

Annual Audit Letter

London Borough of Lewisham

Audit 2008/09

December 2009



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit opinion

- 1 I issued unqualified opinions on the Council's financial statements and on the Pension Fund accounts on 25 September 2009. I also issued an unqualified opinion on the Council's Whole of Government Accounts submission to the Communities and Local Government on 18 November 2009. As there are no legal matters or objections outstanding I have issued a certificate to formally close my 2008/09 audit.
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Financial statements

- 2 The Council submitted its accounts to audit by the deadline of 30 June 2009. Working papers provided to support the accounts were of a good quality, although for some areas of the accounts, there was scope for improvement. I identified two material presentational errors relating to the accounting treatment for Grove Park housing stock in the financial statements which management agreed to adjust but did not impact on available reserves or financial position. One matter that needs to be resolved for 2009/10 financial statements concerns clarifying arrangements for accounting for pension liabilities in respect of Lewisham Homes' staff that have arisen after the date of transfer. I identified one material error in a note to the Pension Fund accounts which was presentational only and had no impact on the Pension Fund's financial position.
 - 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 22 September 2009 in my Annual Governance Reports.
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Value for money

- 4 I issued an unqualified value for money conclusion that, in all significant respects, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources arrangements.
 - 5 The specified key lines of enquiry for the Audit Commission's new use of resources assessment framework form the basis of the auditor's value for money conclusion. The Council's overall use of resources score for 2008/09 was assessed as level 3, performs well.
 - 6 The Council's scores for each of the three use of resources themes are set out below in Table 1.
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Table 1 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	3
Managing resources	3

7 My audit fees are set out in table 2 below.

Table 2 Audit fees

	Actual	Proposed in 2008/9 audit plan
Financial statements and annual governance statement	£325,400	£325,400
Pension Fund	£38,000	£38,000
Value for money	£117,200	£117,200
Total audit fees	£480,600	£480,600
PFI audit view	£8,890	

Actions

8 Recommendations are shown within the body of this report and have been agreed with the audited body.

Independence

9 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

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.

Significant issues arising from the audit

- 10 I issued an unqualified opinion on the Council's financial statements on 25 September 2009. The financial statements were prepared to a good standard. I identified errors in the financial statements, other than those of a clearly trivial nature, and reported these to management. Management agreed to adjust the financial statements for the errors identified which were primarily of a presentational nature. This included two material errors relating to the Grove Park housing stock transfer.
- 11 One matter that needs to be resolved for the 2009/10 financial statements concerns the group accounts. On its inception in February 2007, the Council indemnified Lewisham Homes against pension fund liabilities in relation to all staff transferred to Lewisham Homes. At 31 March 2009, the actuary notified the Council of a £2m pension liability in respect of Lewisham Homes' staff (the 'post-transfer' liability). This liability is not reflected in the Council's accounts but is reflected as an asset on Lewisham Homes' balance sheet, with £2m of income recognised as due from the Council in the Lewisham Homes' profit & loss account.
- 12 The Council disclosed the potential pension liability of £2m as a contingent liability in its financial statements. Officers are currently in discussion with Lewisham Homes in order to resolve the issue for the 2009/10 financial statements. I will continue to discuss developments with officers.
- 13 We met regularly with members of the Council's finance team in the course of our audit work and have found officers to be cooperative and helpful in responding to audit queries. We did however identify scope to improve the quality and timeliness of working papers in several areas, including:
 - the cash flow statement;
 - FRS17 pensions costs; and
 - leaseholder debtors.

Recommendation

- R1** Clarify arrangements for accounting for pension liabilities in respect of Lewisham Homes' staff that have arisen after the date of transfer.

Material weaknesses in internal control

- 14 I did not identify any material weaknesses in your internal control arrangements.

Internal Audit

- 15 The Council outsourced its Internal Audit function to RSM Bentley Jennison in September 2008 whilst maintaining the management function in-house. We reviewed the testing performed by Bentley Jennison on five key financial systems: general ledger, budgetary control, accounts receivable, payroll and pensions. I found the work to be of a good quality for four of the five files reviewed and was therefore able to place reliance on Internal Audit's work in these areas and carry out our own controls testing only on those months in the financial year not covered by Internal Audit. This is a clear improvement on previous years when we were not able to place on Internal Audit's work.
- 16 Our triennial review of Internal Audit against the standards set out in the Chartered Institute of Public Finance and Accountancy's (CIPFA) 2006 Code of Practice for Internal Audit in Local Government found no significant areas of non compliance.

Accounting Practice and financial reporting

- 17 I considered the qualitative aspects of your financial reporting and have no issues I want to raise with you in this respect.

Pension Fund

- 18 The Pension Fund's financial statements and annual governance statement are an important means by which the Fund accounts for its stewardship of public funds. I reported the significant issues arising from my audit of the Council's pension fund to the Pension Investments Committee on 2 September 2009 and the Audit Panel on 22 September 2009 in my Annual Governance Report. I issued an unqualified opinion on the pension fund's financial statements on 25 September 2009.
- 19 The Council provided its pension fund accounts for audit on 30 June 2009 as part of the financial statements for the Council as a whole. The accounts submitted for audit were complete and were supported by good working papers in line with my expectations. This is a clear improvement on 2007/08 when the working papers provided were limited.
- 20 I identified one material error in the financial statements. This related to the disclosure of sale proceeds, derivative receipts and changes in market value as set out in Note 5 (Investment Analysis) to the pension fund accounts. I agreed an amendment with officers, which re-stated total sale proceeds and derivative receipts of £1,652m per the draft accounts to £1,554m (a decrease of £98m), with a corresponding increase of £98m to the change in market value, which changed from £80m in the draft accounts to £177m. The error is a presentational one only and had no impact on reported fund performance or the fund's worth, as measured by the Net Assets Statement.

Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 21** In forming my scored use of resources judgements, I have used the methodology set out in the Audit Commission's new [use of resources framework](#), which places an increased focus on outcomes achieved by public bodies and is generally considered a harder test than last year. Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest representing excellent performance. Level 1 represents a failure to meet the minimum requirements at level 2.
- 22** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 23** My use of resources judgement will be combined with the managing performance theme score to form the organisational assessment for the Council. This, and the area assessment, will be reported to the Council by the Comprehensive Area Assessment Lead in December 2009.
- 24** The Council's use of resources scores are shown in Table 1 above. The Council's overall use of resources score for 2008/09 was assessed as level 3, showing that the Council continues to perform well under use of resources. The scores for the individual KLOE are shown in Appendix 1.
- 25** The Council has performed strongly across all KLOEs, with the exception of maintenance of a sound system of internal control where Internal Audit's work highlighted that a number of systems required strengthening. The Internal Audit function's performance has improved during the year, as set out above. There was an area of excellent performance in the way the Council promotes and demonstrates the principles and values of good governance. My key messages are set out below.

Managing finances: How effectively does the organisation manage its finances to deliver value for money? (Performing well, level 3)

- 26 The Council integrates its financial planning with strategic and service planning processes on a medium to long term basis. The medium term financial plan (MTFP) is closely aligned to corporate priorities, responsive to change and is underpinned by a multi-year efficiency programme and consultation with service managers and partners. Spending is maintained within available resources and is financially sound over the medium term. The Council has a track record of delivering on budget and achieving its target level of reserves. The Council has excellent community engagement arrangements in place and can demonstrate how it takes account of feedback from the public in its MTFP and the outcomes it achieves through resource allocation.
- 27 The Council has a good understanding of its costs and performance across all parts of the Council. This is well supported by the electronic performance management system – Performance Plus. Whole life costing has been introduced for larger projects like Building Schools for the Future. Unit costs are well known across the Council with good use of benchmarking with VFM profiles. Costs and performance information is used in decision making, performance monitoring and commissioning of services. Financial reports are clear, relevant and precise, with a true and fair view of the current position at any one time. The Chief Executive and Director of Resources attend efficiency board meetings at which all services' financial plans are scrutinised in turn. The Mayor and Members review all savings proposals. There is a good awareness of financial risk, including treasury management risk.
- 28 Financial monitoring reports provide links to operational PIs to provide the user with a rounded view of organisational performance. Financial reporting information is up to date, accruals-based and accurate and is provided to budget holders within five working days of month end. Processes for preparing the accounts are good. Information is presented in a user-friendly, accessible format and is available in a range of different media.

Governing the Business: How well does the organisation govern itself and commission services that provide value for money and deliver better outcomes for local people? (Performing well, level 3)

- 29 The Council's procurement strategy has a clear vision of the outcomes it seeks for local people based on an assessment of need. Local people, partners, staff and suppliers are involved in the commissioning process. VFM and the customer experience has improved through its commissioning and improved use of IT such as through the Council's Worksmart programme. The Council has a good understanding of its supplier markets and has delivered savings.

Value for money and use of resources

- 30** Data quality is robust and supports decision makers well. For example, the Council has responded speedily to the economic downturn and put in place a robust monitoring programme to assess its impact on local residents, businesses and the Council's finances. Routine monitoring of performance is robust and data quality is monitored and managed effectively across significant partnerships through regular performance meetings at which data quality is a regular element of discussion. This is helping to secure improvements in the way data is used and managed across partners to design services responsive to local needs. The monthly management report provides a clear and easy to read analysis of the Council's performance against all national and local indicators.
- 31** My data quality audit tested three of the Council's top 40 performance indicators and I was satisfied that data quality arrangements in respect of each were robust. The Council's overall management arrangements for ensuring data quality are well above minimum requirements.
- 32** The Council has very strong governance arrangements in place and is able to demonstrate that these have led to a wide range of excellent outcomes. The Council has an excellent training and development programme for members. This is recognised as best practice and feedback from members indicates the programme has helped them considerably in carrying out their roles.
- 33** Members and officers have a strong, unified understanding of their roles and the Council's vision and this has led to a range of excellent outcomes:
- Ofsted's study on social responsibility and community cohesion which found that the Council has a clear vision which focuses strongly on outcomes;
 - the office of the Young Mayor, with clear evidence that this leads to positive outcomes for young people, including engagement in local and national politics and community projects; and
 - high level of awareness of ethical standards.
- 34** The Head of Law carries out regular ethical training for members, senior officers and Standards Committee members tailored to the specific needs of the audience. The Standards Committee structure ensures segregation of duties when hearing complaints, and engenders public confidence. There is a strong link between the Chair of the Standards Committee, the Mayor and the Head of Law to ensure the importance of high ethical standards are well understood by members and senior management.
- 35** The corporate risk management systems are well integrated across the Council. These systems support financial planning, project management, particularly large capital projects and policy making. The Council has proactive and effective arrangements to manage fraud and corruption. There is an objective and knowledgeable Audit Panel with independent members.

- 36 As set out above we are satisfied that Internal Audit has continued to improve this year and assessed that all CIPFA's standards for internal audit had been met. The Council has an adequate system of internal control although a number of systems were found to require strengthening following Internal Audit's review indicating further work is required before systems are considered embedded and performing well. Fifty four per cent of Internal Audit's 2008/09 reviews received a 'limited' or 'adequate' assurance rating (rather than 'substantial'). IT business continuity and schools financial controls were two areas that are particularly characteristic of a control environment not yet performing well.

Recommendation

- R2** Ensure that Internal Audit's recommendations for strengthening systems of internal control are implemented.

Managing Resources: How well does the organisation manage its natural resources, physical assets, and people to meet current and future needs and deliver value for money? (Performing well, level 3)

- 37 The Council is delivering good outcomes in the management of its natural resources. The Council has completed a detailed analysis of its energy use and the CO2 use of its top 500 suppliers. The Council has reduced its overall use of natural resources and its CO2 emissions are falling. Other natural resources, like electricity, water and fuel from its fleet have all fallen in usage, but its use of gas and use of paper have risen. The Council has a Green Procurement Strategy. In 2008, the Council's performance was externally audited (Mayor of London) and the Council achieved the Silver Award.
- 38 The Council has a strategic approach to the management of its assets. The Council has innovative approaches to improve its buildings to delivery better public services, to improve working conditions, to reduce its energy use and to effectively dispose of sites. Asset management planning is integrated into corporate planning, in directorates and in service areas. The Council works with its key partners - police, fire service, Primary Care Trust, Lewisham Hospital, Lewisham College and voluntary sector - in an attempt to maximise the use of assets. Some integration of services from shared sites is well developed, particularly with the Primary Care Trust such as Downham Lifestyles Centre.
- 39 During 2010, our assessment of how the Council manages its resources will incorporate a new theme on workforce planning, in line with the Audit Commission's use of resources framework.

Value for money conclusion

- 40** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year which of the use of resources key line of enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body. In 2008/09 nine KLOE were specified, the findings for which are summarised in the preceding section on use of resources judgements. In order to achieve an unqualified value for money conclusion it is necessary to demonstrate that the Council meets the minimum standards for each KLOE, which it has done, as set out above. My conclusions on each of the areas are set out in Appendix 1.
- 41** I am pleased to report that I issued an unqualified value for money conclusion that, in all significant respects, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources arrangements.

Housing management

- 42** I reviewed the progress of the Council's decent home standard (DHS) programme and the way the Council has managed the risks associated with transferring stock to Registered Providers in relation to achieving DHS.
- 43** My review found that the approach to reviewing its housing stock options is based on strong resident engagement. The Council has successfully completed a stock options appraisal in response of the need to meet the DHS target. The Council adopted a higher risk strategy for achieving DHS than other local authorities in that it has adopted a range of options such as stock transfer, arm's length management organisation (ALMO) and PFI options. Most housing associations to which the stock has been transferred to are likely to deliver decent homes on time and to a satisfactory standard. However, the Council will not meet the DHS target by the agreed deadline of 2012 for all its properties, particularly those that are managed by the ALMO.
- 44** The approach to monitoring of housing partners and enforcement is proportionate and effective. There are formal dispute resolution processes in place but housing partners are not fully aware of these processes. This is an area which needs to be addressed. Councillors, including ward councillors, and senior managers are fully and properly involved in monitoring of DHS progress as well as performance management of housing partners.

Other matters

Grant Certification programme

- 45 The audit of the grants certification programme is progressing well and six of 13 claims have already been certified. The biggest and most complex claim is the Housing Benefit and Council Tax Benefit subsidy claim. The audit deadline was the 30 November and we certified the claim on 27 November 2009.

International Financial Reporting Standards

- 46 The introduction of international financial reporting standards (IFRS) into the public sector raises significant challenges for local government to ensure arrangements are in place to facilitate the preparation of timely and accurate IFRS-compliant accounts for 2010/11. It is important that the Council starts reviewing its financial information to ensure it can meet the reporting requirements especially for leases and PFI schemes. Our experience in other sectors has shown that despite an apparently long lead-in time, it is important for authorities to retain their focus and continue plan for early completion of work. We have discussed progress with officers and agreed that the Council still has considerable work to do on IFRS.

Recommendation
<p>R3 The Council should review its financial information to ensure it can meet the reporting requirements for the introduction of international financial reporting standards.</p>

Private Finance Initiative (PFI) audit view

- 47 I provided my comments on the reasonableness of the proposed accounting treatment of the PFI scheme to rebuild and operate Northbrook Church of England Secondary School under the Building Schools for the Future (BSF) initiative. I concluded that I was satisfied with the accounting treatment proposed by the Council and its advisers based on the information made available to me at the time.

Whole of Government accounts submission

- 48 I issued an unqualified opinion upon the Council's Whole of Government Accounts submission to the Communities and Local Government on 18 November 2009. This is later than the deadline of 1 October 2009 due to the late preparation of the submission and errors discovered during the audit.

Closing remarks

- 49 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 2009 and will provide copies to all Audit Panel Members.
- 50 Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 3 Audit reports Issued

Report	Date issued
Audit plan	May 2008
Health Inequalities (reported in 2007/8 Annual Audit Letter)	February 2009
Supplementary opinion audit plan	June 2009
Pension fund audit plan	June 2009
Main audit annual governance report	September 2009
Pension fund annual governance report	September 2009
Opinion on the financial statements	25 September 2009
Value for money conclusion	25 September 2009
Opinion audit report	November 2009
Housing Management	November 2009
Internal Audit review	November 2009
Annual Audit letter	November 2009

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- 51 The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit and look forward to working with the Council in the year ahead.

Susan M. Exton
District Auditor
December 2009

Appendix 1 – Use of resources scores

52 The following table summarise the scores against the individual KLOEs.

KLOE	Score	VFM criterion met?
Managing finances		
Planning for financial health	3	Y
Understanding costs and achieving efficiencies	3	Y
Financial reporting	3	Y
Governing the business		
Commissioning and procurement	3	Y
Use of information	3	Y
Good governance	4	Y
Risk management and internal control	2	Y
Managing resources		
Natural resources	3	Y
Strategic asset management	3	Y

Appendix 2 – Action plan

Page no.	Recommendation	Priority Low Med High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendations						
5	R1 Clarify arrangements for accounting for pension liabilities in respect of Lewisham Homes' staff that have arisen after the date of transfer.	High	Executive Director of Resources	Yes	Further discussions will be arranged with Lewisham Homes and external auditors and a proposal prepared for Audit Commission consideration before Christmas.	Before 31 March 2010
10	R2 Ensure that Internal Audit's recommendations for strengthening systems of internal control are implemented.	Medium	Head of Internal Audit/ Heads of Service	Yes	Internal Audit already have in place a robust process for monitoring the implementation of audit recommendations which utilises the '4Action' monitoring software, together with follow up visits on all audit that have been allocated either a limited or no assurance audit opinion. Progress on the implementation of audit recommendations is reported quarterly to both the Internal Control Board and the Audit Panel, and Executive Directors/managers are required to attend these meeting to explain when agreed recommendations have not been implemented.	Ongoing
12	R3 The Council should review its financial information to ensure it can meet the reporting requirements for the introduction of international financial reporting standards.	Medium	Group Manager - accounts	Yes	A project team has been put together and a detailed Project Plan is in preparation. The review of financial information requirements will be part of this review. Regular updates will be provided to Audit Commission on progress.	Ongoing updates will be prepared leading up to implementation

The Audit Commission

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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