

Audit and Governance Committee

Tuesday 30 April 2013

7.00 pm

Ground Floor Meeting Room G02A - 160 Tooley Street, London SE1 2QH

Membership

Councillor Mark Glover (Chair)
Councillor Toby Eckersley (Vice-Chair)
Councillor James Barber
Councillor Nick Dolezal
Councillor Renata Hamvas
Councillor Jeff Hook
Councillor Martin Seaton

Reserves

Councillor Chris Brown
Councillor Sunil Chopra
Councillor Patrick Diamond
Councillor Michael Mitchell
Councillor Nick Stanton

INFORMATION FOR MEMBERS OF THE PUBLIC

Access to information

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Contact

Virginia Wynn-Jones on 020 7525 7055 or email: virginia.wynn-jones@southwark.gov.uk

Members of the committee are summoned to attend this meeting

Eleanor Kelly
Chief Executive
Date: 22 April 2013



Audit and Governance Committee

Tuesday 30 April 2013

7.00 pm

Ground Floor Meeting Room G02A - 160 Tooley Street, London SE1 2QH

Order of Business

Item No.	Title	Page No.
	PART A - OPEN BUSINESS	
1.	APOLOGIES	
	To receive any apologies for absence.	
2.	CONFIRMATION OF VOTING MEMBERS	
	A representative of each political group will confirm the voting members of the committee.	
3.	NOTIFICATION OF ANY ITEMS OF BUSINESS WHICH THE CHAIR DEEMS URGENT	
	In special circumstances, an item of business may be added to an agenda within five clear days of the meeting.	
4.	DISCLOSURE OF INTERESTS AND DISPENSATIONS	
	Members to declare any personal interests and dispensation in respect of any item of business to be considered at this meeting.	
5.	MINUTES	1 - 3
	To approve as a correct record the minutes of the open section of the meeting held on 28 February 2013.	
6.	PENSIONS ADVISORY PANEL	
	At the committee's meeting on 26 September 2012, members considered a number of issues concerning the pension fund and forthcoming pensions regulations and agreed to invite the pensions advisory panel to a subsequent meeting. Information about the pensions advisory panel and key developments in the Local Government Pension Scheme has been circulated separately to members.	

Item No.	Title	Page No.
7.	GRANT THORNTON - AUDIT PLANS FOR SOUTHWARK COUNCIL AND SOUTHWARK PENSION FUND AUDITS 2012/13	4 - 44
8.	GRANT THORNTON - INFORMING THE AUDIT RISK ASSESSMENT FOR SOUTHWARK COUNCIL AND SOUTHWARK PENSION FUND	45 - 61
9.	GRANT THORNTON - AUDIT AND GOVERNANCE COMMITTEE UPDATE APRIL 2013	62 - 81
10.	PROGRESS REPORT ON THE WORK OF INTERNAL AUDIT FOR THE PERIOD 1 DECEMBER 2012 TO 31 MARCH 2013 AND THE ANTI-FRAUD TEAM FOR THE PERIOD 1 APRIL 2012 TO 31 MARCH 2013	82 - 88
11.	UPDATE REPORT ON THE INSURANCE FRAMEWORK	89 - 95

ANY OTHER OPEN BUSINESS AS NOTIFIED AT THE START OF THE MEETING AND ACCEPTED BY THE CHAIR AS URGENT.

EXCLUSION OF PRESS AND PUBLIC

The following motion should be moved, seconded and approved if the sub-committee wishes to exclude the press and public to deal with reports revealing exempt information:

“That the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 1-7, Access to Information Procedure rules of the Constitution.”

PART B - CLOSED BUSINESS

ANY OTHER CLOSED BUSINESS AS NOTIFIED AT THE START OF THE MEETING AND ACCEPTED BY THE CHAIR AS URGENT.

Date: 22 April 2013

Audit and Governance Committee

MINUTES of the OPEN section of the Audit and Governance Committee held on Thursday 28 February 2013 at 7.00 pm at Ground Floor Meeting Room G02B - 160 Tooley Street, London SE1 2QH

PRESENT: Councillor Mark Glover (Chair)
Councillor Toby Eckersley
Councillor Nick Dolezal
Councillor Renata Hamvas
Councillor Martin Seaton

OTHERS PRESENT: Jennifer Seeley, Deputy Finance Director
Jo Anson, Head of Financial Governance
Mike Pinder, Head of Anti-Fraud and Internal Audit
Gerri Scott, Strategic Director of Housing and Community Services
Antoinette Stasaitis, Business Improvement Manager
Kevin Campbell-Scott, Anti-Fraud Manager
Doreen Forrester-Brown, Director of Legal Services
Virginia Wynn-Jones, Constitutional Officer

1. APOLOGIES

Apologies were received from Councillor James Barber, Duncan Whitfield, the strategic director of finance and corporate services, and Sue Exton and Liz Olive, the external auditors.

2. CONFIRMATION OF VOTING MEMBERS

The members present were confirmed as the voting members.

3. NOTIFICATION OF ANY ITEMS OF BUSINESS WHICH THE CHAIR DEEMS URGENT

There were none.

4. DISCLOSURE OF INTERESTS AND DISPENSATIONS

There were none.

5. MINUTES

RESOLVED:

That the minutes of the meeting of 9 January 2013 be agreed as a correct record and signed by the chair.

6. DEPARTMENTAL GOVERNANCE

The strategic director of housing and community services, Gerri Scott, presented the departmental governance framework to the committee. The committee had questions of the strategic director.

Officers undertook to circulate the report on the impact of the new benefits arrangements previously circulated to the housing scrutiny sub-committee to the committee by email.

Officers undertook to circulate the Business Plan and Business Plan Action Plan to the committee by email.

7. CONTROL FRAMEWORK FOR POSTAGE AND FRANKING FACILITIES

Officers introduced the report. Members had questions for the officers.

RESOLVED:

That the committee note the arrangements in place for use of postage and franking facilities.

8. ANNUAL REPORT TO COUNCIL ASSEMBLY ON WORK AND PERFORMANCE IN 2012/13

Officers introduced the report. Members had questions for the officers.

Officers undertook to complete the minor amendments to the annual report and forward the final draft to the chair for his information before it is put on the council assembly agenda.

The committee noted that a satisfaction survey on the work of the internal auditors will be circulated by email to all committee members, and the chair confirmed that he strongly encouraged all members to complete and return this to officers.

RESOLVED:

That the committee agree to forward the annual report on work and performance to council assembly with minor amendments.

9. DRAFT WORK PROGRAMME FOR 2013/14

Officers introduced the report. Members had questions for the officers.

Officers undertook to arrange a meeting between the external auditors and the chair and vice-chair of the committee, and to invite the director of public health to the committee in September 2013.

RESOLVED:

That the audit and governance committee agree the work programme for 2013/14.

CHAIR:

DATED:

Item No. 7.	Classification: Open	Date: 30 April 2013	Meeting Name: Audit and Governance Committee
Report title:		Grant Thornton – Audit Plans for Southwark Council and Southwark Pension Fund Audits 2012/13	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Corporate Services	

RECOMMENDATIONS

1. That the audit and governance committee note Grant Thornton's audit plans for Southwark Council and Southwark Pension Fund audits 2012/13 as attached at Appendix 1 and 2 respectively.

BACKGROUND INFORMATION

2. The purpose of these reports is to set out the external auditors' work that is proposed for the audit of financial statements and the value for money conclusion 2012/13. They also set out the approach to identifying audit risks, the additional risks that are appropriate to the current audit and the value for money risks.

KEY ISSUES FOR CONSIDERATION

3. The reports specify the detailed risks that the external auditors need to consider as part of their planning work and also set out the results of interim audit work and key milestones and deadlines.
4. Since 2008/09, administering authorities have been required to prepare an annual report for the pension fund which incorporates the annual accounts and the Audit Commission introduced separate fee scales for Local Government Pension Fund scheme audit work from 2009/10. For this reason, a separate audit plan for the Southwark pension fund has been prepared.
5. The reports explain that fees for the audits have been set on the basis of a number of assumptions and that full details of all fees charged for audit and non-audit services will be included in their audit findings report at the conclusion of the audit.

Policy implications

6. This report and the accompanying audit plan reports are not considered to have direct policy implications.

Community impact statement

7. This report and the accompanying audit plan reports are not considered to have a direct impact on local people and communities.

Resource implications

8. This report and the accompanying audit plan reports are not considered to have a direct impact on resource implications.

Consultation

9. Consultation has not been undertaken.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

10. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

APPENDICES

No.	Title
Appendix 1	Grant Thornton – The Audit Plan for Southwark Council year ended 31 March 2013
Appendix 2	Grant Thornton – The Audit Plan for London Borough of Southwark Pension Fund year ended 31 March 2013

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Corporate Services	
Report Author	Jo Anson, Head of Financial Governance	
Version	Final	
Dated	18 April 2013	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments sought	Comments included
Director of Legal Services	No	N/A
Strategic Director of Finance and Corporate Services	N/A	N/A
Cabinet Member	No	No
Date final report sent to Constitutional Team	18 April 2013	



The Audit Plan for Southwark Council

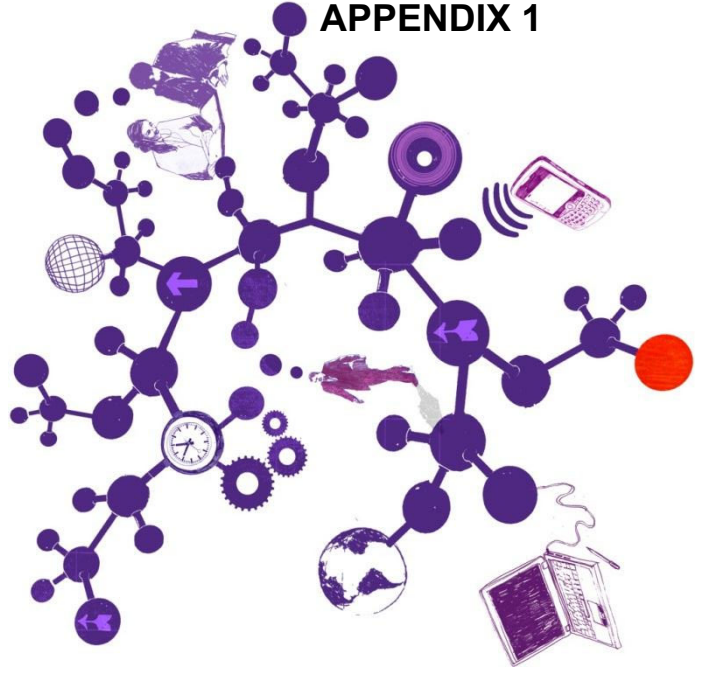
Year ended 31 March 2013
April 2013

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

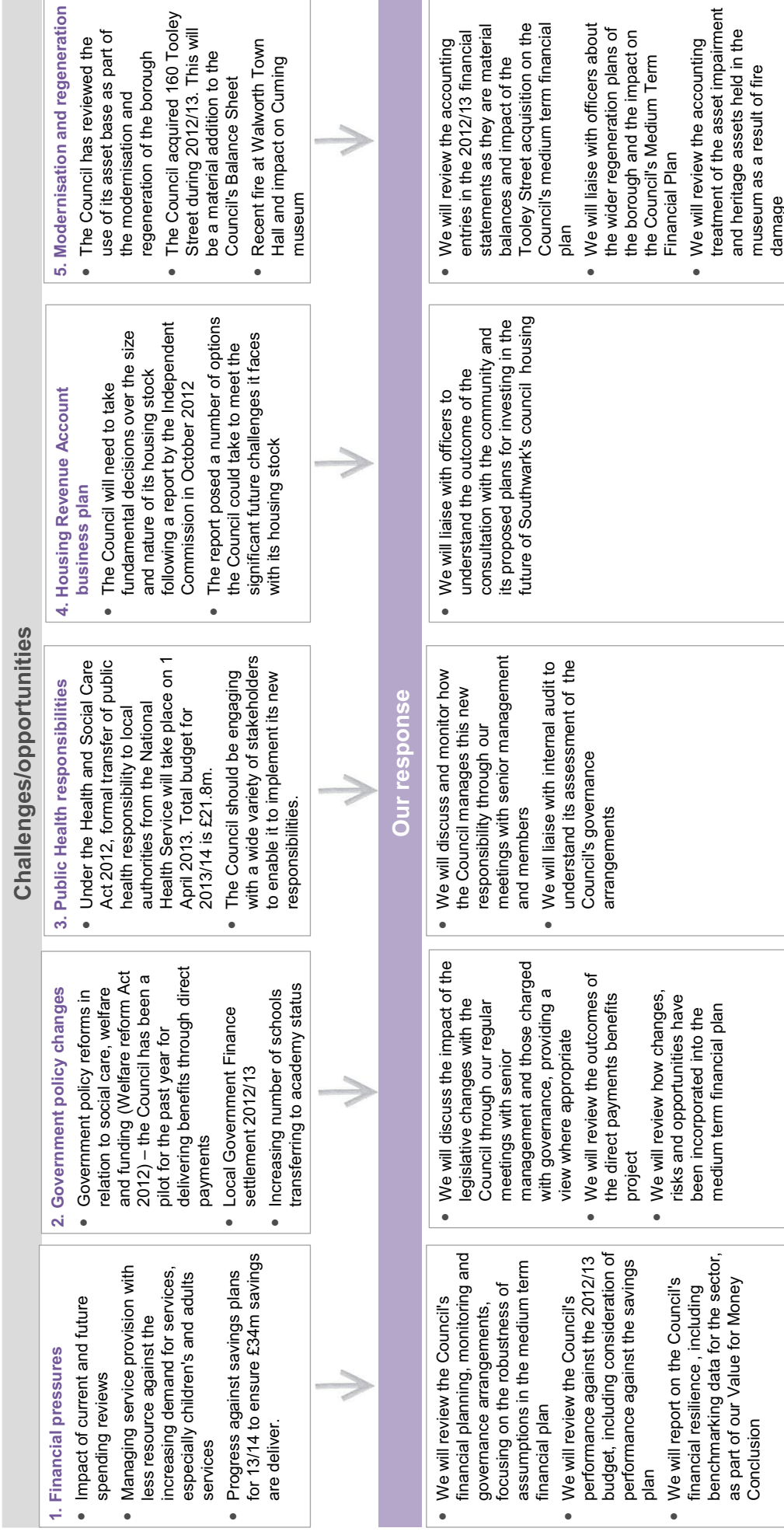
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2. Developments relevant to your business and the audit
3. Our audit approach
4. An audit focused on risks
5. Significant risks identified
6. Other risks
7. Results of interim work
8. Value for Money
9. Logistics and our team
10. Fees and independence
11. Communication of audit matters with those charged with governance

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



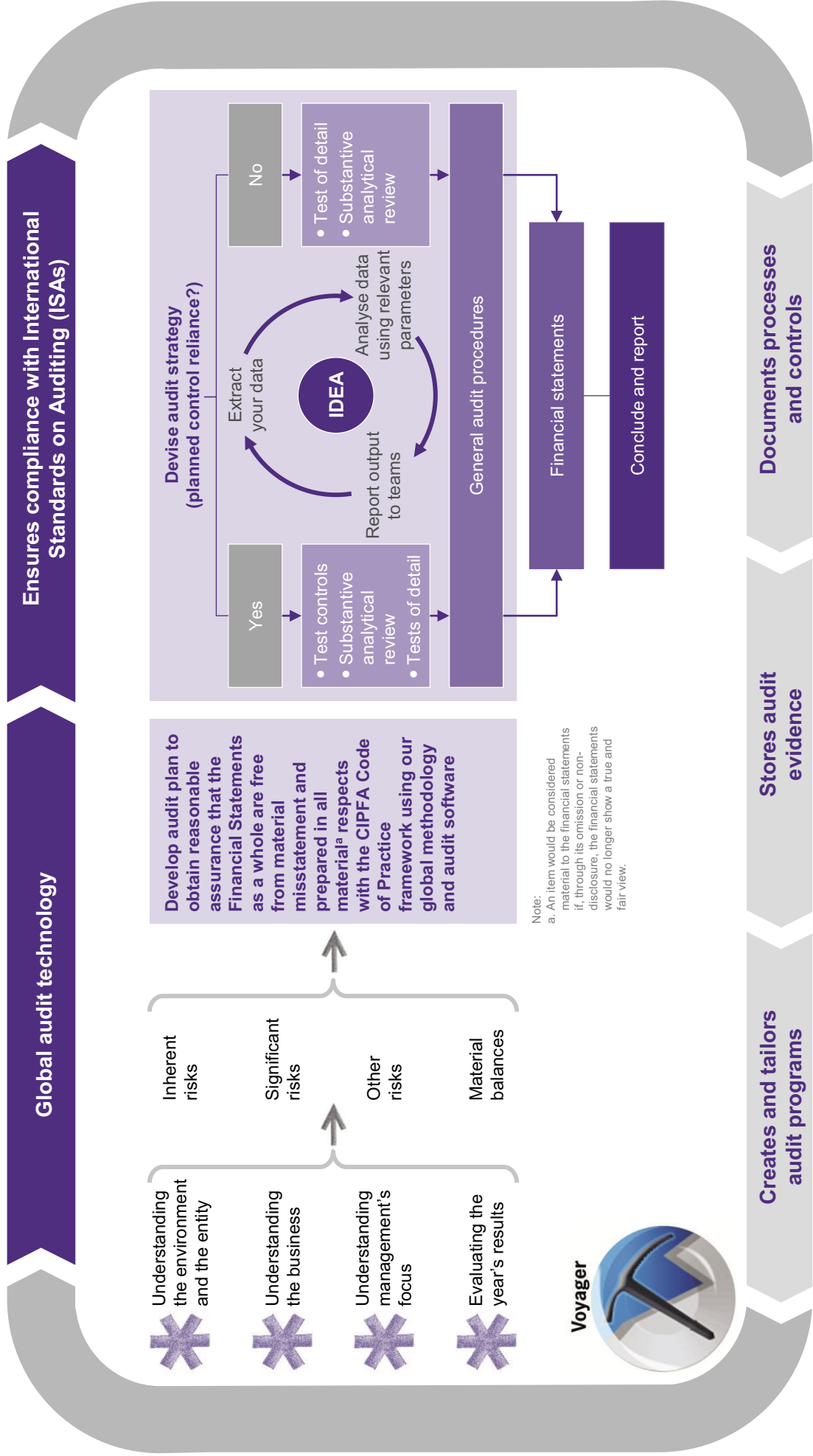
Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements			
<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Transfer of schools and other assets to Academies • Recognition of grant conditions and income • Self financing Housing Revenue Account 	<p>2. Legislation</p> <p>Welfare reform Act 2012</p> <ul style="list-style-type: none"> • Councils and DWP will need to jointly administer a cap, based on average household earnings • The government is transferring DWP funding for discretionary Social Fund community care grants and crisis loans to councils from April 2013. 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<p>4. Pensions</p> <p>Planning for the impact of changes to the Local Government pension Scheme (LGPS) including:</p> <ul style="list-style-type: none"> • Career Average Revalued Earnings (CARE) • option for members to pay 50% contributions for a 50% pension • other changes to member contribution rates
	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> • Local Government Finance settlement 2012/13 • Managing service provision with less resource • Progress against savings plans - 13/14 £34m and 14/15 £27m 	<p>6. Other requirements</p> <ul style="list-style-type: none"> • The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion • The Council completes grant claims and returns on which audit certification is required 	

Our response	
<p>We will ensure that</p> <ul style="list-style-type: none"> • the Council complies with the requirements of the CIPFA Code of Practice through our substantive testing • schools are accounted for correctly and in line with the latest guidance • grant income is recognised in line with the correct accounting standard 	<ul style="list-style-type: none"> • We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate • We will consider how the Council has incorporated the financial impact of these changes into its Medium Term Financial Plan
<ul style="list-style-type: none"> • We will review the arrangements the Council has in place for the production of the AGS • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge • We will assess the Council's governance statements against the Grant Thornton 'Improving Council Governance – A Slow Burner' 	<ul style="list-style-type: none"> • We will discuss how the Council is planning to deal with the impact of the 2013/14 changes through our meetings with senior management
<ul style="list-style-type: none"> • We will review the Council's performance against the 2012/13 budget, including consideration of performance against the savings plan • We will undertake a review of Financial Resilience as part of our VFM conclusion 	<ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements • We will certify grant claims and returns in accordance with Audit Commission requirements

Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Comprehensive Income and Expenditure Statement						
Cost of services - operating expenses	Yes	Operating expenses	Low	None		✓
Cost of services – employee remuneration	Yes	Employee remuneration	Medium	Other	Employee remuneration accruals understated	✓
Costs of services – Housing & council tax benefit	Yes	Welfare expenditure	Medium	Other	Welfare benefits improperly computed	✓
Cost of services – Housing revenue	Yes	HRA	Medium	Other	Housing revenue transactions not recorded	✓
Cost of services – other revenues (fees & charges)	Yes	Other revenues	Low	None		✓
(Gains)/ Loss on disposal of non current assets	Yes	Property, Plant and Equipment	Low	None		✓
Payments to Housing Capital Receipts Pool	No	Property, Plant & Equipment	Low	None		×
Precepts and Levies	No	Council Tax	Low	None		×

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Interest payable and similar charges	Yes	Borrowings	Low	None		✓
Pension Interest cost	Yes	Employee remuneration	Low	None		✓
Interest & investment income	No	Investments	Low	None		×
Return on Pension assets	Yes	Employee remuneration	Low	None		✓
Impairment of investments	No	Investments	Low	None		×
Investment properties: Income expenditure, valuation, changes & gain on disposal	Yes	Property, Plant & Equipment	Low	None		✓
Income from council tax	Yes	Council Tax	Low	None		✓
NNDR Distribution	Yes	NNDR	Low	None		✓
PFI revenue support grant & other Government grants	Yes	Grant Income	Low	None		✓
Capital grants & Contributions (including those received in advance)	Yes	Property, Plant & Equipment	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
(Surplus)/ Deficit on revaluation of non current assets	Yes	Property, Plant & Equipment	Low	None		✓
Actuarial (gains)/ Losses on pension fund assets & liabilities	Yes	Employee remuneration	Low	None		✓
Other comprehensive (gains)/ Losses	No	Revenue/ Operating expenses	Low	None		✗
Balance Sheet						
Property, Plant & Equipment	Yes	Property, Plant & Equipment	High	Other	PPE activity not valid Revaluation measurements not correct	✓
Heritage assets & Investment property	Yes	Property, Plant & Equipment	Low	None		✓
Intangible assets	No	Intangible assets	Low	None		✗
Investments (long & short term)	Yes	Investments	Low	None		✓
Debtors (long & short term)	Yes	Revenue	Low	None		✓
Assets held for sale	No	Property, Plant & Equipment	Low	None		✗
Cash & cash Equivalents	Yes	Bank & Cash	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Borrowing (long & short term)	Yes	Debt	Low	None		✓
Creditors (long & short term)	Yes	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	✓
Provisions (long & short term)	Yes	Provision	Low	None		✓
Pension liability	Yes	Employee remuneration	Low	None		✓
Reserves	Yes	Equity	Low	None		✓

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Review and testing of revenue recognition policies Performance of attribute testing on material revenue streams <p>Further work planned:</p> <ul style="list-style-type: none"> Review and testing of revenue recognition policies Performance of attribute testing on material revenue streams
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Review of accounting estimates, judgments and decisions made by management Selected a sample of journal entries for testing Review of unusual significant transactions <p>Further work planned:</p> <ul style="list-style-type: none"> Review of accounting estimates, judgments and decisions made by management Testing of journal entries Review of unusual significant transactions
Property, Plant and Equipment (PPE)	Revaluation measurements not correct / PPE activity not valid	<p>Work completed to date:</p> <ul style="list-style-type: none"> Discussed component accounting plans for the Housing Revenue Account assets <p>Further work planned:</p> <ul style="list-style-type: none"> Walkthrough of PPE system Reconcile the Borough valuers valuation report to the asset register and accounts Substantive testing of the entries in the PPE notes

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> Identification and walkthrough of controls 	<ul style="list-style-type: none"> Testing of payments for completeness, classification and occurrence Testing of year end control account reconciliation
Employee remuneration	Remuneration expenses not correct	<ul style="list-style-type: none"> Identification and walkthrough of controls 	<ul style="list-style-type: none"> Attribute testing of payroll records Testing of the year end control account reconciliation
Welfare Expenditure	Welfare benefits improperly computed	<ul style="list-style-type: none"> Identification and walkthrough of controls 	<ul style="list-style-type: none"> HBCOUNT audit approach, including testing of 80 housing and council tax benefit cases
Housing Revenue Account – rent income	Revenue transactions not recorded	<ul style="list-style-type: none"> Identification and walkthrough of controls 	<ul style="list-style-type: none"> Testing of housing rents income Testing of the year end control account reconciliation for rental income

Results of interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- internal audit's work on the Council's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

	Work performed	Conclusion/ Summary
Internal audit	We have reviewed internal audit's overall arrangements against the Code of Practice for Internal Audit in Local Government in the United Kingdom.	Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council.
Walkthrough testing	Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements.	No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding. The walkthrough test of the system for property, plant and equipment is planned for the end of April 2013 as the processes and controls operate at year end only.

Results of interim audit work (continued)

	Work performed	Conclusion/ Summary
Review of information technology (IT) controls	Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system.	This work is planned for late April 2013. Any significant IT weaknesses or control failures will be reported to management and the committee at the next meeting.
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our testing strategy.</p> <p>To date we have liaised with finance officers to obtain a download of all transactions processed in the general ledger throughout the financial year, including journals. We have selected a sample of journals for testing and provided the population to officers who have agreed to collate supporting documentation in advance of our accounts audit visit.</p>	<p>We have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements from the journal procedures. We have selected a sample of journals from months 1 to 12 focussing on 'unusual' entries for further review.</p> <p>This testing will be completed at the accounts and supplemented by a review of the year end journal transactions.</p>
Public Finance Initiative (PFI) schemes	We have discussed the Council's PFI accounting models to confirm the process they will use to roll forward accounting entries and update for the 2012/13 financial statements.	A review of the PFI accounting models will be undertaken as part of the accounts audit to confirm they remain up to date, reasonable and provide materially correct entries in the financial statements.

Value for Money

Introduction

The Code of Audit Practice requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

2012/13 VfM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to Audit and Governance Committee.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.

Code criteria

The Council has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources

We will consider whether the Council is prioritising its resources with tighter budget

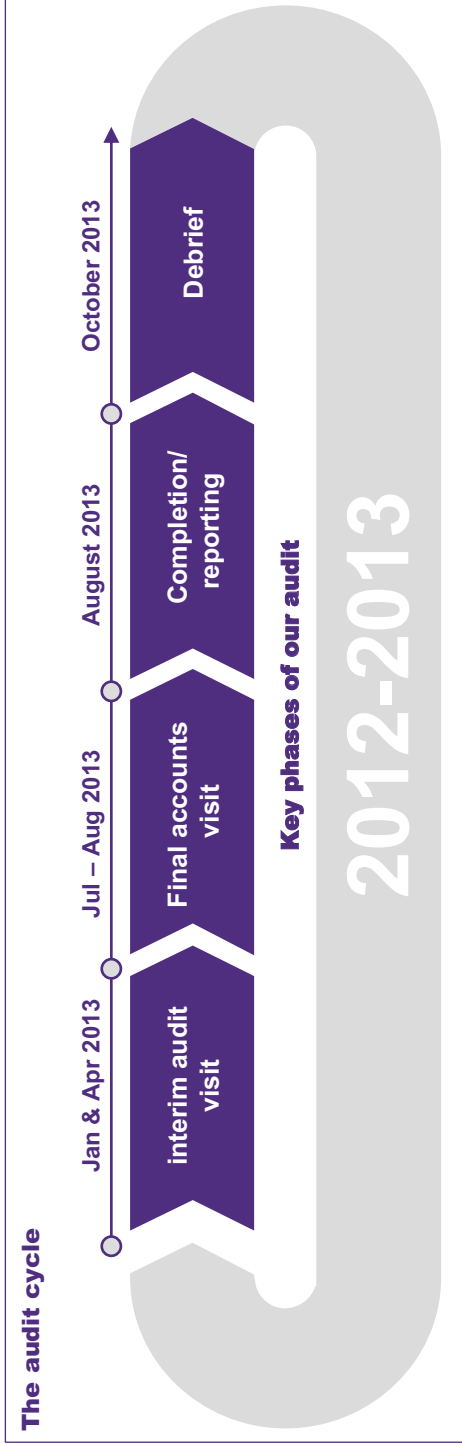
Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- review the achievement of savings identified in the medium term financial plan for 2012/13 and the robustness of plans to support the savings identified in the 2013/14 budget, including income generation plans;
- review the implementation of changes to the business rates and council tax support schemes;
- review of housing business plans following consultation on future of the Council's housing stock;
- review of the Council's asset modernisation and regeneration plans;
- review of arrangements for governance and delivery of new responsibilities and budget following the transfer of public health; and
- follow up recommendations made in the 2011/12 Annual Governance Report.

Logistics and our team



Date	Activity
January 2013	Planning meeting
January and April 2013	Interim site work
April 2013	The audit plan presented to Audit and Governance Committee
1 July 2013	Year end fieldwork commences
8 August 2013	Audit findings clearance meeting
19 September 2013	Audit and Governance Committee meeting to report our findings
By end September 2013	Sign financial statements and VFM conclusion
November 2013	Issue Annual Audit Letter

Our team

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<p>Elizabeth Olive Engagement Manager T 0207 728 3329 M 07880 456191 E elizabeth.l.olive@uk.gt.com</p>	<p>Stacy Lang Assistant T 0207 728 3293 E stacy.lang@uk.gt.com</p>
<p>Terry Blackman Manager T 0207 728 3194 M 07880 456179 E terry.blackman@uk.gt.com</p>	<p>Guy Clifton VFM / Advisory Lead T 0207 728 2903 M 07771 974285 E guy.clifton@uk.gt.com</p>

Fees and independence

Fees

	£
Council audit	326,294
Grant certification	47,900
Total	374,194

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

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Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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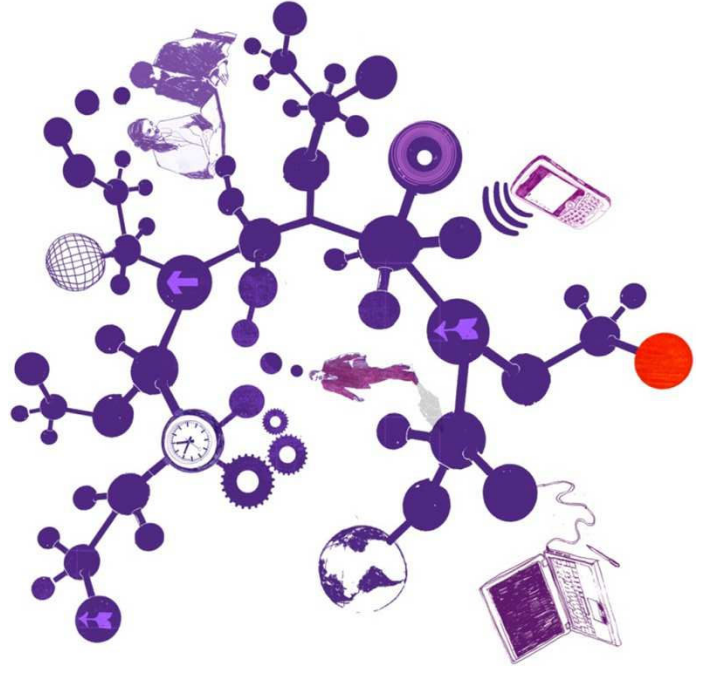
The Audit Plan for London Borough of Southwark Pension Fund

Year ended 31 March 2013
19 April 2013

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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2. Developments relevant to your fund and the audit
3. Our audit approach
4. An audit focused on risks
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6. Other risks
7. Results of interim work
8. Logistics and our team
9. Fees and independence
10. Communication of audit matters with those charged with governance

Appendices

- A. Action plan

Introduction

Purpose

This Audit Plan highlights the key elements of our 2012/13 external audit strategy for the London Borough of Southwark Pension fund. We have compiled it based on our audit risk assessment and discussion of key risks with management. We report it to the Audit and Governance Committee for consideration in accordance with International Standard on Auditing (UK & Ireland) 260.

Our responsibilities

As external auditors we are responsible for performing the audit in accordance with ISA's (UK & Ireland), and to give an opinion on the Pension fund financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Communicating the results of audit work

The findings from our interim work are communicated in this Plan, and any findings from the final accounts audit will be reported following the completion of the final accounts work. Page 15 of this Plan includes the timescale for the audit and audit reporting, which sets this out in more detail.

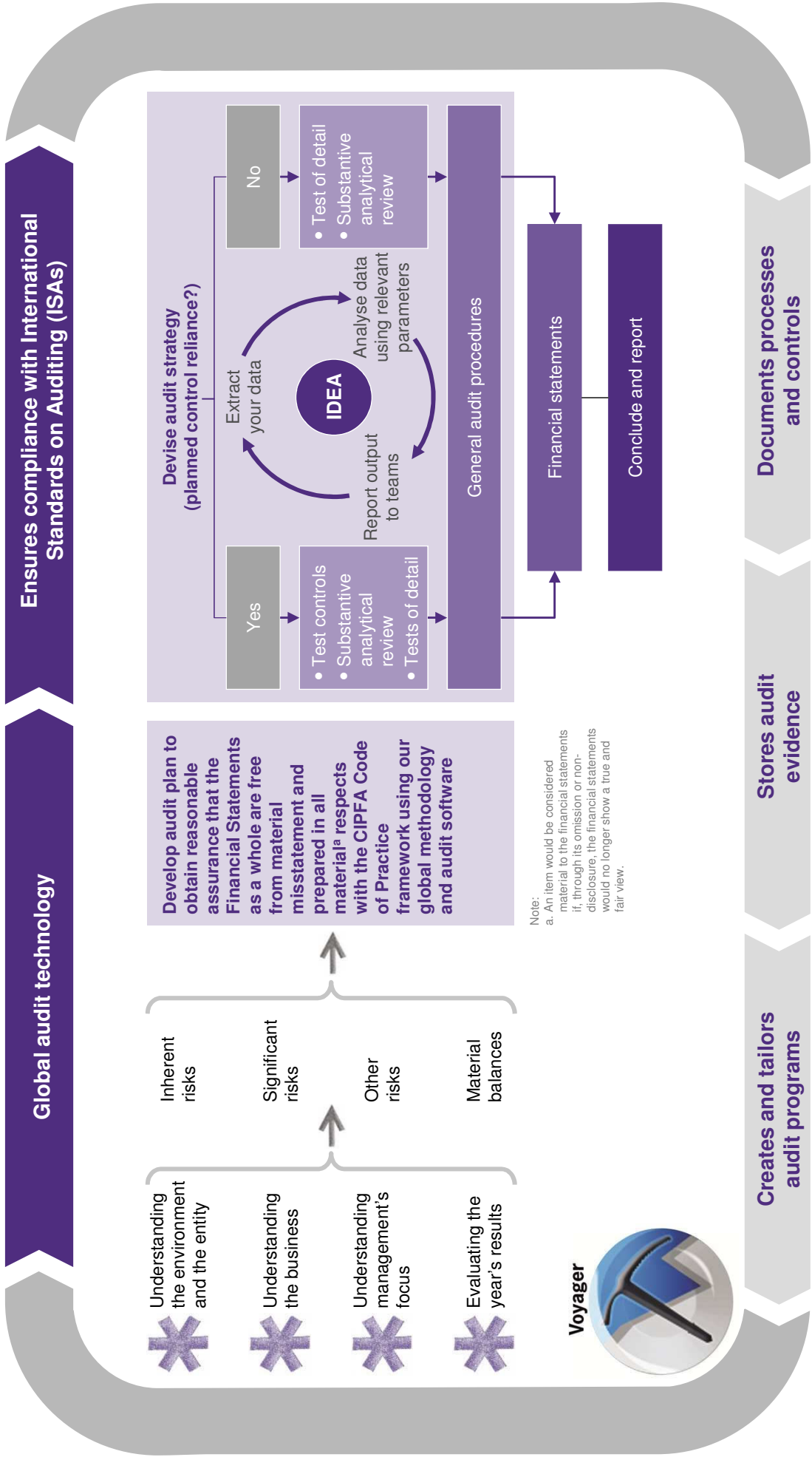
We look forward to working with the Pension fund officers during this year's audit.

Developments relevant to your fund and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements	
<p>1. Financial reporting</p> <ul style="list-style-type: none"> CIPFA published a revised set of example accounts for pension funds in 2013. 	<p>5. Triennial valuation</p> <ul style="list-style-type: none"> Demands on the Pension fund's resources in terms of administration and providing the necessary data and other information required by the actuary.
<p>2. LGPS 2014</p> <ul style="list-style-type: none"> Planning for the impact of the implementation of both the auto-enrolment requirements and the career average re-valued earnings scheme (CARE) from 1 April 2014. 	<p>4. Financial Pressures – Pension fund</p> <ul style="list-style-type: none"> Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income. Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of investment markets.
<p>3. Financial Pressures – scheduled and admitted bodies</p> <ul style="list-style-type: none"> Managing pensions administration where there has been an increase in transfers into and out of the fund during 2012/13 and where contributing bodies are offering early retirement and redundancies. Both of these place additional workloads on the Pension fund administration. 	<p>Our response</p> <ul style="list-style-type: none"> We will maintain regular dialogue with management to assess the impact this may have on the administration of the Pension fund. We will report any observations arising from our work.
<p>1. Financial reporting</p> <ul style="list-style-type: none"> We will carry out substantive testing to ensure that the Pension fund complies with the requirements of the CIPFA Code of Practice. 	<p>Our response</p> <ul style="list-style-type: none"> We will monitor the changes being made to the Pension fund investment strategy through our regular discussions with management. We will consider the impact of changes on the nature of investments held by the Pension fund and adjust our testing strategy as appropriate.
<p>2. LGPS 2014</p> <ul style="list-style-type: none"> We will discuss the impact of the changes through our regular meetings with management. Where appropriate, we will report any observations we have from our work. 	<p>Our response</p> <ul style="list-style-type: none"> We will discuss any potentially large transfers, early retirements or redundancies with management and undertake substantive testing where these are material. We will report any observations arising from our work.

Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Planned controls assurance?	Substantive testing (if material)?
FUND ACCOUNT							
Contributions receivable	Yes	Scheme Contributions	Medium	Other	Recorded contributions not correct	No	✓
Transfers in	Yes	Transfers in to the scheme	Low	None		No	✓
Pensions payable	Yes	Benefit payments	Medium	Other	Benefits improperly calculated/claims liability understated	No	✓
Payments to and on account of leavers	Yes	Benefit payments	Low	None		No	✓
Administrative expenses	Yes	Administrative expenses	Low	None		No	✓
Investment income	Yes	Investments	Medium	Other	Investment activity not valid	No	✓

An audit focused on risks (continued)

	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Planned controls assurance?	Substantive testing (if material)?
Profit and loss on disposal of investments and changes in value of investments	Yes	Investments	Medium	Other	Investment activity not valid	No	✓
Taxes on income	No	Investments	Low	None		No	X
Investment management expenses	Yes	Investments	Low	None		No	✓
NET ASSET STATEMENT							
Investments	Yes	Investments	Medium	Other	Investments and alternative investments not valid Fair value measurement not correct	No	✓
Current assets	Yes	Scheme Contributions, investments and cash	Low	None		No	✓
Current liabilities	No	Benefit payments, investments	Low	None		No	X

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgemental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
Revenue	Under ISA 240 there is a presumed risk that revenue (which for the purposes of the London Borough of Southwark Pension fund we have considered as investment income, transfers into the scheme and contributions) may be misstated due to the improper recognition of revenue.	<p>We have rebutted this presumption and therefore do not consider this to be a significant risk for London Borough of Southwark Pension fund since:</p> <ul style="list-style-type: none"> • The nature of the Pension fund's revenue is in many respects relatively predictable and does not generally involve cash transactions. • The split of responsibilities between the Pension fund, its fund managers and the custodian, provides a very strong separation of duties reducing the risk around investment income. • Revenue contributions are made by direct salary deductions and direct bank transfers from admitted /scheduled bodies and are supported by separately sent schedules and are directly attributable to gross pay making any improper recognition unlikely. • Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving funds.
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<ul style="list-style-type: none"> • Review of accounting estimates, judgements and decisions made by management • Testing of journal entries • Review of unusual significant transactions
Changes in Fund Manager	Material movements between fund managers increases the risk of inaccuracies in the reporting of the Investments held by the Pension fund.	<ul style="list-style-type: none"> • We will review the management controls, including the transition reports, covering the transfer of monies between fund managers. • We will agree the investment balances to year end valuation reports provided by the fund manager.

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Planned audit procedure
Investments	<p>Investments not valid</p> <p>Investments activity not valid</p> <p>Alternative Investments not valid</p> <p>Fair value measurement not correct</p>	<p>We will review the reconciliation between information provided by the fund managers, the custodian and the Pension fund's own records and seek explanations for any variances.</p> <p>We will select a sample of the individual investments held by the fund at the year end and then test the valuation of the sample by agreeing prices to third party sources where published (quoted investments) or by critically assessing the assumptions used in the valuation (unquoted investments and direct property investments).</p> <p>The existence of investments will be confirmed directly with independent custodians or by agreement to relevant documentation.</p> <p>We will test a sample of purchases and sales during the year back to detailed information provided by the custodian and fund managers.</p>
Benefit Payments	Benefits improperly calculated/claims liability understated	<p>We will select a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds and test them by reference to member files. This testing is designed to ensure that all the appropriate documentation is correctly filed and internal control procedures operated by Southwark Pension fund have been followed.</p> <p>We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained.</p> <p>We will compare the movements on membership statistics to material transactions in the accounting records.</p>

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Planned audit procedure
Contributions	Recorded contributions not correct	<p>We will confirm the existence of controls operated by the Pension fund to ensure that it receives all expected contributions from member bodies.</p> <p>We will review contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.</p>
Membership Data	Member data not correct Regulatory, legal, and scheme rules/requirements not met	<p>We will confirm the existence of controls and reconciliations covering the input of evidence onto the Pensions Administration System.</p> <p>We will review the disclosures and ensure the data is in line with the regulatory, legal and scheme rules and requirements in place.</p>

Results of interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- internal audit's work on the Pension fund's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

	Work performed	Conclusion/ Summary
Internal audit	We have reviewed internal audit's overall arrangements which we have deemed to be adequate. We can therefore gain assurance from the work undertaken by internal audit and can conclude that the service is contributing positively to the internal control environment and overall governance arrangements within the Pension fund.	Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Pension fund and that we can take assurance from their work in contributing to an effective internal control environment.
Walkthrough testing	Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements. The risk areas were identified as follows: <ul style="list-style-type: none"> • Investments • Scheme contributions • Member data • Benefit payments 	No significant issues were noted for any of the transaction cycles reviewed. In-year internal controls were observed to have been implemented in accordance with our documented understanding. The only issue identified from our walkthrough testing was in relation to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The regulation states that "On and after 1st April 2011, an administering authority must hold in a separate account kept by it with a deposit-taker in accordance with this regulation: (a) all monies held by the authority on that date; and . (b) all monies received by it on or after that date . for the purpose of its pension fund.

Results of interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

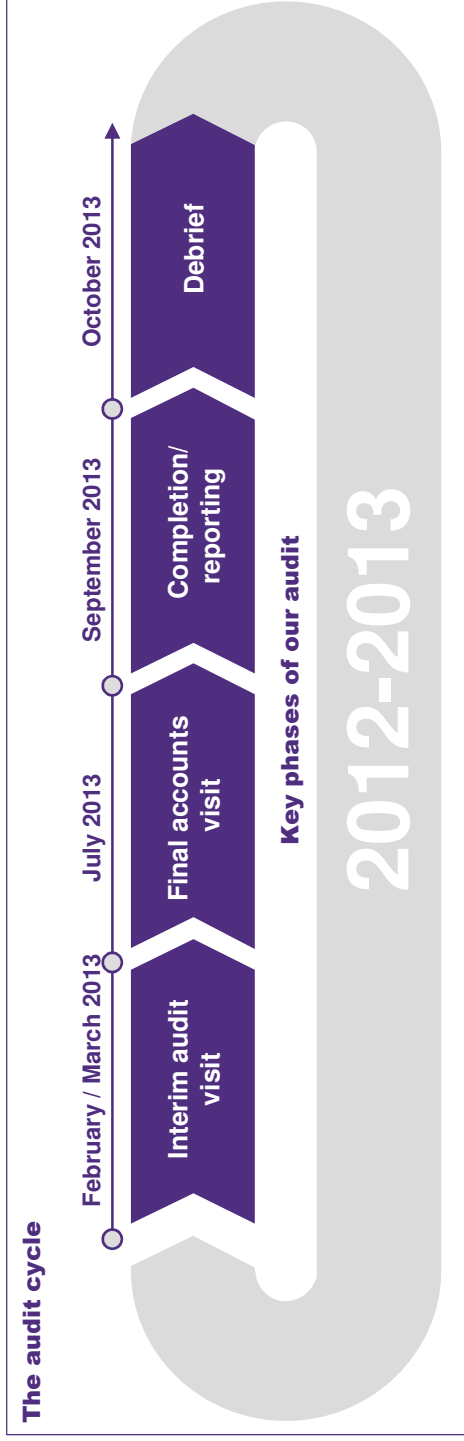
- the effectiveness of the internal audit function
- internal audit's work on the Pension fund's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

	Work performed	Conclusion/ Summary
Walkthrough testing continued...		<p>For Southwark Pension fund, although the benefits are paid directly out of a stand-alone Pension fund bank account, the Pension fund income is not received directly into the Pension fund bank accounts but is instead transferred from the Council's main bank account twice monthly.</p> <p>We understand that schools' payroll providers currently combine payments made to the Pension fund with those made to the Council and that, therefore, the Council needs to separate out payments relating to the Pension fund before transferring the money into the Pension fund bank account.</p> <p>Our view is that this arrangement does not meet the requirement referred to above which states that all monies received by the Pension fund after 1 April 2011 should be kept in a separate bank account.</p>

Results of interim audit work (continued)

	Work performed	Conclusion/ Summary
Review of information technology (IT) controls	Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system. We will also perform a follow up of the issues that have been raised in the previous year.	Work is continuing and any findings will be reported to the next Audit and Governance Committee.
Journal entry controls	We have reviewed the Pension fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Pension fund's control environment or financial statements.	As part of our year-end testing, we will review all Pension fund journals raised during 2012/13. We will extract and test any 'unusual' and large journal entries.

Logistics and our team



Date	Activity
10 January 2013	Planning meeting
February-March 2013	Interim site work
30 April 2013	The audit plan presented to Audit and Governance Committee
July 2013	Year end fieldwork commences
August 2013	Audit findings clearance meeting
September 2013	Findings reported to Audit and Governance Committee

Our team

<p>Susan Exton Engagement Lead T 020 7728 3191 E sue.m.exton@uk.gt.com</p>
<p>Nicholas Beth Manager T 020 7728 3029 E nicholas.beth@uk.gt.com</p>
<p>Graeme Utting Executive T 020 7728 3349 E graeme.utting@uk.gt.com</p>

Fees and independence

Fees

	£
Pension fund audit	21,000

Fees for other services

Service	£
None	Nil

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Pension fund and its activities have not changed significantly
- The Pension fund will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

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The audit of the Pension fund's financial statements does not relieve management or those charged with governance of their responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	In line with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, ensure that all monies received by the Pension fund are kept in a separate bank account.	Medium	<p>As noted in the 2011/12 annual governance report in September 2012, for the majority of transactions, the pension fund bank account is used in the first instance wherever possible. All outgoing payments are made directly from the bank account. However, the configuration of the council's main income management system does not enable income from sources external to the council to be paid directly into the pension fund bank account. Instead, these transactions are first received into the council's main bank account before being transferred to the pension fund bank account.</p> <p>This problem was identified when the pension fund bank account was being configured, prior to the bank account being activated in May 2010, and the existing income management system does not have the ability to address this problem. The risk of co-mingling the pension fund's resources with the council's is mitigated on two grounds. First, through the use of the external fund managers and a custodian for the pension fund and, as a result, the pension fund's investments are held and managed by the fund managers and do not pass through the council's bank account. Second, funds received by the council for the pension fund are transferred into the account at least twice a month.</p> <p>The council will continue to explore opportunities to address this issue that may arise through development of the system by the product supplier, or in the event of the system being replaced at a later date.</p>	N/a



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Item No. 8.	Classification: Open	Date: 30 April 2013	Meeting Name: Audit and Governance Committee
Report title:		Grant Thornton – Informing the Audit Risk Assessment for Southwark Council and Southwark Pension Fund	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Corporate Services	

RECOMMENDATIONS

1. That the audit and governance committee note the audit risk assessment for Southwark Council and Southwark Pension Fund as attached at Appendix 1, subject to any comments it would wish to make.

BACKGROUND INFORMATION

2. The purpose of this report is to enable Grant Thornton to obtain information relevant to its audit from the audit and governance committee. It also supports the committee in fulfilling its responsibilities in relation to the financial reporting process.

KEY ISSUES FOR CONSIDERATION

3. As part of external audit's risk assessment procedures, Grant Thornton is required to obtain an understanding of management processes and the audit and governance committee's oversight of the risk of fraud, laws and regulations, and going concern.
4. In previous years, the external auditor has written to the chair of the committee to seek comments on how the committee exercises oversight of management's processes in relation to the risk of fraud and compliance with laws and regulations. The chair's response has been shared with the committee and included on its agenda (for example, see agenda for 18 July 2012).
5. Grant Thornton has taken a different approach this year and the attached report includes a series of questions on each of the areas and a response from officers, for consideration by the committee.
6. As noted above, the assurance sought by Grant Thornton this year includes the area of going concern and the report explains that the consideration of the going concern assumption is becoming of greater relevance to local authority financial statements

Policy implications

7. This report and the accompanying audit risk assessment are not considered to have direct policy implications.

Community impact statement

8. This report and the accompanying audit risk assessment are not considered to have a direct impact on local people and communities.

Resource implications

9. This report and the accompanying audit risk assessment are not considered to have a direct impact on resource implications.

Consultation

10. Consultation has not been undertaken.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

11. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

APPENDICES

No.	Title
Appendix 1	Grant Thornton – Improving the audit risk assessment for Southwark Council and Southwark Pension Fund

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Corporate Services	
Report Author	Jo Anson, Head of Financial Governance	
Version	Final	
Dated	18 April 2013	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
	Officer Title	Comments sought
	Comments included	
	Director of Legal Services	No
	Strategic Director of Finance and Corporate Services	N/A
		N/A
	Cabinet Member	No
	Date final report sent to Constitutional Team	No
		18 April 2013



Informing the audit risk assessment for Southwark Council and Southwark Pension Fund

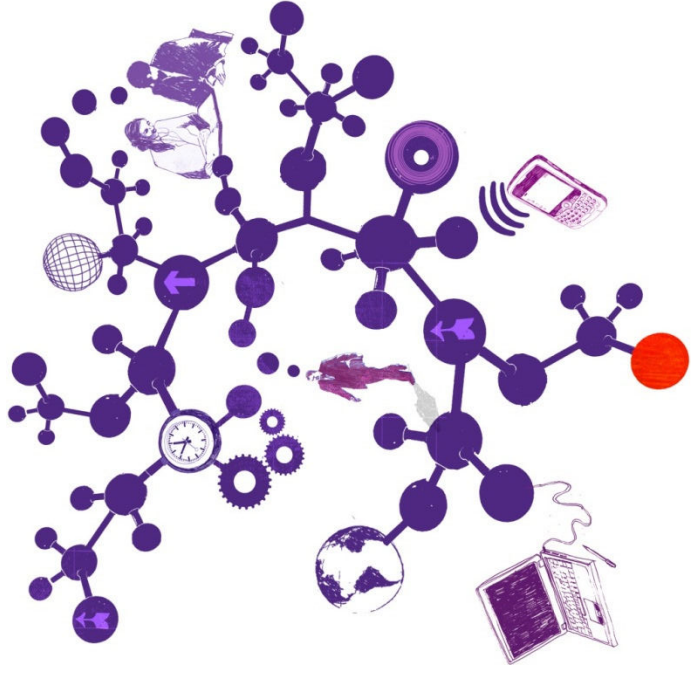
Year ended 31 March 2013

22 Feb 2013

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Fraud Risk Assessment	6 - 7
Laws and Regulations	8
Impact of Laws and Regulations	9
Going Concern	10
Going Concern Considerations	11 - 12

Purpose

The purpose of this report is to contribute towards the effective two-way communication between auditors and the Council's Audit and Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Governance Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit and Governance Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit and Governance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Governance Committee and supports the Audit and Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit and Governance Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern.

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit and Governance Committee should consider whether these responses are consistent with the its understanding and whether there are any further comments it wishes to make.

Fraud

Issue

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Governance Committee and management. Management, with the oversight of the Audit and Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Audit and Governance Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

Fraud risk assessment

Question	Management response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?</p>	<p>The council is required to manage its affairs to secure the economic, efficient and effective use of resources and to safeguard its assets. It has appointed the strategic director of finance and corporate services as the officer responsible for proper administration of its financial affairs (the S.151 officer). As part of his responsibilities, he is required to prepare the statement of accounts and in order to do this, he has taken reasonable steps to prevent and detect fraud. This risk is therefore considered as part of the overall internal audit and anti-fraud proactive planning processes (see below).</p>
<p>What processes does the Council have in place to identify and respond to risks of fraud?</p>	<p>Fraud risk assessments are undertaken by the anti-fraud service. These risks are considered as part of the internal audit and anti-fraud proactive planning processes and discussed with management. Management are ultimately responsible for managing the risks, but internal audit will look at the control environment and provide challenge where appropriate. Any control lapses would be reported to the committee via the progress reports.</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>Fraud risks are considered as part of the annual internal audit and anti-fraud proactive planning exercises. Proactive activities in both plans look at detection and prevention measures and make recommendations around control. The plans and reports on proactive activities, and internal audit coverage, are all reported to the audit and governance committee. Any specific issues would also be reported as part of the progress report. Examples include tenancy fraud, single person discount, student discount, the national fraud initiative.</p>

Fraud risk assessment

Question	Management response
<p>Are internal controls, including segregation of duties, in place and operating effectively?</p> <p>If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>Internal controls are considered by management and reviewed by internal audit. Any breaches would be advised to management and the committee through the internal audit progress reports. These areas are considered through the key financial audits and health checks.</p>
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>No, the key financial systems are subject to either a full audit or health check annually and no significant issues have been identified from this process. The findings of these reviews are reported to the committee via the internal audit progress reports.</p>
<p>Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?</p>	<p>No, the key financial systems are subject to either a full audit or health check annually and no significant issues have been identified from this process. The findings of these reviews are reported to the committee via the internal audit progress reports.</p>

Fraud risk assessment

Question	Management response
How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	The annual internal audit plan and anti-fraud proactive plan are reported to committee, highlighting potential areas of risk. The internal audit progress reports would identify and control weaknesses. The progress report also includes outcomes from fraud investigations.
What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?	The audit and governance committee had a rolling programme of attendance by strategic directors during 2012/13, to examine their assurance processes.
How has the Council ensured that the Audit and Governance Committee are made aware of whistleblower tips or complaints?	The committee also receive an annual report on whistle blowing outcomes.
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	The council has a fraud and bribery response plan. Information and relevant documents are communicated via the intranet site and the council also offers training and awareness on anti-fraud which includes ethical behaviour. Processes also exist in relation to areas such as gifts and hospitality. Staff are required to declare gifts and hospitality and relevant staff (including those involved in contracting) complete a declaration of interests.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	A fraud and bribery response plan is in place, along with whistle blowing procedures. There is also an anonymous fraud hotline and email. No significant issues have been reported.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	No, although these could be reported via the fraud and bribery response plan.
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2012?	Once investigations have been completed, they are reported to the audit and governance committee. Any significant issues will also be subject to an internal audit and the findings reported to the committee.

Laws and regulations

Issue

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Governance Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Governance Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</p>	<p>The council's governance framework, including the constitution, member and employee codes of conduct and scheme of management, aims to minimise the risk of non-compliance with laws and regulations. The programme of internal and external audit reviews identifies control weaknesses and action plans are agreed to deal with issues raised. Advice on laws and regulations is provided by the Legal Services division, with specialist external legal advice being sought in as required. The monitoring officer has regular meetings with all strategic directors to identify areas of risk. The council's whistle blowing policy enables staff to report suspected unlawful conduct.</p>
<p>How does management gain assurance that all relevant laws and regulations have been complied with?</p>	<p>Management gains assurance through reports from internal and external audit and also relevant inspection agencies. Departmental performance monitoring and reporting also provides assurance. Significant reports to cabinet include a concurrent from the director of legal services.</p>
<p>How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>As noted above, discussions have been held with strategic directors on their service provision. The committee receives internal and external audit progress reports throughout the year; the committee receives and approves the annual governance statement, which identifies any significant governance exceptions.</p>

Impact of laws and regulations

Question	Management response
<p>Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2012, or earlier with an on-going impact on the 2012/13 financial statements?</p>	<p>There have been no incidences of non-compliance with law or regulation.</p>
<p>What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>The council maintains a legal services exceptional risk register in accordance with Law Society Practice Management Standards and in line with Lexcel Accreditation requirements. All legal cases are reviewed every 6 weeks and, if one of more of the following applies, will be considered to be exceptional risk.</p> <ul style="list-style-type: none"> • A significant risk of substantial financial loss to the council • A significant political risk • Substantially novel or uncertain area of law • Significant resource or skills issue for Legal Services • The case is likely to attract significant judicial criticism • The case is in the Court of Appeal • Damage to the council's reputation.
<p>Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>The council is involved in a number of legal cases, either as a defendant to actions brought against the council or as a claimant when proceedings are issued to protect the council's legal interest or to recover money owing to the council. We would describe these activities as routine legal work, which in our opinion does not expose the council to any significant legal or material financial risk.</p>
<p>Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?</p>	<p>There have been no reports from other regulatory bodies which indicate non-compliance. HM Revenues and Customs has identified a possible issue for local authorities about VAT recovery in relation to voluntary aided schools, particularly in respect of capital expenditure. As at April 2013, a review of this is ongoing.</p>

Going concern

Issue

Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

The code of practice on local authority accounting requires an authority's financial statements to be prepared on a going concern basis. Although the Council is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the Council's financial resilience.

The consideration of the going concern assumption is becoming of greater relevance to local authority financial statements. All councils are facing significant pressures to balance future budgets as the funding from central government continues to reduce. There is a risk, particularly in smaller local authorities, that services will no longer be provided in the way they have historically been delivered. There is an increasing vulnerability of these bodies as a going concern.

As auditor, we are responsible for considering the appropriateness of use of the going concern assumption in preparing the financial statements and to consider whether there are material uncertainties about the Council's ability to continue as a going concern that need to be disclosed in the financial statements. We discuss the going concern assumption with management and review the Council's financial and operating performance.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	Yes – the council is required to set a balanced budget and to approve a treasury management strategy each year. Revenue and capital monitoring reports are taken to cabinet each quarter and regular reports on treasury management are also taken to cabinet and council assembly. Overview and scrutiny committee is able to call in decisions of cabinet and the audit and governance committee considers treasury management during the year. Robust risk management processes include the maintenance of a corporate risk register and responsibility for risk management at cabinet member level; reports on risk management are taken to the audit and governance committee.
Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?	No
Has management reported on going concern to the Audit and Governance Committee? (if not, what arrangements are in place to report the going concern assessment to the Audit and Governance Committee?)	No, not specifically, but the audit and governance committee considers the treasury management strategy each year and receives a report on top risks each year. The audit and governance committee also receives and approves the statement of accounts and annual governance statement each year. The committee is able to request additions to its work programme at any time to reflect matters arising during the course of a year.
Are the financial assumptions in that report (eg future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	As noted above, the council is required to set a balanced budget and this will have taken into account relevant financial assumptions and financial information provided throughout the year.

Going concern considerations

Question	Management response
<p>Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?</p>	<p>Yes – reports to cabinet throughout the year set out implications of statutory or policy changes and these are also addressed in reports to cabinet on the policy and resources strategy for future years. All reports to cabinet contain a section on resource implications and a concurrent from the strategic director of finance and corporate services.</p>
<p>Have there been any significant issues raised with the Audit and Governance Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).</p>	<p>There have been five internal audit reviews (out of 48) which concluded that the council could not take assurance as to the controls in place. However, management has agreed action plans to address issues raised and follow up work carried out by internal audit has provided assurance that there are no ongoing issues which could cast doubts on the assumptions made.</p>
<p>Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?</p>	<p>No, not in relation to the council's accounts. In relation to the pension fund, the cash position is kept under review, with funds being replenished as required from fund managers. The triennial valuation will be undertaken in 2013.</p>
<p>Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?</p>	<p>Yes – and during 2012/13, the council underwent a restructuring of top management to ensure that it remains able to deliver the council's objectives effectively and deal with new challenges. Further restructuring has also taken place within departments. All staff have a work programme which sets objectives and targets, in line with the council's council plan, and as part of this, learning and development needs are identified to ensure that staff remain appropriately trained.</p>



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Item No. 9.	Classification: Open	Date: 30 April 2013	Meeting Name: Audit and Governance Committee
Report title:		Grant Thornton – Audit And Governance Committee Update April 2013	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Corporate Services	

RECOMMENDATIONS

1. That the audit and governance committee note Grant Thornton's audit and governance committee update, as attached (Appendix 1).
2. That the audit and governance committee note Grant Thornton's audit fee letter for 2013/14 work, as attached (Appendix 2).

BACKGROUND INFORMATION

3. The purpose of this audit update report is to brief the audit and governance committee on work currently being planned or undertaken by Grant Thornton and to highlight publications on national issues and developments which may be of interest to members of the committee.

KEY ISSUES FOR CONSIDERATION

4. The report provides an update on 2012/13 audit work and lists grants and returns to be certified for 2012/13. It also draws members' attention to the local government accounts timetable, the UK Public Sector Internal Audit Standards (PSIAS), the draft local audit bill, and the Local Authorities (Health and Wellbeing Boards and Health Scrutiny) Regulations 2013. Information about Grant Thornton's 'Local Government Governance Review 2013' and the National Audit Office's report on 'Financial sustainability of local authorities' is also provided. In relation to each of the above emerging issues and developments, a question is posed for members' consideration.
5. Further to the update report, details of audit fees for 2013/14 are now available. The scale fee for 2013/14 has been set by the Audit Commission at £313,794 (the same as for 2012/13) and the grant certification fee at £33,200, a reduction from £47,900 for 2012/13. The scale fee for the pension fund has been set at £21,000 (the same as for 2012/13). Grant Thornton has confirmed these planned fee levels in a letter (attached at Appendix 2) which also sets out the scope and timing of work for 2013/14.

Policy implications

6. This report and the accompanying audit update report and audit fee letter are not considered to have direct policy implications.

Community impact statement

7. This report and the accompanying audit update report and audit fee letter are not considered to have direct impact on local people and communities.

Resource implications

8. This report and the accompanying audit update report and audit fee letter are not considered to have direct impact on resource implications.

Consultation

9. Consultation has not been undertaken.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

10. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

APPENDICES

No.	Title
Appendix 1	Grant Thornton audit and governance committee update April 2013
Appendix 2	Grant Thornton planned audit fee letter 2013/14

Audit Trail

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Corporate Services	
Report Author	Jo Anson, Head of Financial Governance	
Version	Final	
Dated	18 April 2013	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments sought	Comments included
Director of Legal Services	No	N/A
Strategic Director of Finance and Corporate Services	N/A	N/A
Cabinet Member	No	No
Date final report sent to Constitutional Team	18 April 2013	



Audit and Governance Committee Update for Southwark Council

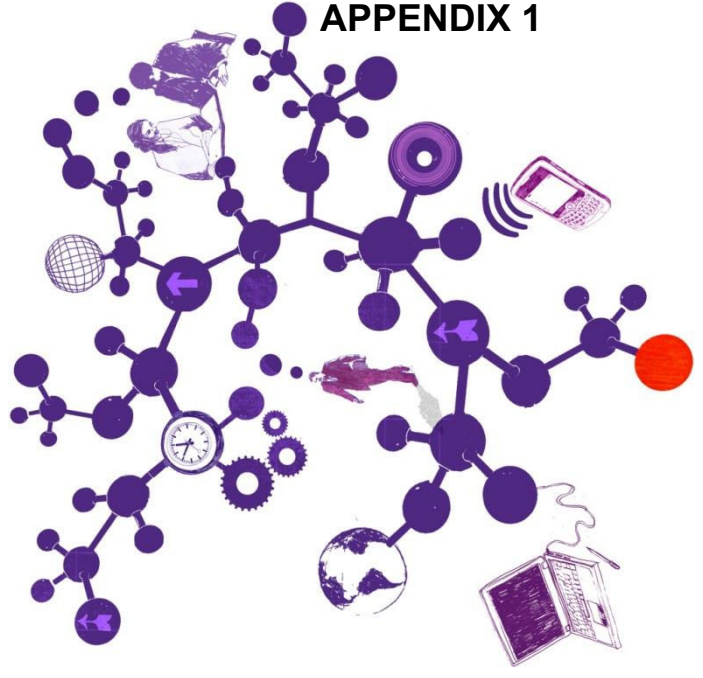
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a Council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit and Governance Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Towards a tipping point?', 'The migration of public services', 'Local Government Governance Reviews 2012 and 2013', 'The developing internal audit agenda', 'Preparing for the future', and 'the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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Progress at 12 April 2013

Work	Planned date	Complete?	Comments
<p>2012-13 Audit Fee Letter We prepare a fee letter annually setting out the audit and grants certification work fee for the year.</p>	December 2012	Yes	We issued the 2012/13 audit fee letter to management on 7 December 2012 and presented it to this committee in January 2013.
<p>2012-13 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2012-13 financial statements.</p>	April 2013	Yes	We have agreed separate accounts audit plans for the Council's financial statements and the Pension Fund accounts with officers. Both plans are included as separate items on the April committee meeting agenda.
<p>Interim accounts audit Our interim fieldwork visit will include the following:</p> <ul style="list-style-type: none"> • updated review of the Council's control environment • update understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	January and April 2013	Yes	<p>The results of all interim work completed to date are set out in our accounts audit plan. There are no significant weaknesses identified in the control environment in the work undertaken.</p> <p>We have quarterly meetings with Internal Audit to discuss potential audit issues and fraud investigations. There are no issues arising that would impact on our audit opinion at this date.</p>

Progress at 12 April 2013

Work	Planned date	Complete?	Comments
<p>2012-13 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2012-13 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	<p>Accounts audit: 1 July - 8 August 2013</p> <p>Opinion and VfM conclusion: September 2013</p>	No	<p>We have regular meetings with key finance officers to ensure that potential accounting issues are identified early. We have also attended two closedown champions meetings to deliver training on the audit approach for 2012/13.</p> <p>We have sent an arrangements letter to officers, which clarifies the working papers we would expect the Council to produce to support its financial statements.</p>
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2012/13 VfM conclusion is based on the reporting criteria specified by the Audit Commission.</p> <p>The Council has proper arrangements in place for:</p> <ul style="list-style-type: none"> • securing financial resilience • challenging how it secures economy, efficiency and effectiveness in its use of resources. <p>Our review will focus on arrangements relating to financial governance, strategic financial planning and financial control.</p>	July 2013	No	<p>We have completed our VfM planning. The specific areas we plan to review are set out in our audit plan.</p> <p>The detailed VfM work, including the financial resilience review, will be completed by June 2013.</p> <p>We will report our findings in a separate Financial Resilience report, alongside our Audit Findings report in September 2013.</p>
<p>Whole of Government Accounts (WGA)</p> <p>We are required to audit the Whole of Government Accounts return on behalf of the National Audit Office.</p>	August 2013	No	<p>We will undertake the audit of the WGA return once the accounts audit is complete.</p>

Progress at 12 April 2013

Work	Planned date	Complete?	Comments
<p>Other areas of work – grants certification</p> <p>We will be required to certify the following grants and returns for the Council in 2012/13:</p> <ul style="list-style-type: none"> • Housing and council tax benefits claim • National non-domestic rates return • Pooling of housing capital receipts return and • Teachers' Pensions Return 	To be confirmed when Certification Instructions are released	No	We will liaise with officers to agree dates for audit certification once claims are submitted for audit.
<p>2013-14 Audit Fee Letter</p> <p>We prepare a fee letter annually setting out the audit and grants certification work fee for the year.</p>	April 2013	Yes	We issued the 2013/14 audit fee letter to management on 12 April 2013. The letter is included on the agenda with this update report.

Emerging issues and developments

Accounting and audit issues

Local government accounts timetable

The key dates in the local government accounts timetable are as follows:

- by 30 June - the responsible financial officer certifies the presentation of the draft statement of accounts
- by 30 September:
 - the responsible financial officer recertifies the presentation of the final statement of accounts before members' approval
 - members approve the statement of accounts
 - the statement of accounts is published, with the audit opinion, certificate and audit report if issued by the auditor.

The key dates for Whole of Government Accounts are:

- by 31 July - submission of unaudited WGA L-Pack by authority
- by 7 October - submission of audited WGA L-Pack by auditor

Challenge questions:

- Is there a robust and adequately resourced timetable for the production and submission of the 2012/13 financial statements?

Emerging issues and developments

Accounting and audit issues

UK Public Sector Internal Audit Standards

From 1 April 2013, the UK Public Sector Internal Audit Standards (PSIAS) are to be used throughout the public sector. The PSIAS are based on existing International Standards for Internal Audit, but have been adapted for use in the public sector.

The objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The key changes are:

- the term 'chief audit executive' is used rather than 'head of internal audit' or 'chief internal auditor'.
- the requirement for an internal audit charter. This must formally define the purpose, authority and responsibility of the internal audit activity, as well as the nature of consulting services and the terms 'board' and 'senior management'. It will also cover arrangements for avoiding conflicts of interest if internal audit carries out any non-audit activities.
- there is no longer a requirement to produce an audit strategy. Instead, a risk-based plan must incorporate or be linked to a strategic or high-level statement which sets out how the internal audit service will be provided and developed in accordance with the charter and how it will link to the organisation's objectives and priorities.
- the chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. This includes internal and external assessments. The QA&IP is designed to assess the efficiency and effectiveness of internal audit as well as identify opportunities for improvement. The chief audit executive will have to include a statement on the results of the QA&IP in an annual report.

Challenge questions:

- Are plans in place to assess your internal audit function against the requirements of the PSIAS?

Grant Thornton can provide a review of internal audit effectiveness. If you have any queries, talk to your engagement manager to see how Grant Thornton could help.

Emerging issues and developments

Grant Thornton

Local Government Governance report

In February, we published '[Local Government Governance Review 2013](#)', our second annual review into local government governance. The report is based on:

- survey responses from over 60 council senior officers and members on governance reporting and the supporting processes
- a desk top review of 2011/12 Annual Governance Statements and explanatory forewords for 153 councils, against our best practice checklists based on the CIPFA/SOLACE framework and guidance notes.

Good governance is essential to both council leaders and the public. It supports leaders in making the best decisions, reduces the likelihood of things going wrong and protects them when problems do occur. It inspires confidence in the public that the best decisions are being taken for the right reasons, that the quality of service is protected and that public money is being wisely spent.

The key findings included:

- one third of survey respondents do not consider that council accounts are aimed at the public and the length and technical complexity makes them difficult to understand
- many council Annual Governance Statements follow too rigidly the example text in the CIPFA/SOLACE guidance, rather than reflecting the unique features and challenges of their own organisation
- explanatory forewords are often far from 'explanatory', being hard to read and not aligned to councils' strategic goals
- on-going governance processes and year-end statements are commonly two distinct exercises.
- there is often a lack of understanding within local authorities about what the governance framework is for and how it fits together
- although external alliances are becoming increasingly important in service delivery, 21% of survey respondents are not clear about council roles and responsibilities when working in partnerships.

Challenge questions:

- After considering the findings of the report are any improvements required to your governance arrangements?

Grant Thornton can provide you with a bespoke, bench-marked governance review. If you have any queries on governance, talk to your engagement manager to see how Grant Thornton could help.

Emerging issues and developments

Local government guidance

Financial sustainability of local authorities

In January, the National Audit Office published '[Financial sustainability of local authorities](#)'. The report examined central government's approach to local authority funding, and reviewed local authorities' financial sustainability against a background of changes to their funding. It has three parts:

- Funding local authority services - setting out the background to the current funding arrangements and the reduction in local authority funding from the government's 2010 spending review
- Local authority budget management - setting out how local authorities have responded to their reduced income
- Maintaining financial sustainability - covering the growing challenges to local authorities' financial sustainability, managing financial risks and opportunities, and the increasing need for central government to make informed decisions as financial and service pressures increase.

Some of the key findings were:

- so far, local authorities have absorbed reductions in central government funding but there is some evidence that services have been reduced
- local authorities may find it harder over the rest of the spending review period to absorb funding reductions and maintain services
- local authorities' ability to make savings while maintaining service levels depends on local circumstances
- by reducing ring-fencing of its grants, central government aims to give local authorities greater spending flexibility
- the government is making changes that create financial opportunities for local authorities but also increase their financial risks and uncertainty, for example, the partial localisation of business rates and the arrangements for council tax benefit
- the accountability framework for local government to address widespread financial failure is untested.

Challenge questions:

- Can your authority learn from how other local authorities have responded to their reduced income?

Emerging issues and developments

Local government guidance

Draft local audit bill

The Draft Local Audit Bill was published last year to enable consultation and pre-legislative scrutiny. In January, the Draft Local Audit Bill ad hoc Committee published 'Pre-Legislative Scrutiny of the Draft Local Audit Bill'. The Committee concluded that a number of areas required further examination – most significantly the independent appointment of auditors. The Government plans to introduce the new regulatory regime in 2015/16.

The proposals include the following:

- The Financial Reporting Council will act as the overall regulator for auditors and the National Audit Office will set the code of audit practice.
- From 1 April 2017, local government bodies will appoint their own auditors, in consultation with an independent auditor panel.
- In addition to giving their opinion on the financial statements, auditors will continue to have wider responsibilities. These include considering the arrangements for securing economy, efficiency and effectiveness in their use of resources and having the duty to report in the public interest.

The draft bill is still to go through Parliament for approval.

Challenge questions:

- Have you considered how the proposed audit arrangements under the Draft Local Audit Bill will affect you?

Emerging issues and developments

Local government guidance

Local Authorities (Health and Wellbeing Boards and Health Scrutiny) Regulations 2013

The [Local Authorities \(Health and Wellbeing Boards and Health Scrutiny\) Regulations 2013](#) have now been published by the Secretary of State for Health. The regulations will allow local authorities to finalise local preparations for health and wellbeing boards and health scrutiny arrangements.

The regulations relating to health and wellbeing boards aim to provide local areas with the flexibility and freedom to shape their health and wellbeing boards as best fits with local circumstances. In particular:

- health and wellbeing boards will be free to establish sub-committees and delegate functions to them
- voting restrictions have been lifted so that non-elected members of a health and wellbeing board (i.e. CCG representative, local Healthwatch, Directors of Public Health, Children's Services and Adult Social Services and any wider members) could vote alongside nominated elected representatives on the board
- political proportionality requirements have also been lifted so that the question of political proportionality of health and wellbeing board membership is left to local determination.

The regulations in relation to health scrutiny make provision for local authorities to review and scrutinise matters relating to the planning, provision and operation of the health service in their area. There are new obligations on NHS bodies, relevant health service providers and local authorities around consultations on substantial developments or variations to services to aid transparency and local agreement on proposals.

In February, the Local Government Association and Association of Democratic Services Officers [jointly published a practical guide](#) to support local authorities in interpreting and implementing the constitutional and governance aspects of the legislation. This includes a summary of key issues for local authorities to consider.

Challenge questions:

- Has your authority addressed all the issues for consideration set out in the joint practical guide?



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12 April 2013

Dear Eleanor

Planned audit fee for 2013/14

The Audit Commission has set its proposed work programme and scales of fees for 2013/14. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

Scale fee

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

The Council's scale fee for 2013/14 has been set by the Audit Commission at £313,794, which compares to the audit fee of £326,294 for 2012/13.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission's website at www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-work-programme.

The audit planning process for 2013/14, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

Value for Money conclusion

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

Chartered Accountants

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

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VfM conclusion and a separate report of our findings will be provided.

Certification of grant claims and returns

The Council's composite indicative grant certification fee has been set by the Audit Commission at £33,200.

Pension Fund audit

The Audit Commission has established a scale of fees for pension fund audits based on a fixed element with uplift based on the percentage of net assets. The scale fee for the audit of the pension fund is £21,000. Our work on the pension fund will be undertaken in July 2014 by our specialist pension fund audit team, led by Nicholas Beth.

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2013	78,449
December 2013	78,449
January 2014	78,448
March 2014	78,448
Grant Certification	
June 2014	33,200
Total	346,994
Pension Fund audit	
March 2014	21,000

Outline audit timetable

We will undertake our audit planning and interim audit procedures in December 2013 and March 2014. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in July to September 2014 and work on the whole of government accounts return in September 2014.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	December 2013 and March 2014	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	July to September 2014	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	January to September 2014	Audit Findings (Report to those charged with governance)	As above
Financial resilience	January to September 2014	Financial resilience report	Report summarising the outcome of our work.
Whole of government accounts	September 2014	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2014	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	June to December 2014	Grant certification report	A report summarising the findings of our grant certification work

Our team

The key members of the audit team for 2013/14 are:

	Name	Phone Number	E-mail
Engagement Lead	Sue Exton	0207 728 3191	sue.m.exton@uk.gt.com
Engagement Manager	Elizabeth Olive	0207 728 3329	elizabeth.l.olive@uk.gt.com
Audit Manager	Terry Blackman	0207 728 3194	terry.blackman@uk.gt.com
Pensions Audit Manager	Nicholas Beth	0207 728 3029	nicholas.beth@uk.gt.com
Audit Executive	Sophia Brown		sophia.y.brown@uk.gt.com
Pensions Audit Executive	Graeme Utting	0207 728 3349	graeme.utting@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Paul Dossett, our Public Sector Assurance regional lead partner (paul.dossett@uk.gt.com).

Yours sincerely

S. M. Exton

Susan M Exton
For Grant Thornton UK LLP

cc Duncan Whitfield and Jo Anson

Item No. 10.	Classification: Open	Date: 30 April 2013	Meeting Name: Audit and Governance Committee
Report title:		Progress Report on the Work of Internal Audit for the Period 1 December 2012 to 31 March 2013 and the Anti-Fraud Team for the Period 1 April 2012 to 31 March 2013	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Corporate Services	

RECOMMENDATION

1. That the audit and governance committee note the progress report on the work of internal audit for the period 1 December 2012 to 31 March 2013 and on the work of the anti-fraud team for the period 1 April 2012 to 31 March 2013, attached at Appendix 1.

BACKGROUND INFORMATION

2. The progress report summarises the work of internal audit for the period 1 December 2012 to 31 March 2013 and includes an update of the anti-fraud statistics for the year to date.
3. The report also includes two updates requested by the audit and governance committee: the feasibility of data matching historical records for signs of possible council tax fraud (see Appendix 1, paragraph 21) and an update on the results of the CareFirst audit in progress at the time of the last committee meeting (see Creditor Payments and CareFirst Payments, Appendix 1, paragraph 10)

Policy implications

4. This report is not considered to have direct policy implications.

Community impact statement

5. This report is not considered to have direct impact on local people and communities.

Resource implications

6. This report is not considered to have direct impact on resource implications.

Consultation

7. Consultation has not been undertaken.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

8. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

APPENDICES

No.	Title
Appendix 1	Progress Report on the work of internal audit for the period 1 December 2012 to 31 March 2013 and the anti-fraud team for the period 1 April 2012 to 31 March 2013

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Corporate Services	
Report Author	Mike Pinder, Head of Anti-Fraud and Audit	
Version	Final	
Dated	15 April 2013	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments sought	Comments included
Director of Legal Services	No	No
Strategic Director of Finance and Corporate Services	N/A	N/A
Cabinet Member	No	No
Date final report sent to Constitutional Team		18 April 2013

Internal Audit: Progress Report 2012/13

Work Completed

- The following sections set out the internal audit assurance for the reports finalised in the period 1 December 2012 to 31 March 2013. The definitions of the assurance levels and recommendations that can be made are as follows:

Assurance Level	Opinion
RED	Taking account of the issues identified, the council cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Action needs to be taken to ensure this risk is managed.
AMBER / RED	Taking account of the issues identified, whilst the council can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.
AMBER / GREEN	Taking account of the issues identified, the council can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective. However we have identified issues that, if not addressed, increase the likelihood of the risk materialising.
GREEN	Taking account of the issues identified, the council can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

- The priorities of the recommendations made are:

Priority	Description
High	Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses.
Medium	
Low	
Suggestion	These are not formal recommendations that affect our overall opinion, but used to highlight a suggestion or idea that management may want to consider.

Summary

- The following table sets out the areas of work and the assurance levels achieved for the period:

Audit Area	Red	Amber / Red	Amber / Green	Green	Totals
Children's and Adults Services	1	0	1	0	2
Environment and Leisure	0	0	0	1	1
Managed Audits	0	1	1	1	3
Total	1	1	2	2	6

4. The progress made in the implementation of the recommendations will be monitored through the internal audit follow-up process and will be reported to the audit and governance committee.

Individual Reports

Children's and Adults Services: Youth Service Grants

5. The key findings of this review were that effective processes to support the application process were not in place and monitoring of awarded grants was not being performed. Three high recommendations were made to address these control issues. Further medium and low recommendations were made around the general administration of grants and the monitoring of service providers. Management have accepted all recommendations and are working to address the weaknesses identified.

Report issued: 26 March 2013	High: 3	Medium: 3	Low: 3	Red
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Children's and Adults Services: Specialist Child Health and Disability Service

6. On the whole good controls were found to be in place however, they were not being applied consistently. The main area of weakness was around officers' expenses, sample testing identified a lack of appropriate documentation to support the authorisation and authentication of the claims, it is worth noting however that the claim values were generally low and consistent with business needs. Further recommendations were made around storage of finance documents to aid business continuity, the development of local policies and procedures and reviewing the IT arrangements with respect to scanning documents. Management have accepted all recommendations and are working to address the weaknesses identified.

Report issued: 11 December 2012	High: 0	Medium:3	Low: 3	Amber/Green
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Environment and Leisure: Adult Learning Service

7. Appropriate controls were found to be in place and sample testing identified that they were being operated consistently. Low level recommendations were made around: data recording, overtime and expenses administration and compliance with procurement guidelines. Management have accepted all recommendations and are working to address the weaknesses identified.

Report issued: 25 January 2013	High: 0	Medium: 0	Low: 6	Green
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Update on CareFirst audit

8. The audit being performed at the time of the January Audit and Governance Committee meeting was Creditor and CareFirst Payments. The review has now been finalised and reported below in paragraph 10. No CareFirst system specific issues were identified as part of this review. Outcome report below.

Managed Audits: Creditor Payments and CareFirst Payments

9. The key findings of the review were that changes to vendor standing data were not authorised appropriately because the council's schemes of management are out of date post reorganisations. Medium recommendations were raised around the retrospective raising of purchase orders and purchasing groups on SAP requiring updating post reorganisation. Low administrative recommendations were raised over vendor request forms, corporate payment cards, coroner's court payment procedures, prevention of duplicate payments and the payment run. Management have accepted all recommendations and are working to address the weaknesses identified.

Report issued: 31 January 2013	High: 2	Medium: 3	Low: 12	Amber/Red
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Managed Audits: Council Tax

10. Controls were found to be effective and on the whole being complied with. Five medium recommendations were raised in relation to the administration and approval of exemptions and discounts, the administration of suspense accounts and closure of council tax accounts. Low level recommendations were raised where minor lapses in control had arisen in the areas of inspections, reconciliations, refunds and process guidance documents. Management have accepted all recommendations and are working to address the weaknesses identified.

Report issued: 6 March 2013	High: 0	Medium: 5	Low: 8	Amber/Green
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Managed Audits: Housing and Council Tax Benefits

11. A sound system of control was found to be in place and sample testing found compliance with controls was good. One medium rated recommendation was made to highlight the importance of allocating disputed cases to specific officers. Low recommendations were made over the maintenance of notes on the benefits system, the linking of letters to cases, minor up-dating of the write off policy and the sign off of reconciliations within the Direct Payments process. Management have accepted all recommendations and are working to address the weaknesses identified.

Report issued: 1 February 2013	High: 0	Medium: 1	Low: 5	Green
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Follow-Up Work

Summary

12. Overall 269 recommendations have been followed up to date this year: 76% of these have been fully implemented and the remaining 24% are in progress. We continue to monitor the implementation of all high rated audit recommendations and are looking for all such recommendations to be implemented within three months of the report date wherever possible.
13. Nine high level recommendations have been followed up since the last committee report, all have been implemented.
14. Where recommendations have not been implemented at the time of the initial follow-up review revised implementation dates are agreed with management and a further follow up review is scheduled. We will continue to report all instances where high level recommendations have not been implemented by their due dates.

Key Performance Indicators

15. The following table identifies the key performance indicators which are used to monitor the contractor and the service's performance.

	Annual Target	Quarter 4 Target	Quarter 4 performance
% of audits from the plan completed to draft report stage	100%	100%	100%

16. The quarter 4 target was achieved.

	Performance Target	Actual Performance (cumulative)
% of returned audit satisfaction survey forms achieving an overall score of 'adequate' or above	75%	100%
% of recommendations in draft report accepted by audit sponsor / owner	90%	94%
% of high rated recommendations implemented by agreed implementation date	80%	84%

17. Targets are currently being met based upon audit activity completed for the year to date. The % of recommendations in draft not accepted relates to issues where further evidence was provided by management resulting in the removal of the recommendations prior to the report being finalised. All recommendations in final reports issued this year have been accepted by management.

Anti-Fraud

Introduction

18. This report provides details of the reactive and proactive anti-fraud work conducted from 1 April 2012 to 31 March 2013.

Reactive Anti-Fraud Work

19. The number of referrals received through the Southwark website, fraud email, fraud hotline and by letter for Anti-Fraud Services and the Housing Investigations Team has been 1475, an increase of 17% on 2011/12.
20. Table 1 shows the number of cases that have resulted in a successful sanction for each of the two anti-fraud teams from 1 April 2012 to 31 March 2013. A sanction can include, for example, cases of recovered tenancies, a benefits caution, administrative penalty or prosecution.

Anti-Fraud Team	Number of Sanctions 2012/13	Number of Sanctions 2011/12
Anti-Fraud Services	103	102
Housing Investigations Team	172*	80
Total	275	182

Table 1 – Sanctions for period 1 April to 31 March 2013

*Housing Management has recovered an additional 138 properties.

21. Single Person Discount Exercise – back-dating request. Following initial discussions with the Assistant Director (Revenues, Benefits & FTSS), he wants to make further consideration of the scope for this, particularly in light of other key projects currently being undertaken within his division. As such he will report back on in June.

Case Examples

Housing Application Fraud

22. A woman who used false documents to obtain her property has been jailed for six months. Taibat Oladeinde Abokede of Telfer House, Dulwich SE21, was sentenced at Woolwich Crown Court. As part of her tenancy application, she used false documentation to secure the two bed Southwark Council home.
23. An investigation by the Corporate Anti-Fraud team found that all the documents used in the application, including the child's birth certificate, were fake. Ms Abokede pleaded guilty to four charges of using false documentation on 5 March 2013 at Woolwich Crown Court. On 26 March 2013, she was jailed for six months.

Operation Bronze Update

24. As a result of Operation Bronze, which has identified false documents used to obtain tenancies, 22 properties have so far been recovered across the borough.
25. In addition, there have been ten individuals found guilty, with two awaiting sentencing. Six have so far received custodial terms with sentencing ranging from 10 weeks to 6 months. There are a further 20 individuals in the Court process.

Item No. 11.	Classification: Open	Date: 30 April 2013	Meeting Name: Audit and Governance Committee
Report title:		An Update Report on the Insurance Framework	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Corporate Services	

RECOMMENDATION

1. That the audit and governance committee note this update on the insurance framework.

BACKGROUND INFORMATION

2. This is an update report on the insurance framework as requested by the audit and governance committee in November 2012.

KEY ISSUES FOR CONSIDERATION

Introduction

3. This report provides an overview of the council's insurance framework, including types of insurance cover, levels of insurance cover and an overview of claims.
4. The report also provides an update on the insurance arrangements surrounding the recent fire at 151 Walworth Road on the 25 March 2013.
5. The general purpose of insurance is to protect the council from the financial loss arising from a sudden and unforeseen insurance event. This is done by paying an insurance premium to an insurance provider. The council must consider the balance between self-insuring and the cost and availability of external insurance.

Insurance framework overview

6. The council purchases a number of different insurance policies to help protect the council against the potential financial loss resulting from a catastrophic insurable event. The council self-insures an element of this, and self-insurance levels vary depending on the types of insurance.
7. In line with prudent financial management, the council purchase various liability insurance policies and property (asset) related insurance policies. It is not legally required to hold insurances, other than fidelity guarantee insurance which provides cover for financial loss suffered by the council for fraud perpetrated by an employee of the council.

8. The council has limited control over its insurance framework as the public sector insurance market is prescriptive. Levels of cover, scope of cover and excess levels are dictated by what is available in a limited market.

Insurance cover

9. The council's insurance policies fall into two main categories: liability policies and property policies:

Liability policies protect the council against financial exposure resulting from individuals or organisations making a claim for loss or injury as a result of council activities (e.g. public liability insurance).

Property policies provide cover for the loss or damage to council assets (e.g. property insurance and fidelity guarantee insurance).

Appendix 1 provides a summary of the main insurance policies, the insurance provider, details of limits of cover and excess levels, and also premium costs.

Insurance premiums

10. The insurance premium costs, outlined in Appendix 1, are based on a combination of factors: the value (or scope) of what is to be insured, the self-insurance level, the claims experience, the risk exposure and external factors, including economy and the profitability of the wider insurance industry.

Insurance procurement

11. As part of the insurance procurement process, quotes for different excess options are requested. On receipt these are then analysed with the support of an external insurance auditor to help decide on the most appropriate excess level based on risk exposure and price.
12. The council's liability and property insurance policies are currently in the final year of contracts, with each contract having the option to extend for two further years on the same terms subject to no deterioration of claims experience or significant change to the council's profile.
13. The plan is to extend the liability insurances for a further two years. However, early indication is that as a result of the 151 Walworth Road fire, the property insurers will break their long term agreement with the council and seek to renegotiate on price. Due to the extremely limited nature of the public sector insurance market and the council's claim experience it is unlikely that the council will seek to re-tender at this time.

Insurance claims

14. In 2012/13, there were 680 new insurance claims made against the council; these were split by number and percentage of claims as shown in the table below. Figures for 2011/12 and 2010/11 are shown for comparison.

	2012/13		2011/12		2010/11	
	Total	%	Total	%	Total	%
Employers Liability	24	4	18	3	15	3
Public Liability - Highways	233	34	187	29	210	35
Public Liability - Housing	309	45	319	50	227	38
Public Liability - Tree root related subsidence	51	8	44	7	64	11
Liability - Other*	44	6	56	9	58	10
Schools (property)	14	2	13	2	20	3
Property/ Asset Claims	5	1	3	1	2	0
TOTAL	680	100	640	100	596	100

* 'Liability – Other' relates to public liability claims arising from other council functions or other types of liability claims such as motor liability.

15. Although it is difficult to draw meaningful conclusions from the table above, the number of liability insurance claims has increased each year. There could be many reasons for this, not least the general propensity to claim, linked in part to the general state of the economy.
16. As advised in the November 2012 report to the committee, risk management work in 2010/11 had targeted highways claims resulting in a decrease in the number of claims for 2011/12. Despite this work, the number of claims has increased in 2012/13.
17. It was also noted previously that there had been an increase in housing liability claims, and although it remains high compared to 2010/11, there has been a slight decrease between 2011/12 and 2012/13. We are still only at an early stage of progress with risk management activity to reduce the number of claims in this area, and work continues.
18. The previous report also noted that on average 60 percent of liability claims that are notified to the team are successfully denied on the basis that the council is not legally responsible for the claimants' loss. There is evidence the repudiation rate is increasing and is currently closer to 70 percent. This may well be linked back to the propensity to claim regardless of the likelihood of success.
19. The increase in employer's liability claims is being carefully monitored, but there is no evidence that this is due to any specific factors.

Insurance costs

20. The council self-insures at different levels depending on the type of insurance cover.
21. Therefore, when an insurance loss arises the council will, in the majority of circumstances, be self-insuring part or all of a claim. This gives rise to internal insurance claims costs.
22. The following table provides an overview of costs incurred in 2012/13. Please note that as the financial year is not yet closed, these figures represent our best estimate of costs incurred.

Insurance Type	£	Costs Incurred £
Property claims		14,645
School claims		71,040
Motor claims		732,980
Liability claims*		2,410,130
<i>Liability Claim Cost Example 1:</i>		
<i>Claimant payout</i>	<i>14,240</i>	
<i>Council legal costs</i>	<i>2,753</i>	
<i>Third party legal costs</i>	<i>30,000</i>	
<i>Liability Claim Cost Example 2</i>		
<i>Claimant payout</i>	<i>7,000</i>	
<i>Council legal costs</i>	<i>10,703</i>	
<i>Third party legal costs</i>	<i>20,000</i>	
TOTAL		3,228,795

* Third party solicitor costs can be extremely high and are often far in excess of the settlement made to the claimant.

Insurance fund

23. The council has an insurance fund that provides protection against unforeseen costs below the excess.
24. The fund will rise and fall between years depending on the level of insurance risk that the council is exposed to. This balance is informed by an annual insurance fund auditor review prepared for the strategic director of finance and corporate services who ultimately makes the decision on the appropriate funding level.
25. The value of the fund is £9,106,000 as at 31 March 2012 as noted in the Statement of Accounts 2011/12. The table below shows how this fund has moved over recent years.

	2011/12	2010/11	2009/10
	£000's	£000's	£000's
Balance as at 1 April	7,872	9,161	8,322
Transfer into reserve	2,500	287	839
Transfer out of reserve	-1,266	-1,572	0
Balance as at 31 March	9,106	7,872	9,161

Fire at 151 Walworth Road

26. A fire started in the morning of Monday 25 March 2013, and early indication is that it started on the roof of 151 Walworth Road.
27. The fire continued to burn until the next day and caused extensive damage to the council chamber and the Cuming Museum, with additional damage to the One Stop Shop. The library also suffered smoke damage.

28. Due to the scale of the fire and the nature and use of the building, this will be a very complex insurance claim.
29. The applicable insurance policies are all property related policies, providing the council with cover for material damage as a result of a sudden and unforeseen loss at one of the council owned properties. In the case of such a loss, this would cover the reasonable cost to reinstate the property.
30. Although it is too early to assess the total loss, as there is significant physical damage to the structure, the loss will be above the applicable excesses.
31. All of these relevant policies are provided by Zurich. Zurich have appointed loss adjusters to handle the claim, namely Cunningham Lindsey.
32. In addition the council also uses the services of a loss assessor, to support the council in assessing the loss and making the claim.
33. The specific policies are:
 - **Property Insurance Policy** – The council has an insurance policy for all council-owned properties. There is insurance for up to £100 million per insured event. Actual cover would be aligned to the reinstatement value of the individual property based on its insured value. As summarised in Appendix 1, the council has a self-insurance excess of £500,000 which is funded from the council's insurance fund. Cover is for the building and general contents not covered by other policies.
 - **IT Equipment Policy** – This provides cover for IT equipment. The council has a self-insurance excess of £100,000 which is funded from the council's insurance fund.
 - **'All Risks' Insurance Policy** – This provides cover for specific valuable items, including certain works of art. The council has a self-insurance excess of £100,000 which is funded from the council's insurance fund.
34. As is customary with claims of this nature, Zurich have instructed subrogation lawyers to consider if there is scope to recover costs from a third party.

Policy implications

35. This report is not considered to have direct policy implications.

Community impact statement

36. This report is not considered to have direct impact on local people and communities.

Resource implications

37. This report is not considered to have direct impact on resource implications.

Consultation

38. Consultation has not been undertaken.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

39. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

APPENDICES

No.	Title
Appendix 1	Insurance Policy Summary Table

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Corporate Services	
Report Author	Maureen McBain, Corporate Risk & Insurance Manager	
Version	Final	
Dated	19 April 2013	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments sought	Comments included
Director of Legal Services	No	No
Strategic Director of Finance and Corporate Services	N/A	N/A
Cabinet Member	No	No
Date final report sent to Constitutional Team	19 April 2013	

APPENDIX 1

Insurance Policy Summary Table

Insurance	Summary	Examples	Insurer	Insurance Limit	Excess (per event)		Insurance Premium
Liability Policies							
Public Liability	3rd parties have suffered injury or loss	Slip trip resulting in personal injury or tenant property damage	AIG	Up to £50,000,000	£250,000		£620,187
Employers Liability	Employees (including volunteers, members etc) have suffered injury	Employee injury at work	AIG	£50,000,00	£100,000		
Officials Indemnity	3rd party organisation suffers a financial loss	Land search carried out by council gives wrong information and 3rd party suffers loss as result (statutory service)	AIG	£5,000,000	£250,000		
Professional Indemnity	3rd party organisation suffers a financial loss	Legal advice given to a 3rd party is incorrect and results in 3rd party loss (non-statutory service)	AIG	£2,000,000	£5,000		
Motor	3rd party motor insurance for Council motor vehicles	A council employee while driving injures 3rd party, or serious damage to property	Zurich	Up to £50million	£102,500		
Property Policies							
Property (General)	Property damage to school or council office building	Major fire at council property contained in the property schedule.	Zurich	Up to £100million but based on insured value per asset	£500,000		£570,085
Property (Housing)	Property damage to housing stock	Major fire or flood at a Council owned housing block in the housing schedule of properties	Zurich	Up to £100million but based on insured value per asset	£750,000		
Property (IT)	Property damage to IT equipment	Major fire at Council property location where IT equipment is based.	Zurich	Based on insurance value per asset	£100,000		
All Risks	Cover for various works of art and jewels.	Theft of mayors regalia or work of art	Zurich	Based on insurance value per asset	£100,000		
Money	Money storage and in transit	Hold up of cash in transit	Zurich	£100,000	no excess		
Fidelity Guarantee	An employee defrauds the council of money or assets	Finance officer in collusion with 3rd party circumvents the council's controls	Zurich	Up to £5million	£50,000		

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OPEN

MUNICIPAL YEAR 2012/13

COMMITTEE: AUDIT AND GOVERNANCE COMMITTEE

NOTE: Original held in Constitutional Team; all amendments/queries to Virginia Wynn-Jones, Constitutional Team, Tel: 020 7525 7055.

COPIES

COUNCILLORS

Councillor Mark Glover (Chair) 1
Councillor Toby Eckersley (Vice-Chair) 1
Councillor James Barber 1
Councillor Nick Dolezal 1
Councillor Renata Hamvas 1
Councillor Jeff Hook 1
Councillor Martin Seaton 1

RESERVES

Councillor Chris Brown 1
Councillor Sunil Chopra 1
Councillor Patrick Diamond 1
Councillor Michael Mitchell 1
Councillor Nick Stanton 1

OTHER COUNCILLORS

Councillor Richard Livingstone 1

LEGAL SERVICES

Norman Coombe 1

COMMUNICATIONS

Robin Campbell 1

CONSTITUTIONAL TEAM

Virginia Wynn-Jones 5

Total 20

FINANCE AND CORPORATE SERVICES

Duncan Whitfield 1
Michael Pinder 1
Jo Anson 1
Jennifer Seeley 1

OTHERS

RSM Tenon 2
Chris Harris (see label)

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Total 8

Total Print Run: 28

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