

Annual Audit Letter

London Borough of Lewisham

Audit 2009/10

DRAFT

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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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 4 to 6); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 10).**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Audit opinion and financial statements

1 I issued unqualified opinions on the Council's financial statements and on the Pension Fund accounts on 30 September 2010. I also issued an assurance statement on the Council's Whole of Government Accounts submission to the Communities and Local Government on 12 November 2010. The deadline of 1 October 2010 was therefore missed, although the submission was one week earlier than last year. The number of errors in the draft submission contributed to the delay.

2 The Council submitted its draft accounts to audit by the deadline of 30 June 2010. However the accounts were not fully supported by working papers at the start of the audit and there were some delays in supplying the outstanding information. This contributed to the slow progress of the audit, the number of audit queries and the errors identified but did not prevent me completing the audit on time.

3 I reported the significant issues arising from my audit of the Council's financial statements and my audit of the Council's Pension Fund to the Audit Panel on 21 September 2010 in my Annual Governance Reports. The reports highlighted a number of material errors that the Council agreed to adjust within the financial statements.

Value for money

4 I issued an unqualified value for money conclusion on 30 September 2010 stating the Council had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

Certificate

5 As there are no legal matters or objections outstanding and no matters have been brought to my attention requiring me to consider exercising my formal statutory powers, I have issued a certificate to formally close the 2009/10 audit.

Audit fees

6 Appendix 1 shows the fees charged for the audit of the financial statements, the pension fund audit and the use of resources assessment.

Current and future challenges

7 Following the recent Comprehensive Spending Review (CSR) it is clear that maintaining good governance and strong financial management will continue to be essential for the Council in the future as central government funding is reduced. The reduction in funding and the forecast increase in demand for services such as social care will pose a significant challenge for all councils.

8 Financial planning to achieve the required savings in the current and subsequent years will continue to be challenging for the Council. The Council should continue to review the resilience of its medium term financial strategies as more information becomes available from the Government spending reviews.

9 The Council is required to produce International Financial Reporting Standard (IFRS) compliant accounts in 2010/11. This is a large amount of work for the Council and I will continue to liaise with the Council about its arrangements and preparedness for making the transition to reporting under IFRS. During 2009/10 the Council has made progress against its IFRS implementation project plan in such areas as PFI, employee benefits, and aspects of non current assets.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

I gave unqualified opinions on the Council's 2009/10 financial statements including the Pension Fund on 30 September 2010, within the statutory target date.

Overall conclusion from the audit

10 I issued unqualified opinions on the Council's financial statements and the Pension Fund accounts on 30 September 2010. I presented my Annual Governance Reports to the 21 September 2010 Audit Panel and the 23 September 2010 Council meeting highlighting the material errors I had identified and that management had agreed to adjust.

11 In planning my audit I identified specific risks and areas of judgement that I considered as part of my audit and reported to the Audit Panel in June 2010.

Table 1: **Planning risks identified and results from my audit**

Issue or risk identified in June 2010	Finding from my audit
<p data-bbox="164 1525 1378 1597">International Financial Reporting Interpretations Committee (IFRIC) 12 - accounting for service concession arrangements.</p> <p data-bbox="164 1624 804 1971">The accounting requirements for Private Finance Initiative (PFI) schemes and similar contracts are no longer based on UK accounting standards but on International Financial Reporting Standards (IFRS), specifically IFRIC 12 Service Concession Arrangements. It is expected that under IFRIC 12, PFI schemes and similar contracts will be required to be recognised on-balance sheet.</p>	<p data-bbox="831 1624 1465 1854">Four of the Council's PFI schemes fell within the scope of IFRIC12 and had been accounted for accordingly. However the values of the PFI assets in the draft accounts were not based on the most up to date valuations and a correction of £83 million was required.</p>

Lewisham Homes pension indemnity

In 2008/09, the Council's and Lewisham Homes' differing interpretations of the Council's letter of indemnity in respect of pension costs led to a £2 million imbalance in the Council's group accounts.

The Council worked constructively with my audit team in dealing with this complex issue. The finance team split the estimated liability of £20million into pre transfer (relating to the Council) and post transfer service (relating to Lewisham Homes) resulting in a £18.5million adjustment to the pension reserve in the draft accounts. The Council is liaising with the Chartered Institute of Public Finance and Accountancy (CIPFA) to find a permanent solution to this matter.

Accounting for Large Scale Voluntary Transfers (LSVTs)

In the 2008/09 accounts, £57 million of impairments arising from LSVTs were presented incorrectly as losses on disposal. In addition the LSVT overhanging debt was offset against the loss on disposal of assets, rather than recognised as income. The accounting for LSVTs continues to be a risk area.

Review of the Council's accounting treatment for the Lee housing stock transfer in October 2009 identified that £17 million of impairments had been incorrectly treated as a loss on disposal.

12 I received the Council's financial statements for audit on 24 June 2010, in line with the agreed timetable. Although the financial statements were complete they were not adequately supported by working papers on a timely basis.

13 I also noted that the Council did not fully utilise the working paper checklist supplied by my audit team. Using the checklist helps working paper files to be compiled whilst preparing the draft financial statements and ensures all key areas are covered.

14 The weaknesses in supporting information and audit trails meant that my audit team had to raise a large number of audit queries. Although I believe officers responded to queries as quickly as possible, this led to significant slippage in the audit programme.

15 The pension fund accounts submitted for audit were not fully complete as adjustments were made by officers to these accounts. A new set of financial statements was provided on 14 July 2010.

16 These issues have been discussed with the Executive Director of Resources and her officers within the finance team. During the course of the audit, my audit team worked with your officers to resolve the issues and agreed a revised audit timetable. Moving forward, the Executive Director of Resources and I have agreed to work together to identify the underlying

issues which have lead to the delays this year, and to strengthen the arrangements to aid timely completion of the audit next year.

Recommendations

- R1** Review arrangements for the timely production of financial statements, working papers and dealing with audit queries.
 - R2** Include appropriate quality control procedures in the final accounts closedown process.
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Whole of Government Accounts Return

17 As in previous years, the Whole of Government Accounts audit has not gone as smoothly as I would have liked with the Council being late in preparing their submission, the return being incomplete with many errors found and consequently the 1 October 2010 deadline was missed. I issued an assurance statement on the Council's Whole of Government Accounts submission to the Communities and Local Government on 12 November 2010, one week earlier than in 2009.

Recommendation

- R3** Ensure that the Council has robust arrangements in place to produce a timely, accurate and complete Whole of Government Accounts return.
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Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

18 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on the Comprehensive Area Assessment (CAA) would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

19 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

20 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

21 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

22 This is a summary of my findings.

Table 2: Value For Money conclusion

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good Governance	Yes
Risk management and internal control	Yes
Managing resources	
Strategic asset management	Yes
Workforce	Yes

23 I issued an unqualified conclusion on 30 September 2010 stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

24 Given the performance of the Council in the previous year, my approach to this year's assessment was mainly to focus on the changes from my 2008/09 assessment and consider the new KLOE on workforce. I carried out my review in the spring of 2010 before CAA was abolished.

25 This year I concluded the Council has continued to display strong evidence of value for money outcomes across its services. My key messages are set out below.

Managing finances

26 The Council continues to manage its finances to deliver value for money for residents. For example the Council:

- can demonstrate that financial planning is integrated with service and strategic planning on a medium- to long-term basis;
- has excellent community engagement arrangements in place and can demonstrate how it takes account of feedback from the public in its priorities;
- has maintained and developed its Performance Plus electronic performance management system, continuing to effectively compare its performance against its nearest neighbours and nationally; and

- produces good quality financial reporting information for budget holders, senior managers and members which allows them to appraise themselves of the costs/benefits associated with different options.

Governing the business

27 I concluded the Council successfully commission services that provide value for money and deliver better outcomes for the people of Lewisham.

For example the Council:

- continues to have a clear vision of the outcomes it seeks to achieve to deliver best value for local people, including improving the quality of life, based on an ongoing assessment of need through the procurement strategy;
- has comprehensive data quality processes in place. The council has continued to implement an effective process for recording and reporting data and ensures that it is reliable;
- works well with its partners to ensure a shared understanding of the collective responsibility for robust quality assurance and validation of data;
- has strong governance arrangements in place, such as a development and training programme for members, and is able to demonstrate that these have led to a wide range of positive outcomes; and
- has effective risk management systems which are well integrated across the whole of the council and includes partnership working.

Managing resources

28 The council has a strong strategic approach to asset management which is based on an analysis of longer term needs to deliver its strategic priorities and services. For example the Council has purchased the Catford Centre Complex opening the potential for regeneration of the area.

29 This year for the first time, I also reviewed how the Council manages its staff to meet current and future needs and deliver value for money. I found that the Council has:

- delivered excellent outcomes on its plans to organise and develop its workforce, and this has contributed to achievements against many of its strategic priorities. This is evidenced from the excellent results from its most recent staff survey and the 2009 Residents Survey; and feedback and evaluation from staff and management training or development programmes;
- a workforce that broadly reflects the diversity of the local community; and
- developed an effective link between staff development and the improving satisfaction of its residents. The Council's 2009 Annual Residents Survey results show that when compared to the last survey in 2007, a greater proportion of respondents (72 per cent compared to 66 per cent) judge the Council to be doing a good job.

Risk-based performance reviews

30 I carried out a review of a specific area of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. During the year I completed a 'data quality review of partnership activities', which was reported to the June Audit Panel meeting. This provided us with additional assurance over the effectiveness of the Council's use of information.

Data quality review of partnership activities

31 I have reported my detailed findings to the Council in a separate report. In summary, the Council and its partners have an excellent understanding of their individual and collective responsibility for the quality of locally produced data.

32 The Borough Performance Group has helped to raise the profile of the information governance and made significant progress since its inception a year ago. Good practice is shared effectively, with the Borough Performance Group providing a sound platform for improving knowledge management. The group is now reviewing its terms of reference and the scope to further the agenda and develop performance management including the development of a unified information base.

Approach to local value for money work from 2010/11

33 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

34 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

35 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will discuss this with the Council. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

The wider financial outlook continues to be challenging for the public sector.

Financial health

36 Local government has to prepare for a significant reduction to its grant income from central government following the Comprehensive Spending Review (CSR) on 20 October 2010 and the formula grant settlement in December 2010.

37 The wider financial outlook locally and nationally continues to be challenging for the public sector in the short to medium term. The Council has a good history of managing its budgets and the Council has initiated a broad review programme to consider how it operates, to identify possible savings.

38 The Council has developed a multi year comprehensive budget strategy which estimates the need to deliver £60 million of savings over the period. Initial proposals were presented to Mayor and cabinet on 17 November 2010 as the first tranche of savings.

International Financial Reporting Standard

39 Local authorities will prepare their Statements of Accounts under the new International Financial Reporting Standard (IFRS) based Code of Practice on Local Authority Accounting from 2010/11. The move to IFRS does not mean wholesale change, but where changes do occur; a significant amount of work is needed to assess the impact on the accounts. Much of that work needs doing now as the 2009/10 accounts will need to be restated to provide the prior year balances in the 2010/11 accounts.

40 Our 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. There is still much 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. I will ensure that my team keep an open and helpful relationship with the Finance Team to review early accounting views where required and share good practice from other councils.

Recommendation

R4 The Council should review its financial information to ensure it can meet the reporting requirements for the introduction of International Financial Reporting Standard.

The abolition of the Audit Commission

41 You may have seen the announcement on 13 August by the Secretary of State for Communities and Local Government about the proposed abolition of the Audit Commission. The proposed abolition will be from 2012 and the government has announced its plan to seek legislation in this session of Parliament to effect this.

42 The Audit Commission's Managing Director Local Government & Community Safety has written to the Chief Executive to confirm there is no immediate change to the audit arrangements for the Council.

43 The Audit Commission is in discussion with the Department of Communities and Local Government about the proposed legislation and the details that will need to be worked through. I will keep the Council informed about the future audit programme and any changes to audit arrangements.

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Closing remarks

I have issued a number of reports during the course of the audit. The Council has taken a positive and helpful approach to my audit.

44 I have discussed and agreed this letter with the Chief Executive and the Executive Director of Resources. I will present this letter at the Audit Panel on 2 December 2010.

45 Full detailed findings, conclusions and recommendations in the areas covered by my audit were included in the reports I issued to the Council during the year.

Table 3: **Audit reports issued**

Report	Date issued (main audit)	Date issued (Pension Fund audit)
Audit Fee letter	April 2009	April 2009
Certification of claims and returns 2008/09	February 2010	n/a
Audit Opinion Plan	June 2010	June 2010
Data Quality review of partnerships	May 2010	n/a
Annual Governance Report	September 2010	September 2010
Opinion on the Financial Statements	September 2010	September 2010
Value for Money conclusion	September 2010	September 2010
Opinion on Whole of Government Accounts	November 2010	n/a

46 The Council has taken a positive and helpful approach to my audit. I wish to thank the London Borough of Lewisham staff for their support and cooperation during the audit.

Susan M. Exton
District Auditor
November 2010

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Appendix 1 Audit fees

Table 4 shows that I have charged an extra fee in order to complete the audit of the financial statements, pension fund audit, Whole of Government Accounts return and the value for money conclusion above the fee agreed with the Council.

I have discussed the amount of extra work I have had to carry out in the course of this audit with the Executive Director of Resources. In particular time has been spent dealing with Private Finance Initiative (PFI) schemes valuations, Lewisham Homes pension indemnity, Whole of Government Accounts return and delays around working papers and responding to audit queries.

Table 4: **Audit Fees**

Main audit	Actual £	Proposed
Financial statements and annual governance statement	348,900	333,900
Value for money	113,456	113,456
Total audit fees	£462,356	£447,356

Pension Fund	Actual	Proposed
Financial statements and related notes	35,000	35,000

Appendix 2 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and,
- whether they have been prepared properly, following the relevant accounting rules.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

Appendix 3 Action Plan

Recommendations

Recommendation 1

Review arrangements for the timely production of financial statements, working papers and dealing with audit queries

Responsibility Richard Lambeth

Priority High

Date 28th February 2011

Comments The Closing of Accounts process is reviewed and updated annually. This will include greater liaison in 2010/11 with the Audit Commission to review the key issues which led to delays in 2009/10 and identify which new and priority areas need to be addressed. These will all be incorporated in detail into the 2010/11 timetable. The working paper requirements will be reviewed and a schedule will be agreed with the Audit Commission. A protocol on dealing with audit queries will also be established.

Recommendation 2

Include appropriate quality control procedures in the final accounts closedown process

Responsibility Richard Lambeth

Priority Medium

Date 31st March 2011

Comments See above response. In addition, the level of management review in key areas will be increased and included in the 2010/11 timetable.

Recommendation 3

Ensure that the Council has robust arrangements in place to produce a timely, accurate and complete Whole of Government Accounts return.

Responsibility John Johnstone

Priority Medium

Date 31st March 2011

Comments The information which is needed for the compilation of the WGA return will be collated during the closing of accounts process and these requirements will be integrated in detail into the closing timetable.

Recommendation 4

The Council should review its financial information to ensure it can meet the reporting requirements for the introduction of International Financial Reporting Standard

Responsibility	Richard Lambeth
Priority	High
Date	Ongoing – 31st March 2011
Comments	The IFRS Project Group is tasked with this responsibility. A project plan and detailed timetable is in place to ensure that the required actions are identified and carried out to meet the statutory deadlines.

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