

Annual Audit and Inspection Letter

January 2006



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London Borough of Southwark

Audit 2004-2005

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Key messages

Council performance

- 1 The Council has had another successful year. This is highlighted in this year's Comprehensive Performance Assessment (CPA) which concluded that the Council is improving well and demonstrating a three-star overall performance.
- 2 This result reflects the considerable efforts of officers and members to sustain and improve services particularly for children, crime reduction, education and customer services. The public's satisfaction with the Council continues to rise. There has been significant investment in environmental services and performance improvement on street scene and refuse management. Challenges remain in some areas, including aspects of recycling, housing benefits and the continuing pressure in meeting the decent homes standard which are being addressed.

The accounts

- 3 The earlier deadline for the preparation of the 2004/05 statement of accounts was achieved and we were able to issue an unqualified audit opinion on 31 October 2005. The working papers in support of the accounts were of a generally good standard.

Financial position

- 4 The Council's financial position is sound, although there are many challenges ahead as it tries to match its needs for 2006/07 and beyond to available resources. Continued vigilance will be necessary to deliver the expected savings from the Gershon review and ensure that major initiatives including the Customer Service Centre and regeneration schemes remain on track.

Other accounts and governance issues

- 5 The systems of internal financial control were generally sound although there was scope to develop a more proactive approach for the reviewing and testing of financial systems for fraud.

Action needed by the Council

- 6 The key actions needed by the Council to address issues arising during the audit are as follows.
- The Council needs to continue to ensure that its medium-term financial strategy is robust and that reserves and balances adequately reflect ongoing needs and new risks emerging from major longer-term priorities.
 - The Council should continue to develop and embed robust project management arrangements and build on its management capacity to ensure the successful delivery of its ambitious capital investment plans.
 - The Council needs to strengthen aspects of the management of the housing benefits system and the production of the Government grant claim.

Performance

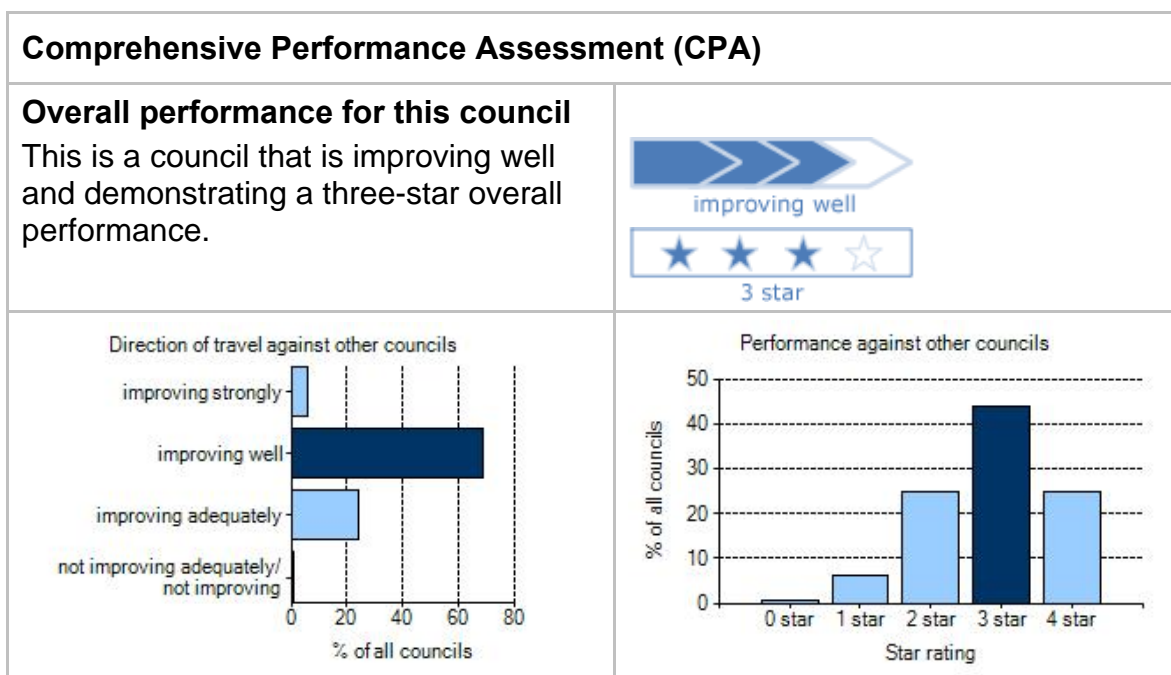
The Council has had another successful year. This is highlighted in this year's Comprehensive Performance Assessment (CPA) which found that the Council is improving well and demonstrating a three-star overall performance.

This result reflects the considerable efforts of officers and members to sustain and improve services particularly for children, crime reduction, education and customer services. The public's satisfaction with the Council continues to rise. There has been significant investment in environmental services and performance improvement on street scene and refuse management. Challenges remain in some areas within recycling, housing benefits and the continuing pressure in meeting the decent homes standard but these are also being addressed.

CPA scorecard

- 7 The CPA judgements this year have been made using the revised methodology: CPA - the harder test. As the title implies, CPA is now a more stringent test with more emphasis on outcomes for local people and value for money. We have also added a new dimension, a Direction of Travel judgement that measures how well the Council is improving. Under the new framework, the Council is improving well and its overall CPA category is three-star, as summarised in Figure 1 below.

Figure 1



- 8 We reached this overall rating by looking at:
- what progress has the Council made in the last year – Direction of Travel;
 - how the Council's main services perform – service performance;
 - how the Council uses its resources – use of resources; and
 - how the Council is run – council ability.

What progress has the Council made in the last year - Direction of Travel

- 9 The Council is improving well and has continued to deliver service improvements in key corporate priority areas. There has been a strong performance across social care and the Council achieved a three-star rating for both children's and adult services with excellent prospects for improvement. Improving outcomes for young people is a key priority for the Council and there have been improvements in educational attainments; most notably in GCSE results. In addition, as a result of these improvements, the Council was able to bring education service back in-house from August 2005. However, some challenges remain. In particular, the number of primary schools that remain in special measures. A Director of Children's Services has been appointed to help develop the Children's wider agenda.
- 10 Southwark has seen improvement in a number of key areas when compared to other authorities. In particular, on length of stay in bed and breakfast accommodation and payments of invoices for commercial goods and services. In some areas, the Council's performance has moved from the third to the top quartile from 2003/04 to 2004/05. In addition, according to MORI, public satisfaction with the Council's services continues to rise.
- 11 Over 55 per cent of performance indicators have improved since 2002/03 and customer satisfaction has improved significantly. 41 per cent of the indicators are now in the top two quartiles, but 39 per cent of indicators remain in the bottom quartile and addressing performance in these services must remain a priority for the Council. Indicators in the lower quartile include numbers of school exclusions, number of housing benefits correctly processed and major planning applications decided in 13 weeks. The Council is moving forward with plans to meet the decent homes standard by 2010. There have been significant improvements in environmental services but the Council is still falling short of meeting statutory recycling targets.

- 12 The Council contributes effectively to wider community outcomes, and has one of the largest community wardens schemes in the country with targeted action zones for tackling enviro-crime and anti-social behaviour. Recommendations from a recent report on equalities have helped the Council to focus on its diverse communities and these have been made an integral part of the Council's work. An effective performance management framework underpins continuous service improvement and the Council is increasing its capacity through its forward@Southwark programme.

How the Council's main services perform

- 13 We have reviewed the core service areas shown below. Each service is scored on a scale of 1 to 4, with 1 being the lowest and 4 being the highest.

Table 1 Main services

Service	2005
Benefits – The Council's performance in providing housing and council tax benefit services. The assessment is made by the Benefits Fraud Inspectorate (BFI) and is based primarily on achievement against the 2005 housing benefits/council tax benefits performance standards.	3
Children and young people – The Council's performance in providing children's services. The joint assessment is made by the Commission for Social Care Inspection (CSCI) and Office for Standards in Education (OFSTED) following a review of the Council's overall performance and key indicators.	3
Culture – The Council's contribution to cultural services and outcomes as assessed by the Audit Commission. The assessment combines culture inspection reports with a range of performance indicators. For 2005, the overall score used for CPA will be the higher of the 2005 score or the score from the 2004 libraries and leisure block score.	3
Environment – The Council's performance, as assessed by the Audit Commission, in providing environmental services. The assessment is made by combining environment inspection reports with a range of performance indicators.	2
Housing – The Council's performance, as assessed by the Audit Commission, in providing community housing and, where applicable, housing management services. The assessment is made by combining housing inspection reports with a range of performance indicators.	3
Social care (adults) – The Council's performance in providing adult social care services. The assessment is made by CSCI following a review of Council overall performance and key indicators.	3

How the Council uses its resources

- 14 The use of resources assessment is a new assessment which focuses on financial management but also links it to the strategic management of the Council. It looks at how the financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. For single tier and county councils, the use of resources assessment forms part of the CPA framework.
- 15 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in five areas.

Table 2 Use of resources

Element	Assessment (out of 4)
Financial reporting	2
Financial management	3
Financial standing	3
Internal control	2
Value for money	3
Overall	3 out of 4

(Note: 1=lowest, 4=highest)

- 16 The Council has maintained a score of 3 out of 4 against a raised performance bar demonstrating improvement in how resources are managed. In reaching these judgements, we have drawn on the audit work done throughout the year and supplemented this with a review against specified key lines of enquiry. Some of the areas of good practice identified included the:
- Council's medium-term financial strategy, budgets and capital programme which are soundly based and designed to deliver the strategic priorities set out in the corporate plan;
 - Council's financial standing which remains sound; and
 - availability of clear information on the costs of key services which is used to challenge their cost-effectiveness.

- 17 The most significant areas where further development is needed include:
- strengthen risk management arrangements;
 - continue to improve the presentation of the financial statements;
 - consider how the role of an Audit Committee might be best discharged by the Council;
 - model the medium-term financial strategy around balance sheets and cash flows over a minimum of three years; and
 - consult with stakeholders to discuss their requirements in respect of summary accounts or an annual report.

How the Council is run

- 18 In corporate assessments, we assess how the Council is run against three criteria.
- What is the Council, together with its partners, trying to achieve?
 - What is the capacity of the Council, including its work with partners, to deliver what it is trying to achieve?
 - What has been achieved?
- 19 Corporate assessments carried out from 2005 onwards have changed. There is now a greater focus on leadership, partnership working, value for money and the achievement of local priorities. The scoring framework has also been revised and for this reason they are not directly comparable with corporate assessments in previous years. All councils will have the new-style corporate assessment by 2008, as part of a rolling programme of corporate assessments and joint area reviews. Until these have been completed, the overall CPA category for a council that has a new-style corporate assessment will be based on either its new or the previous corporate assessment score, whichever is the higher.
- 20 The score used for the Council's 2005 CPA is derived from the 2004 corporate assessment when it was assessed as 3 out of 4 for 'council ability'. A new assessment for the Council is due to be carried out in 2007.

Other performance work

Review of Customer Services Centre

- 21 We undertook, in the spring of 2005, a review of Phase 1 of the implementation process for the Council's new Customer Services Centre (CSC) which is part of the Council's commitment to improving and modernising service delivery. We propose to undertake reviews in several stages to allow the comments and recommendations arising to be taken into account by the Council as new implementation arrangements come online and are put into place.

- 22 Our review identified a number of clear and positive aspects of the implementation process which are supported by encouraging early exit interview feedback during the first week of go-live. These included meeting the key operational deadline for May 2005, achieving sign-off of the Implementation Certificate and contracted deliverables and receiving strong Executive backing and member support.
- 23 We identified a number of improvement opportunities in key areas of implementation for phase 1, including the following.
- **Partnership relationships** – these are likely to continue to improve once key posts are filled and the project structures on both sides are aligned between the partners.
 - **Programme management** – early cost pressures arising from implementation and the need to engage consultants for an extended period were overcome and contained within the service budget. The Council is now improving its quality assurance arrangements, by developing a consistent methodology for document filing systems and introducing a Board-level lead on quality assurance.
 - **Capacity and capability** – early delays in setting up the client unit exposed it for a short time as a potential point of failure since it was a critical implementation area within the project. This increased the pressure on senior officers at the time and may have potentially affected the ability of the project to operate at its optimum level. However, the client function has now been established and this is no longer a current risk.
 - **Readiness to achieve the required change** – the Council should agree the model for reporting the benefits from the re-engineering of its business processes and introduce arrangements to track CSC benefits and improvements.
- 24 We have discussed our report with officers and have agreed an action plan to address our recommendations. The Council has actively worked to progress the issues raised and we will follow these up further in the coming year.

User focus

- 25 Consulting and involving service users can help councils carry out their work more efficiently and effectively. In Southwark, customer focus is high on the agenda. We reviewed the overall approach taken by the Council towards user focus based on the Council's own self-assessment and detailed probes into external communications.
- 26 We identified that the Council has a strong commitment to user focus and is making good progress in developing its work in this area. There are examples of notable practice in the mechanisms used to communicate and inform citizens of Council activities. The Council has recognised the challenges it faces in communicating and engaging with its very diverse local population. It is aware of areas where improvements are needed and in many instances officers are already working on plans to address gaps.

- 27 This commitment to user focus and citizen engagement is not always recognised by all members of the local community. Further improvements could be made to the ways in which the Council publicises its services, activities and achievements. Systems and processes for consulting and engaging with the public could also benefit from further development. In particular, there is a need to ensure that all relevant feedback processes are sufficiently robust.
- 28 The Council recognised that it needed to improve its management of customer complaints and has revised its complaints procedures accordingly. The framework for the new process is satisfactory and further refinements will enable the Council to gain the full benefit from the changes. We have discussed our report with officers and have agreed an action plan to address our recommendations.

Decent Homes Standard

- 29 The Council has made considerable progress in meeting the Decent Homes target. At the end of September 2005, 39 per cent of homes were non-decent (BVPI 184a). The Council is currently on target to meet a level of 36 per cent non-decency at the end of 2005/06. This means that from March 2002 to March 2006, there will have been a reduction in the percentage of non-decent homes by almost 30 per cent (51 per cent to 36 per cent).
- 30 In April 2005, the Council's Executive Committee set up an Options Appraisal Working Group; chaired by the Executive Member for Housing, with cross-party representation and nominated representatives from tenant and leaseholder groups. In November, a majority of representatives agreed the base-case for stock retention, after both the investment and resource assumptions had been independently scrutinised. This was submitted to the Government Office for London in November.
- 31 Consultation is currently taking place on this basis with all residents through: newsletters, sample in-depth interviews; meeting with area forums; individual tenant association meetings; public meetings and workshops with hard to reach groups. The results of this consultation will be included in the recommendation of Southwark's Executive Committee, prior to its final submission to the Office of the Deputy Prime Minister (ODPM) in February 2006. We will continue to monitor the progress made at the next audit.

Planning review

- 32 In February 2004, we issued a Public Interest Report (PIR) relating to two very specific planning applications on adjoining premises. During the investigation, issues with regards to other planning processes and procedures were also brought to our attention. In our PIR, we reported on the need for the Council to:
- take urgent action to improve the quality of reports presented to development control committees;
 - implement a robust quality assurance process to ensure that the content of reports to the development control committees are accurate and cannot be open to allegations of bias;

- provide training to ensure that staff involved with the processing of planning applications are fully aware of their responsibilities, including the need to maintain detailed records of meetings and full copies of all documentation on files;
 - introduce and maintain a Register of Interests for all staff involved in dealing with planning applications to complete and declare any conflict of interest or potential association with applicants for planning permissions; and
 - introduce a robust system of tracking planning applications including any potential conflict between applications for adjoining or nearby sites.
- 33** This year, we have undertaken a review of the response by the Council to the PIR and in particular, the changes to planning procedures and processes. The review found that there has been a demonstrable resolve by all the senior officers within the Council to implement the improvements necessary to bring the planning service to higher standards and exhibit appropriate levels of integrity. The new staffing appointments made have enhanced this process and together with the existing staff, they now need to ensure that the impetus remains to continue the substantial progress made since the publication of the PIR.
- 34** The Council has also undertaken a comprehensive review and implemented key changes to its policies and procedures to accord with good practice. The Council continues to make good progress with the timeliness of the processing for all three categories of planning applications and we understand that it is on track to meet the timeliness targets by the end of this financial year.

Best value performance plan

- 35** The Council prepared its best value performance plan (BVPP) ahead of the statutory deadline of 30 June 2005 – in fact the Corporate Plan, which is in effect the BVPP, was agreed in tandem with the budget and published at the start of the financial year. This provided clarity of vision for staff, stakeholders and others involved in delivery of the Council's objectives. We completed our review of the information included within the plan and issued our unqualified report on 12 December 2005. There were no issues or recommendations which we were required to report in connection with the plan.

Performance indicators (PI)

- 36** Performance indicators included in the BVPP continue to be an important part of the CPA process and are one of the key indicators for measuring service improvements. No PIs were qualified in 2004/05 and the Council's arrangements for producing the BVPIs continue to be robust.

- 37 This was the first year that the Audit Commission specified non-BVPIs to be audited for the CPA process which as with the majority of councils, proved to be a challenge. The percentage of indicators amended remains consistent with last year, despite the number of indicators having increased by 22. A relatively high percentage (30 per cent) of the non BVPIs were amended. This is likely to have been caused by the short notice given to the Council to produce this information, but it may indicate that PIs which have not been subjected to audit in the past may not have as robust systems in place compared with those for BVPIs.
- 38 With the forthcoming data quality audit which will form part of our new value for money conclusion planned for 2006, it is important for the Council to ensure that it has more robust arrangements in place for all PIs. The Council recognises that the increased number of PIs included in the new audit arrangements will put additional demands on resources and timing which in turn will increase the need for better planning and co-ordination of the audit process.

Other Audit Commission inspections

- 39 This year we have undertaken a Waste Management Inspection in accordance with methodology developed by the Audit Commission. Field work on this inspection has now been concluded and we expect to issue our draft report shortly.

Working with other inspectorates and regulators

- 40 An important aspect of the role of the relationship manager is to work with other inspectorates and regulators who also review and report on the Council's performance. These include:
- Ofsted;
 - Commission for Social Care Inspection (CSCI);
 - Benefits Fraud Inspectorate (BFI);
 - DfES; and
 - Government Office for London.
- 41 We share information and seek to provide 'joined up' regulation to the Council. During the last year the Council received assessments from Ofsted, CSCI and BFI which are incorporated in the CPA scorecard set out in paragraph 13 above.

Accounts and governance

The Council achieved the earlier deadline for the preparation of its 2004/05 statement of accounts and we were able to issue an unqualified audit opinion on 31 October 2005. The working papers in support of the accounts were of a generally good standard.

Audit of 2003/04 accounts

- 42 The Audit Commission Act 1998 requires that when an audit is concluded the auditor shall, in addition to giving an opinion on the statement of accounts, issue a certificate that the audit has been completed. We gave our unqualified opinion on the Council's 2003/04 financial statements in November 2004. However, at that stage, we were unable to issue our certificate due to outstanding issues which had been raised by local electors.
- 43 We have now resolved all the outstanding issues for 2003/04 and issued our certificate on 25 November 2005.

Audit of 2004/05 accounts

- 44 The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. We gave an unqualified opinion on the Council's accounts and Pension Fund on 31 October 2005. We have yet to issue our certificate for 2004/05 due to outstanding queries from electors.
- 45 The Council set itself an ambitious accounts closedown timetable which was largely achieved. This should be a useful step to ensure that the statutory deadline for 2005/06 of 30 June is met, although the Council will need to be aware of any resource implications that it may generate for them.
- 46 The accounts presented for audit were of a generally high standard and were compliant with required accounting practice. Working papers and arrangements to support the audit process continue to be good. However, while the quality of working papers was seen to be strong in some departments, they were less so in others and steps should be taken to achieve the higher standards across all departments.

Report to those with responsibility for governance in the Council (SAS 610 report)

- 47 We are required by professional standards to report to those charged with governance certain matters before we give an opinion on the financial statements.

48 We presented our SAS 610 report in October, which included a number of issues, the key ones being:

- the need to revise the accounting treatment for the former- Inner London Education Authority debt and other 'Adjustment A' entries and related capital financing charges; and
- weaknesses within the arrangements for school account reconciliations which resulted in significant inaccuracies in balances reported for inclusion in the financial statements.

The Council addressed all these matters and we have issued an unqualified audit opinion.

Financial standing

49 Financial standing continues to be sound. The Council's net cost of services for 2004/05 was £460.8 million which was within 0.035 per cent of the budget. The accounts showed a small surplus. This allowed the Council to increase its General Fund reserves to £9 million thereby moving as planned towards its medium-term goal of £10 million. Other earmarked reserves have increased to £57 million. These include £30 million for future risks and major programmes and £12 million in reserves represented by school balances.

50 In his report to members in November 2005, your Finance Director is reporting that the Council is forecasting an under spend of £1.7 million on the General Fund budget in 2005/06. However, this surplus is subject to a number of variances in directorate budgets, particularly Environment and Leisure that remain under review. He will need to continue to monitor the budget closely to ensure that this favourable position is sustained.

Housing revenue account (HRA)

51 The HRA balances reduced during the year by £10 million to £27.5 million to offset the deficit incurred in the HRA in 2004/05. Reports up to the end of December 2005 show that the HRA is currently forecasting a surplus for the year of £1 million. Budgets and actual performance against budget will need to be closely monitored in order to achieve the expected surplus.

Pension fund

52 The Council reported a net increase in the value of its pension fund assets as at 31 March 2005. The value of the fund is £555 million with a funding level of 79 per cent which is an increase from 75.5 per cent at the last triennial valuation in March 2004. The Council's current funding strategy is to restore the fund's solvency over 18 years by 2022. We will continue to monitor the progress made towards this during the next audit.

Medium-term financial strategy (MTFS)

- 53 The Council developed its MTFS in 2005 alongside agreeing the corporate plan and setting of the 2005/06 revenue budget. The revised strategy and supporting documents set out how the budget will underpin the Council's corporate priorities contained in the Corporate plan for the next three years. The Council has now commenced consultation on its new Community Strategy Southwark 2016 which it intends to implement in 2006. This along with the implications of the 2006/07 grant settlement necessitates further development of the MTFS. In particular, the Council should consider the plans and roles of partners and other stakeholders.
- 54 The Council has recently received its grant settlement for 2006/07 from the Government. This sets out, for the first time, the budget available for 2006/07 and an indication of funding for 2007/08. The amount the Council has received for 2006/07 is an overall increase of 2.18 per cent (excluding amending reports) on what has been available in previous years. Matching resources to need will be difficult in 2006/07 if the Council is to continue to build upon its recent achievements whilst addressing new needs, in particular, ambitious regeneration schemes, the Customer Service Centre and support for the Every Child Matters Agenda. The Council will also need to focus on action required to achieve the expected savings from the Gershon review. To safeguard its position, the Council should draw on the advice of its section 151 officer to ensure that as part of the budget setting process sufficient resources are retained to meet ongoing needs and unexpected needs.
- 55 The Council's close relationship with Southwark Primary Care Trust (SPCT) continues and the financial arrangements are increasingly integrated. A formal agreement between the Council and SPCT for the pooling of budgets for people with learning disabilities has been in place since May 2002. These arrangements will need close scrutiny over time to ensure their continued suitability.

Capital programme

- 56 The Council's capital investment programme for the next few years is one of the most ambitious in London with many major developments planned for the medium and longer-term. The programme includes specific projects such as the redevelopment of the Aylesbury Estate, Canada Water and the Elephant and Castle regeneration scheme. As well as the delivery of the Council's office accommodation strategy, the achievement of the decent homes target and the plans for building schools for the future.
- 57 The Council has taken steps to strengthen the management of its capital programme in the light of some problems with developments in recent years, such as Peckham Pulse. However, to ensure the success of these major developments, the Council needs to continue to maintain robust project management arrangements and ensure that it has the management capacity to deliver these ambitious plans as intended.

Income collection and arrears

- 58 The Council has achieved good progress with income and arrears collection. In May 2002, the Council set itself a target to reduce council tax and housing rent arrears by 50 per cent during the period 2002 to 2006. Currently the Council is on target to achieve this objective. Gross arrears of these debts outstanding at 31 March 2005 were £77 million against a target of £80 million. However, in order to achieve further significant reductions for future years, stronger recovery action now needs to be taken against the more difficult cases that remain uncollected. There will also be a need to readdress future targets for income collection and recovery in the light of previous success as the cases remaining become more challenging.

Systems of internal financial control

- 59 Overall, the Council has adequate arrangements in place to monitor the effectiveness of its financial systems. The recent systems mapping exercise has identified key internal controls in the Council's significant financial systems. These are reviewed by Internal Audit on a regular basis and weaknesses are reported to senior management. However, the Council now needs to consider how it can strengthen arrangements for members to engage in processes to provide independent scrutiny of the internal control framework, including internal and external audit.
- 60 The Council's financial management system (SAP) remains a critical tool in providing base financial management information for managers and for the purpose of external reporting. This system must be properly maintained to ensure that the quality of information is suitable for the size and nature of the services that it supports.
- 61 The Council's risk management framework identifies and assesses risks and links these to the organisation's business objectives. The risk management strategy is reviewed on a regular basis and approved by members. Although the overall framework is adequate, we have identified a number of areas where improvements could be made. Risk champions should take responsibility for this process at member and chief officer level to ensure that it is embedded throughout the organisation. Training on risk management should also be considered for all staff and members.

Internal Audit

- 62 As part of our work to assess the Council's governance arrangements, we reviewed the Internal Audit programme for 2004/05 and concluded that this was comprehensive, covering key financial areas of the Council. In our Audit Plan, we state that we aim to place reliance on the work completed by Internal Audit. Following a review of their reports and detailed audit findings on the key financial systems, we concluded that we were able to place reliance on this work and Internal Audit's findings.

Standards of financial conduct and the prevention and detection of fraud and corruption

- 63 The Council has made progress in strengthening arrangements to prevent and detect fraud and corruption including commencing fraud training for all staff. However, some of our prior year recommendations which will strengthen arrangements further are still being implemented. The findings of our follow-up work in these areas are set out below.
- 64 Registers are required to be maintained within each department for the recording of gifts and hospitality and they should be readily available for inspection at all times. The Council needs to ensure that the process for recording of all gifts and hospitality (both offered and accepted) is robust.
- 65 The Council has separate arrangements for corporate anti-fraud work on housing benefits fraud and other fraud areas. Our work on housing benefits and follow-up of the Audit Commission National Fraud Initiative (NFI) has identified that the arrangements in both these areas could benefit from strengthening. In particular, the Council should develop a more proactive plan for reviewing and testing financial systems for fraud. Action to address these matters has been agreed with officers and we will monitor the progress made.

Legality of transactions

- 66 The Council is responsible for putting in place arrangements for ensuring that financial affairs are conducted in accordance with the law and relevant regulations. We reviewed the Council's overall arrangements and found them to be generally satisfactory.
- 67 We continue to receive a number of enquiries from members of the public, including local councillors, covering such matters as:
- planning procedures;
 - home to school transport; and
 - Council leisure facilities at Peckham Pulse.
- 68 To date, there have been no issues raised on these or other matters that have required formal audit action from us this year. As mentioned earlier in this letter, a number of issues have yet to be resolved and this is why we have not issued our 2004/05 audit certificate.

Other work

Additional voluntary work

Equalities and diversity review

- 69 Following the District Auditor's public interest report and the Local Government Ombudsman's consideration of planning failures affecting the Imperial Gardens nightclub in Camberwell, the Council decided to commission an independent review of its strategic policy making and its implementation. The terms of reference for the review were to:
- review and assess existing policies within the equality and diversity framework to determine comprehensiveness, appropriateness and any potential adverse impacts;
 - review and assess implementation arrangements, the practices and processes, their effectiveness and the scope for achieving equality outcomes;
 - review and assess whether there is an effective framework to respond to allegations of discriminatory effects and outcomes, including in relation to businesses; and
 - produce a report with findings and recommendations.

The review, conducted by Lord Ouseley, started in late September 2004 and reported in February 2005. It made 35 recommendations, all of which were accepted by the Council.

- 70 At the request of the Council, the Audit Commission has agreed to provide the external scrutiny function suggested by Lord Ouseley. This work is intended to contribute to improving the management and delivery of diversity and equality in Southwark. It consisted of an initial audit of the framework for implementing Lord Ouseley's recommendations including reviewing:
- the steps taken by the Council since the publication of the Ouseley report to implement the recommendations;
 - how the Council is prioritising the recommendations;
 - what processes are being used to address the recommendations; and
 - the monitoring arrangements to assess progress in implementing the recommendations.

The report is currently being finalised for presentation to the Council.

Grant claims

- 71 In accordance with strategic regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. Whilst the number of claims overall has declined, we have also reduced the amount of audit work carried out on many claims. This has been achieved by being able to place more reliance on each claim's control environment, resulting from the continued strengthening of corporate monitoring arrangements, as well as improvements in working papers on a majority of the claims submitted. However, in certain areas further improvements are required.
- 72 Work on certifying the Council's 2004/05 grant claims is nearly complete. We have received all the claims expected this year and anticipate issuing certificates on all bar two claims by their deadlines. As in previous years, we have amended some claims and so far we have issued four qualification reports.
- 73 This year, we anticipate that we will qualify the housing benefit grant claim due to weaknesses in the control environment which Internal Audit has reported upon in detail during the year. Our audit review and testing has confirmed significant error rates in the classification of overpayments between eligible and local authority error. We have yet to see the required improvements in this system and this may also impact on the 2005/06 claim.

National Fraud Initiative

- 74 In 2004/05, the Council took part in the Audit Commission's National Fraud Initiative (NFI). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as; new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000.
- 75 The results to date of following up of the matches identified for the Council have not been in line with those reported in similar authorities. This may be due to delays in processes established to review and report on matches identified. We have made recommendations to strengthen arrangements, namely that protocols should be agreed with all those involved in the NFI to clarify responsibilities, set deadlines, chase progress and co-ordinate responses to the Audit Commission. A more detailed audit review to look at corporate resources for the management of the NFI and anti fraud measures is planned for 2006. The Council is in the process of completing its investigations into the remaining data as a matter of priority.

Looking forwards

Future audit and inspection work

- 76 We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's Annual Letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.
- 77 We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2006/07. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2006. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation in line with the Audit Commission's strategic plan.

Revision to the Code of Audit Practice

- 78 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 79 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with the Council in April 2005. The key changes include:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
 - a clearer focus on overall financial and performance management arrangements.

Closing remarks

- 80 This letter has been discussed and agreed with the Chief Executive and Director of Finance. A copy of the letter will be presented at the Executive on 31 January 2006.
- 81 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Availability of this letter

- 82 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

Kash Pandya
Relationship Manager and District Auditor
January 2006

Appendix 1 – Background to this letter

The purpose of this letter

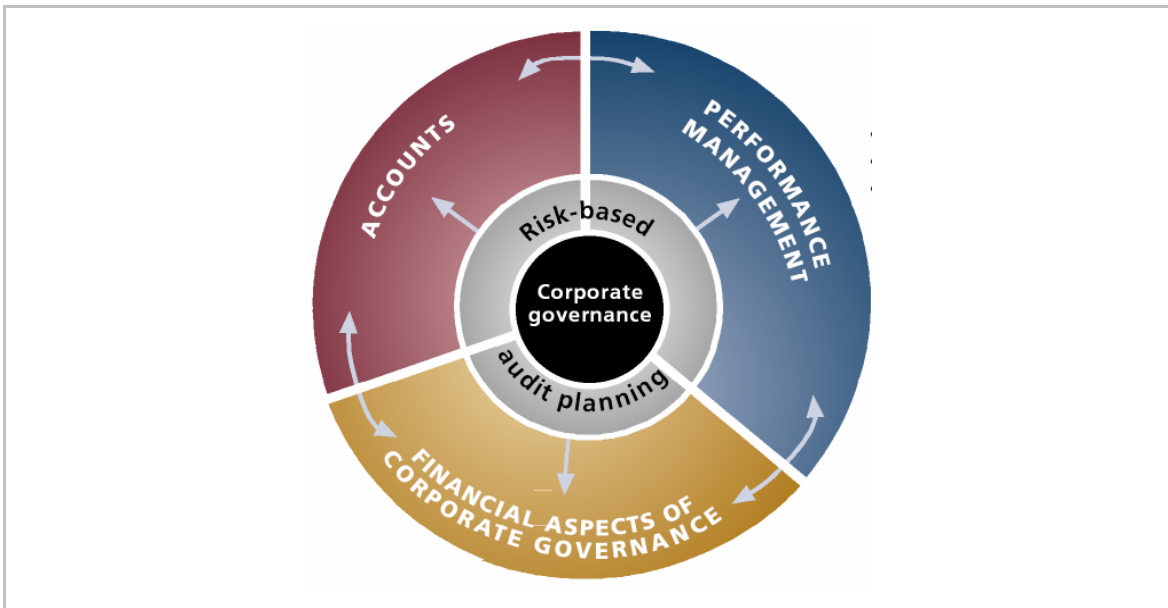
- 1** This is our Audit and Inspection ‘Annual Letter’ for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council’s Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 2** We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3** The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 4** Appendix 3 provides information about the fee charged for our audit and inspections.

Audit objectives

- 5** Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.
- 6** Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 2.

Figure 2 Code of Audit Practice

Code of practice responsibilities



- 7 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best value performance plan.

Appendix 2 – Audit reports issued

Table 3

Report title	Date issued
Audit Plan	March 2004
Grant Claims Report 2003/04	February 2005
Customer Services Centre Review	July 2005
User Focus Review	August 2005
Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	October 2005
Audit Opinions	October 2005
Use of Resources Judgement	November 2005
Direction of Travel	November 2005
BVPI Memorandum	November 2005
BVPP Opinion	December 2005
Public Interest Report Follow-up	December 2005
Interim Memorandum	December 2005
Final Accounts Report	January 2006
Annual Audit Inspection Letter	January 2006

Appendix 3 – Audit fee

Table 4 Audit fee update

Audit area	Plan 2004/05 (£'000)	Actual 2004/05 (£'000)
Accounts	153	153
Financial aspects of corporate governance	177	177
Performance	278	278
Total audit fee	608	608
Inspection	87	87
Total audit and inspection fee	695	695
Additional voluntary work (under section 35)	0	30
Total	£695	£725

Additional voluntary work

- 1 The equalities and diversity review is still to be concluded but the cost of the initial phase of the work is estimated to be about £30,000.