware of the Council's policy and procedures, and employees code of conduct. The induction would also refer to the Council's counter fraud policy. It was noted that the Council practices a zero tolerance on fraud.

RESOLVED that the report be noted.

9. INTERNAL AUDIT UPDATE 2011/12

9.1 The Chair noted the reported increase in the amount of benefit fraud within the Council, and asked whether there had been an increase in the value of fraud. The Head of Audit & Risk said that the value was approximately the same. The Executive Director stressed that the issue was not the value of the fraud committed, but the action in itself, with other issues coming to play to determine the outcome. David Webb asked what the Council's success rate was in pursuing cases. It was noted that this was not recorded by the antifraud team, as some people might agree to pay back monies due over a period of time. It was noted that

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success was not solely on what the Council recoup, but the deterrent message as well.

- 9.2 The Chair asked what procedures the Council has in place to support the new academies. The Head of Audit & Risk said that if the academies decide to purchase the Council's services, the contract between Lewisham and the Academies would contain insurance arrangements for indemnity. The Executive Director for Resources said that Audit would have been conducted with Management and the Auditor working together, and agreed recommendations would be set out following Management's feedback. Chris Harris, Internal Audit Contractor added that RSM Tenon would ensure that they deliver what had been promised to the Council.

- 9.3 The Chair asked what risks officers envisage when working with the third sector. The Head of Audit & Risk said that they would look at a number of contracts that had gone out in the past, both big and small, and a project would be set up to ensure officers were getting the right expertise and level of support they need for the future. The Executive Director for Resources said that contracts for planning were currently going well, there were some difficulties for voluntary and community organisations because of their specifications and how they were monitored. She added that the Council would need to concentrate on these.

Interim  
Head of  
Audit &  
Risk

RESOLVED that the report be noted.

10. ANTI FRAUD & CORRUPTION TEAM OVERVIEW

- 10.1 The Head of Audit & Risk informed members that although the report does not fully reflect what had been requested, it was an overview of what had been done to join up arrangements across the Council. Councillor Mallory said that he could understand why the report was slightly different from what was expected, but would be happy if it meant the work was being done effectively and cases were being pursued successfully.
- 10.2 The Head of Audit & Risk said that officers had pursued volume rather than quality, but now they had decided that it would be beneficial to focus on the impact and identify fewer quality cases. He added that the team would be engaging more with the organisation to decide which cases should be pursued. The Team would now be profiling the number of cases received and how soon they were dealt with. He emphasised that they were operating a small Housing Benefit team which was scheduled to be transferred to the Department for Works and Pension (DWP) from April 2013. Councillor Mallory commented that if the Team

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	was transferred to DWP, then the Council may have to deal with the immediate problems of transition. He asked whether there were transitional arrangements in place to monitor progress.	
10.3	The Chair requested that this item be brought back to the next Audit Panel for noting. The report should include information and figures of benefit fraud in Bromley, Greenwich and Southwark.	Interim Head of Audit & Risk
	RESOLVED <ul style="list-style-type: none"> <li>i. that the report be noted.</li> <li>ii. that an update be brought to the next Audit Panel meeting for noting.</li> </ul>	
11.	<u>ANTI FRAUD &amp; CORRUPTION TEAM UPDATE</u>	
11.1	The Interim Head of Audit & Risk introduced the report, and following discussions it was agreed that an update should be brought back to the September meeting of the Panel.	Interim Head of Audit & Risk
	RESOLVED <ul style="list-style-type: none"> <li>i. that the report be noted.</li> <li>ii. that an update be brought back to the next Audit Panel.</li> </ul>	
12.	<u>DRAFT ANNUAL GOVERNANCE STATEMENT 2010/11</u>	
12.1	The Interim Head of Audit & Risk introduced the report. Councillor Peake raised a question on the wording of part of paragraph 6 of the report. The Executive Director for Resources said that officers would check the wording and amend accordingly.	ED Resources
12.2	The Chair commented that families in temporary accommodation seemed to be an ongoing issue. He said that this had been discussed at the Housing Select Committee, and asked if the situation would have been exacerbated because of the cuts in housing benefits. The Chair asked if this issue would remain on Lewisham's agenda. The Executive Director for Resources said that although the Council had made significant progress with this issue, it would still be kept on the agenda.	
	RESOLVED that the report be noted.	
13.	<u>THE COST AND USE OF CONSULTANTS AND SENIOR MANAGERS AT LONDON BOROUGH OF LEWISHAM</u>	
13.1	The Head of Personnel & Development introduced the report.	

