



AGENDA AUDIT PANEL

Date: THURSDAY, 12 MARCH 2020 at 7.00 pm

**Committee Room 3
Civic Suite
Lewisham Town Hall
London SE6 4RU**

**Enquiries to: Sarah Assibey
Telephone: 0208 314 8975 (direct line)**

COUNCILLORS

Councillor Jim Mallory
Councillor Paul Maslin
Councillor Joan Millbank
Councillor Stephen Penfold
Councillor James Rathbone
Councillor Susan Wise

Independent Members

Carole Murray
Ian Pleace
Stephen Warren

Members are summoned to attend this meeting

**Kim Wright
Chief Executive
Lewisham Town Hall
Catford
London SE6 4RU
Date: Wednesday 4 March 2020**



INVESTOR IN PEOPLE

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ORDER OF BUSINESS – PART 1 AGENDA

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AUDIT PANEL		
Report Title	Declarations of Interests	
Key Decision	No	Item No. 1
Ward	n/a	
Contributors	Chief Executive	
Class	Part 1	Date: 4 March 2020

Declaration of interests

Members are asked to declare any personal interest they have in any item on the agenda.

1 Personal interests

There are three types of personal interest referred to in the Council's Member Code of Conduct :-

- (1) Disclosable pecuniary interests
- (2) Other registerable interests
- (3) Non-registerable interests

2 Disclosable pecuniary interests are defined by regulation as:-

- (a) Employment, trade, profession or vocation of a relevant person* for profit or gain
- (b) Sponsorship –payment or provision of any other financial benefit (other than by the Council) within the 12 months prior to giving notice for inclusion in the register in respect of expenses incurred by you in carrying out duties as a member or towards your election expenses (including payment or financial benefit from a Trade Union).
- (c) Undischarged contracts between a relevant person* (or a firm in which they are a partner or a body corporate in which they are a director, or in the securities of which they have a beneficial interest) and the Council for goods, services or works.
- (d) Beneficial interests in land in the borough.

- (e) Licence to occupy land in the borough for one month or more.
- (f) Corporate tenancies – any tenancy, where to the member’s knowledge, the Council is landlord and the tenant is a firm in which the relevant person* is a partner, a body corporate in which they are a director, or in the securities of which they have a beneficial interest.
- (g) Beneficial interest in securities of a body where:-
 - (a) that body to the member’s knowledge has a place of business or land in the borough; and
 - (b) either
 - (i) the total nominal value of the securities exceeds £25,000 or 1/100 of the total issued share capital of that body; or
 - (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person* has a beneficial interest exceeds 1/100 of the total issued share capital of that class.

*A relevant person is the member, their spouse or civil partner, or a person with whom they live as spouse or civil partner.

(3) Other registerable interests

The Lewisham Member Code of Conduct requires members also to register the following interests:-

- (a) Membership or position of control or management in a body to which you were appointed or nominated by the Council
- (b) Any body exercising functions of a public nature or directed to charitable purposes , or whose principal purposes include the influence of public opinion or policy, including any political party
- (c) Any person from whom you have received a gift or hospitality with an estimated value of at least £25

(4) Non registerable interests

Occasions may arise when a matter under consideration would or would be likely to affect the wellbeing of a member, their family, friend or close associate more than it would affect the wellbeing of those in the local area generally, but which is not required to be registered in the Register of Members’ Interests (for example a matter concerning the closure of a school at which a Member’s child attends).

(5) Declaration and Impact of interest on members' participation

- (a) Where a member has any registerable interest in a matter and they are present at a meeting at which that matter is to be discussed, they must declare the nature of the interest at the earliest opportunity and in any event before the matter is considered. The declaration will be recorded in the minutes of the meeting. If the matter is a disclosable pecuniary interest the member must take no part in consideration of the matter and withdraw from the room before it is considered. They must not seek improperly to influence the decision in any way. **Failure to declare such an interest which has not already been entered in the Register of Members' Interests, or participation where such an interest exists, is liable to prosecution and on conviction carries a fine of up to £5000**
- (b) Where a member has a registerable interest which falls short of a disclosable pecuniary interest they must still declare the nature of the interest to the meeting at the earliest opportunity and in any event before the matter is considered, but they may stay in the room, participate in consideration of the matter and vote on it unless paragraph (c) below applies.
- (c) Where a member has a registerable interest which falls short of a disclosable pecuniary interest, the member must consider whether a reasonable member of the public in possession of the facts would think that their interest is so significant that it would be likely to impair the member's judgement of the public interest. If so, the member must withdraw and take no part in consideration of the matter nor seek to influence the outcome improperly.
- (d) If a non-registerable interest arises which affects the wellbeing of a member, their, family, friend or close associate more than it would affect those in the local area generally, then the provisions relating to the declarations of interest and withdrawal apply as if it were a registerable interest.
- (e) Decisions relating to declarations of interests are for the member's personal judgement, though in cases of doubt they may wish to seek the advice of the Monitoring Officer.

(6) Sensitive information

There are special provisions relating to sensitive interests. These are interests the disclosure of which would be likely to expose the member to risk of violence or intimidation where the Monitoring Officer has agreed that such interest need not be registered. Members with such an interest are referred to the Code and advised to seek advice from the Monitoring Officer in advance.

(7) Exempt categories

There are exemptions to these provisions allowing members to participate in decisions notwithstanding interests that would otherwise prevent them doing so. These include:-

- (a) Housing – holding a tenancy or lease with the Council unless the matter relates to your particular tenancy or lease; (subject to arrears exception)
- (b) School meals, school transport and travelling expenses; if you are a parent or guardian of a child in full time education, or a school governor unless the matter relates particularly to the school your child attends or of which you are a governor;
- (c) Statutory sick pay; if you are in receipt
- (d) Allowances, payment or indemnity for members
- (e) Ceremonial honours for members
- (f) Setting Council Tax or precept (subject to arrears exception)

MINUTES OF THE AUDIT PANEL

Tuesday 10 December 2019 at 7pm

PRESENT: Councillors Rathbone (Chair), Maslin (Vice Chair), Mallory, Millbank, Penfold and Carole Murray (Independent Member)

Apologies: Councillor Wise, Ian Pleace, Stephen Warren

1. Minutes

Item 6 refers to the Transparency Code audit.

Matters arising:

The action from item 5, Management responses are to be circulated after this meeting and discussed at the next meeting. The Constitution has been updated to reflect that report referrals and recommendations now go to the Executive Director as appropriate.

The minutes were agreed.

2. Declarations of Interest

No interests were declared.

3. Internal Audit

The Chief Finance Officer presented this report. He updated the Panel on the following.

The internal audit plan is still being progressed. With the exception of the Financials and HR and Payroll Implementation, all are now complete. There has been some difficulty as contractors do not have the resources either. The team are looking at getting another agency to carry out some of the work.

The internal control board sat last week. They reviewed the timeliness of actions and bringing internal recommendations to implementation. There was a dispute surrounding the accounts payable audit, in which they agreed that the approach taken by management was reasonable, to keep it under review until it is resolved. there was also discussion around the number of recommendations that had been closed. They were satisfied with the Directors' support that those actions had been addressed.

The type of controls as they relate to High or Medium findings continue to be monitored. The majority of the controls where action is required are in procedures, compliance and information security.

On the schools' audit, there is no mechanism at the moment that is resourced to enable the schools to feedback on their progress so these numbers were excluded from the report. This falls under the schools' governance- for completeness, when

these audits are finalised they will go to the Director for Educational Standards so that their team look at the audit and the recommendations in the context of other matters that they are working with headteachers on.

In the next financial year, internal audit will perform an exercise to find an external assessor to carry out the Public Sector Internal Audit Standards assessment. Once the exercise is complete, internal audit will suggest the preferred provided to members. Internal audit implemented all but one of the recommendations- internal audit are recommending that members reconsider implementing the recommendation to annually complete an effectiveness assessment that includes an assessment of the effectiveness of the internal audit service and HIA.

The Chair noted that the backlog of corporate actions is starting to decrease. When asked about the process of recruitment of the head of Internal Audit, the officer responded that in the interim there are plans to recruit via agency because the wider role will need a reconsideration of responsibilities.

Action

Regarding the outstanding actions on; the transparency code, data breach, pre-payment cards and safeguarding, it was asked that more information is provided on those, of which the officer noted.

Action

The officer responsible for the Local Government Transparency Code should be providing a written briefing when they return from sick leave of which officers will circulate if received before the next meeting.

Members asked for context regarding the PSIAS recommendation. The Chair asked if the Audit Panel itself should consider the effectiveness of the internal audit service at large, therefore it is not a self-assessment of the Panel, it is the Panel conducting an assessment of the Council's internal audit function. Officers responded that the assessment focus is the skills and function of the Panel.

Action

Officers to produce this self-assessment for the Panel to review on an annual basis for the next meeting

4. Oracle Cloud Update

The Director of Financial Services presented this report alongside the Accounts Payable Team Leader, the Oracle Cloud Finance Manager and the IT Applications Manager. The report was briefly summarised and the Panel discussed.

The Oracle Cloud Programme was split into two parts. The focus of the report was the first phase- the core HR and financials and the procurement. The second phase is progressing well which covers the employee self-service, manager self-service and payroll, which is expected to go live imminently.

Some modules have been implemented and went live in May 2018, as detailed in the report. Fixed assets, a new module, did not work particularly well at first and

alternative options for closing down in 2019/20 are being looked at. By large, the modules are working well, and issues are being sorted through.

Informing and communicating how this system works is a priority going forward. Engagement, training and awareness is improving, reducing any challenges in using it. Panel members stated that it is important that staff being trained on the self-service system are using it soon after, although the drop in sessions are useful. Managers are continually improving learning resources to increase training results. As part of the transition of the applications into full time support from the program, key user training has been organised.

The business as usual support arrangements has been strengthened and changed- there has been a restructure of the application and support team, and there will be a final service level agreement Children's Social Care and IT which would mean that there will be integration and monitoring of how the system is used, ensuring there are system upgrades or renewed processes as necessary.

The Chair raised concern about the point raised in the report that not all budget holders feel they are sufficiently able to use the PBCS (Planning and Budgeting Control Service). The Chair asked if this was indicative that they are not able to use the service at all and therefore unable to sufficiently control budgeting and spending. The officers responded that predominantly this meant that the finance team or other admin staff were doing this work on the service for them. The Panel discussed that this onus should not fall on the finance team and recommended this was drawn to the attention of the Chief Executive of the Council to align with the cultural shift.

The Chief Finance Officer mentioned that he will be holding a group session on the 13th January to discuss the Budget. He suggested that this would be a good opportunity to raise the issue with the Chief Executive.

5. Work Programme/Action Log

The Chair advised of the following:

Oracle Cloud will remain a continual item, however it can be a less in-depth report and just provide an update, focusing on the outstanding actions.

The internal audit update will remain on the work programme provisionally. If there have been significant progress against the Transparency Code, data breach, pre-payment cards and safeguarding as outlined above, there will be nothing additional to report on at the next meeting. The Panel agreed to delegate this decision to the Chair.

PSIAS- internal audit would provide a report on the performance of the Audit Panel. This is to be put as a standard item annually in March.

The Risk Register will remain a standard item in the quarterly audit report.

Action

The audit report to the Public Accounts Committee will be circulated to Members in advance for comment and will be included in the next agenda as an information item for the Panel

The report was noted and agreed.

The meeting finished at 8.25 pm

AUDIT PANEL		
Report Title	Update on 2019/20 Closing of Accounts and External Audit	
Key Decision	No	Item No.
Ward	All	
Contributors	Executive Director for Corporate Resources	
Class		Date: 12 March 2020

1. SUMMARY AND PURPOSE

- 1.1. This report provides an update to members of the Audit Panel on the preparations for the 2019/20 closing of accounts and statutory external audit.

2. RECOMMENDATION

- 2.1. The Audit Panel is asked to note the contents of the report.

3. 2019/20 EXTERNAL AUDIT

- 3.1. The external auditors Grant Thornton are currently progressing with their interim audit. This was started in February 2020 and is expected to be completed by end of March 2020. The areas which are being covered as part of this interim process include: updated review of the Council's control environment; updating their understanding of financial systems; review of Internal Audit reports on core financial systems; early work on emerging accounting issues; and early substantive testing.
- 3.2. The table on pages 9 to 11 of the Audit Progress Report indicates the current state of play as regards the interim audit testing. The majority of items are either in progress (amber) or completed (green). There are 3 items not started (red), for the reasons stated. Further work will be undertaken by officers to ensure that the amber items continue to be progressed and that the red items do not become a risk for the main audit work starting in June 2020.

4. 2019/20 CLOSING OF ACCOUNTS

- 4.1. The 2019/20 Closing of Accounts timetable, guidance notes and reporting deadlines have again been reviewed, updated and communicated to all officers concerned, in order to achieve a successful and timely closedown.

5. 2019/20 STATEMENT OF ACCOUNTS

- 5.1. The Statement of Accounts is prepared in accordance with the CIPFA Code of Practice on Local Authority Accounts, as agreed by the Ministry of Housing, Communities and Local Government. Thereby, under the Accounts and Audit Regulations 2015, the pre-audit Statement of Accounts is required to be completed and submitted for external audit by no later than 31st May 2020, and the audited Statement of Accounts is required to be completed and approved by full Council by 31st July 2020.
- 5.2. However, given the very real practical challenges of meeting the audit deadline of 31st July, it is anticipated that the audit fieldwork will be completed by this date but the actual approval of the audited Accounts will not be obtained until full Council in September. Audit Panel will be updated of the position in July and will receive the audited Accounts in September, before approval by Council.

6. IMPLICATIONS

- 6.1. There are no financial, legal, crime and disorder, equalities or environmental implications directly arising from this report.

7. CONCLUSION

- 7.1. The report confirms that plans and procedures are in place to enable a timely and accurate audited Statement of Accounts to be produced at year-end.

For further information on this report please contact:

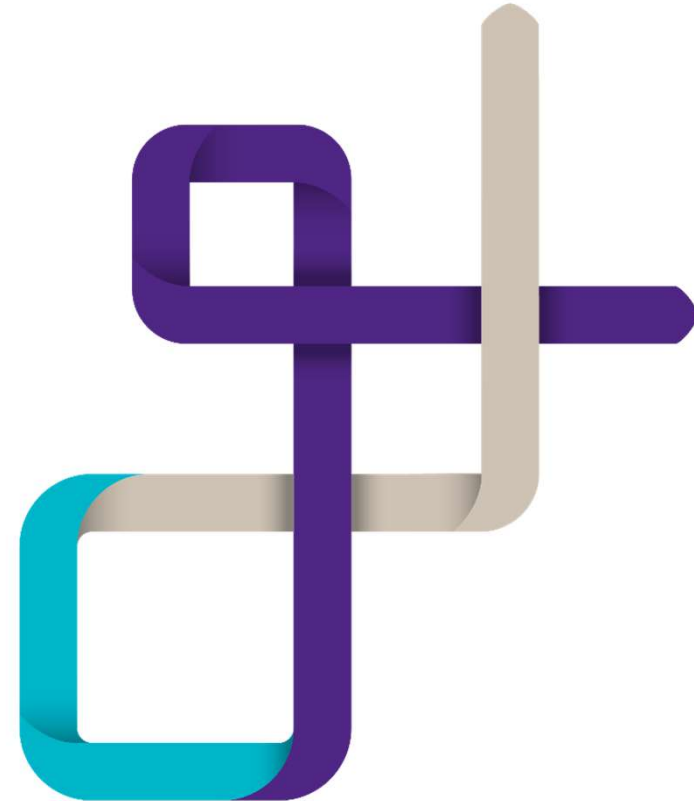
Selwyn Thompson, Director of Financial Services, on 020 8314 6932
Paul Calnan, Acting Group Finance Manager – Accounting, on 020 8314 6167

External Audit Plan

Year ending 31 March 2020

London Borough of Lewisham and London Borough of Lewisham Pension Fund
February 2020

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Appendix

A. Audit quality – national context

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 planning 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 Authority or all 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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1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of the London Borough of Lewisham ('the Council') and the London Borough of Lewisham Pension fund (the Fund) for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as your auditor. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audits are set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Panel); and
- Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Panel); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Panel of your responsibilities. It is your responsibility to ensure that proper arrangements are in place for the conduct of your business, and that public money is safeguarded and properly accounted for. We have considered how you are fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of your business and is risk based.

Group Accounts

The Council are required to prepare group financial statements that consolidate the financial information of Lewisham Homes Limited and Catford Regeneration Partnership Limited.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

Council

- The risk that the valuation of land and buildings in the accounts is materially misstated.
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated.
- The risk of management override of controls.

Pension Fund

- The risk of management override of controls.
- The risk that the valuation of level 3 investments in the accounts is materially misstated.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

1. Introduction & headlines continued

Materiality	<p>Council</p> <p>We have determined planning materiality to be £16.5m (PY £19.5m) for the Group and £16.0m (PY £19m) for the Council, which equates to approximately 1.5% of the Council's prior year gross expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £800k (PY £1m).</p> <p>Pension Fund</p> <p>We have determined materiality at the planning stage of our audit to be £13m (PY £13.9m) for the Pension Fund, which equates to approximately 1% of the 2018/19 net assets. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.65m (PY £0.69m).</p>
Value for Money arrangements	<p>Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risks:</p> <ul style="list-style-type: none">• Budget Management• Savings plans and medium term financial planning• Cultural change
Audit logistics	<p>Our interim visit will take place in February and March 2020 and our final visit will take place in June and July with our final reporting delivered in September 2020. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.</p> <p>Our fee for the audits will be £182,789 (PY: £174,789) for the Council and £25,000 (PY: £16,170) for the Pension Fund, subject to you meeting our requirements set out on page 17.</p>
Independence	<p>We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.</p>

2. Key matters impacting our audit - Council

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For the London Borough of Lewisham, there is uncertainty over the future funding that will be made available by a new government. This will be important in determining the Council's capacity to respond to future demand pressures, in particular relating to social care and housing.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty. The Council will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

As of month 9, the Council is forecasting an overspend to budget of £5.4m for 2019/20 with particular pressures in Children and Young People and Housing, Regeneration and Environment. However, over the next three years the cumulative budget gap is £40m.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

Transformation and culture

The Council's new Chief Executive has spent her first few months in post listening to staff across the Council. This process has identified Communication, IT, Inclusivity, People and Leadership as key areas of improvement for the Council.

The Change Network has been tasked to develop the detail of programmes identifying "quick wins" and working up projects that will strengthen these key areas across the Council. Ensuring that these programmes are developed and owned by staff is considered critical to ensuring successful implementation of your ambitious and complex strategies.

In addition, management is currently in the process of realigning the Council's directorate structure to better reflect your key priorities and future service delivery models.

Accounting developments

International Financial Reporting Standard (IFRS) 16 will be introduced across the public sector from 1 April 2020 and will have a significant impact on the way in which the Council accounts for leases, or other contracts which contain a lease. The standard will require management to assess the value of the right of use asset underlying any arrangement containing a lease and bring this on to the Balance Sheet, along with the present value of any associated liability. The Council will be required to disclose in its 2019/20 financial statements the expected initial impact of the implementation of IFRS 16 on its net asset position and reserves as at 1 April 2020.

Our response

We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.

We will consider whether your financial position leads to material uncertainty about the going concern of your group and will review related disclosures in the financial statements.

We will follow up the previous year recommendations in our VfM work.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set out in our Audit Plan, has been agreed with the Director of Finance and is subject to PSAA agreement.

We will continue to engage with Members and Senior Officers to assess how you are performing in addressing your challenges.

We will consider your arrangements for identifying and planning the key programmes to strengthen key areas across the Council.

We have invited members of the finance team to attend our financial reporting workshops taking place over the next few weeks, where further guidance and support on IFRS 16 implementation will be provided.

We will review management's assessment of the impact of IFRS 16 on the net assets and reserves of the Trust as at 1 April 2020, and review disclosures made in the 2019/20 financial statements, to gain assurance that the standard has been appropriately applied.

Key matters impacting our audit – Pension Fund

Factors

The wider picture and political uncertainty

- Local Government funding continues to be stretched with increasing cost pressures.
- The market value of LGPS funds at end of March 2019 was £287.2 billion (an increase of £16.3 billion or 6.0%) but for the first time, the LGPS in England & Wales is now cashflow negative, with benefit payments rising to £10.4bn while contributions fell to £9.3bn. There are now over 8,000 employers. Local authorities represent around 18.3% of these but have 74% of the members.
- The UK is set to leave the EU on 31 January 2020. The economic impact of this remains uncertain as is the wider global economic picture. The Pension Fund will need to ensure that its investment strategy has considered potential outcomes.

Governance

- The Scheme Advisory Board (SAB) has published the *Good Governance – Phase II Report*. Proposals include having a single named officer responsible for the delivery of LGPS related activity for a fund, an enhanced annual governance compliance statement and establishing a set of key performance indicators.
- SAB is also consulting on Responsible Investment guidance to assist and help investment decision makers.
- tPR continues to apply pressure on pension schemes to improve the quality of scheme member data. The 2019 valuation process will likely have thrown up some data issues (large or small) that need addressing.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted that the investment balance in the financial statements for one of the fund managers was based on the custodian report which was using an outdated valuation so an amendment was made during the audit.

Investments

As at end of December 2019 the Fund had £1,487m assets under management by 10 different fund managers investing in equities, bonds, multi asset credit, private equity, property, infrastructure and diversified growth funds. The Fund needs to comply with the asset pooling regulations and to date the Council has no funds currently invested in the LCIV. The Council's current contributions to the LCIV now exceed the cost of running the Pension Team in-house team. Further statutory guidance is due in 2020 from the Ministry of Housing, Communities and Local Government (MHCLG) which is expected to state that existing assets should be transitioned quickly to asset pools. An investment strategy review will be undertaken in 2020/21 in the light of the results of the 2019 actuarial valuation.

Triennial LGPS valuation

The local government pension scheme underwent a full triennial valuation as at 31 March 2019. The impact on liabilities and assets of the Fund will be reported for the first time in the 2019/20 financial statements, with forward contributions required being determined from 2020/21 onwards.

Our response

We will consider whether your financial position leads to material uncertainty about the going concern of the Pension Fund and will review related disclosures in the financial statements.

We will consider the Pension Fund's responses to the SAB initiatives and whether they impact upon our risk assessment.

We will consider the impact of any data issues raised as part of the 2019 valuation on the risks identified as part of our 2019/20 audit.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and financial reporting. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance and is subject to PSAA agreement.

We will discuss with management the audit implications should any investments in directly held property be recognised in the 2019/20 financial statements.

We will perform additional procedures to gain assurance over the completeness and accuracy of financial and non-financial data provided to the Pension Fund actuary in respect of the triennial valuation, and consider the impact of the updated funding ratio on the Fund's going concern position.

3. Group audit scope and risk assessment

In accordance with ISA (UK) 600, as your group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The group audit does not include the Pension Fund.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
London Borough of Lewisham	Yes		<ul style="list-style-type: none"> • Management override of controls • Valuation of property, plant and equipment • Valuation of pension fund net liability • Implementation of new general ledger 	Full scope UK statutory audit performed by Grant Thornton UK LLP.
Lewisham Homes Limited	No		<ul style="list-style-type: none"> • Management override of controls • Valuation of property, plant and equipment 	Audit or one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements.
Catford Regeneration Partnership Limited	No		<ul style="list-style-type: none"> • Management override of controls • Valuation of Investment Property 	Audit or one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements.

Key changes within the group:

- There have been no significant changes within the group

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

4. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Entity Risk Relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Council and Pension Fund	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of local authorities, including London Borough of Lewisham, mean that all forms of fraud are seen as unacceptable. 	We do not consider this to be a significant risk for London Borough of Lewisham and London Borough of Lewisham Pension Fund.
Management over-ride of controls	Council and Pension Fund	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate the design effectiveness of management controls over journals. • Analyse the journals listing and determine the criteria for selecting high risk unusual journals. • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified continued

Risk	Entity Risk Relates To	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Council	<p>The Council revalues its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£2.5 billion) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2020.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. Evaluate the competence, capabilities and objectivity of the valuation expert. Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met. Engage our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. Test revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements. Assess the value of a sample of assets in relation to market rates for comparable properties. Test a sample of beacon properties in respect of council dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group.
Valuation of the pension fund net liability	Council	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£752 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p>	<p>We will:</p> <ul style="list-style-type: none"> Update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls. Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. Assess the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud and Guaranteed Minimum Pension cases. Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

Significant risks identified continued

Risk	Entity Risk Relates To	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 Investments (Annual revaluation)	Pension Fund	<p>The Fund values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£119 million) and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate management's processes for valuing Level 3 investments. • Review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met. • Independently request year-end confirmations from investment managers and the custodian. • For a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2020 with reference to known movements in the intervening period. • In the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert. • Where available review investment manager service auditor report on design and operating effectiveness of internal controls.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July and September 2020.

5. Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Completeness of non-pay operating expenditure and associated short-term creditors	Council	<p>Non-pay expenditure on goods and services represents a significant percentage (61%) of the Council's gross operating expenditure. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenditure and associated short-term creditors as a risk requiring particular audit attention.</p>	<p>We will:</p> <ul style="list-style-type: none"> Evaluate your accounting policy for recognition of non-pay expenditure for appropriateness, including the use of de minimis level set. Gain an understanding of your system for accounting for non-pay expenditure and evaluate the design of the associated controls. Obtain and test a listing of non-pay payments made in April and May 2020 to ensure that they have been charged to the appropriate year.
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	Council	<p>The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.</p> <p>In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.</p>	<p>We will:</p> <ul style="list-style-type: none"> Evaluate the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements. Assess the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC Local Authority Leasing Briefings.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July and September 2020.

Other risks identified

Risk	Entity Risk Relates To	Reason for risk identification	Key aspects of our proposed response to the risk
Actuarial Present Value of Promised Retirement Benefits	Pension Fund	<p>The Fund discloses the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represents a significant estimate in the financial statements.</p> <p>The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£2 billion) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Update our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits is not materially misstated and evaluate the design of the associated controls. • Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assess the competence, capabilities and objectivity of the actuary who carried out the Fund's pension fund valuation. • Assess the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability. • Test the consistency of disclosures with the actuarial report from the actuary. • Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.
Valuation of Level 2 Investments	Pension Fund	<p>While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.</p> <p>We therefore identified the valuation of the Fund's Level 2 investments as a risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Gain an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls. • Review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments. • Review the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and seek explanations for variances. • Independently request year-end confirmations from investment managers and custodian. • Review investment manager service auditor report on design effectiveness of internal controls.

Other risks identified

Risk	Entity Risk Relates To	Reason for risk identification	Key aspects of our proposed response to the risk
Contributions	Pension Fund	<p>Contributions from employers and employees' represents a significant percentage of the Fund's revenue.</p> <p>We therefore identified the completeness and accuracy of the transfer of contributions as a risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate the Fund's accounting policy for recognition of contributions for appropriateness. • Gain an understanding of the Fund's system for accounting for contribution income and evaluate the design effectiveness of the associated controls. • Agree changes in Admitted/Scheduled bodies to supporting documentation and agree total contributions for each employer to employer contributions reports. • Test a sample of contributions to source data to gain assurance over their accuracy and occurrence. • Test relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in member body payrolls and the number of contributing pensioners to ensure that any unusual trends are satisfactorily explained.
Pension Benefits Payable	Pension Fund	<p>Pension benefits payable represents a significant percentage of the Fund's expenditure.</p> <p>We therefore identified the completeness, accuracy and occurrence of the transfer of pension benefits payable as a risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness. • Gain an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls. • Test a sample of lump sums and associated individual pensions in payment by reference to member files. • Test relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained.

6. Other matters

Other work

The Pension Fund is administered by the London Borough of Lewisham (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements. Both entities are considered here.

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements which we give an opinion and is consistent with our knowledge of the Council.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
 - Issue of a report in the public interest or written recommendations to the Council under section 24 of the Act, copied to the Secretary of State
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
 - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Group's and Pension Fund's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

7. Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

Group and Council

We have determined financial statement materiality based on a proportion of the gross expenditure of the Group Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £16.5m for the Group and £16m for the Council (PY £19.5m and £19m), which equates to approximately 1.5% of the Group and Council's prior year gross expenditure for the year. The reduction in materiality compared to the previous year reflects the higher profile of local audit following external reviews such as those led by Sir John Kingman and Sir Tony Redman.

Pension Fund

We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £13m (PY £13.9m) for the Pension Fund, which equates to approximately 1% of the Pension Fund's prior year net assets.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

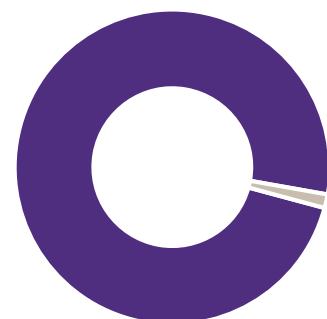
Matters we will report to the Audit Panel

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Panel any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.8m (PY £1m), while for the Pension Fun we propose £0.65m (PY £0.69m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Panel to assist it in fulfilling its governance responsibilities.

Prior year gross expenditure

Group £1,116m
Council £1,107m



■ Prior year gross expenditure
■ Materiality

Materiality



Financial statements materiality

Group 16.5m

(PY: £19.5m)

Council 16.0m

(PY: £19.0m)

Misstatements reported to the Audit Panel

£0.8m

Pension Fund prior year net assets

£1,387m



■ Prior year net assets
■ Materiality

Materiality



£13m

Pension Fund financial statements materiality

(PY: £13.9m)

£0.65m

Pension Fund misstatements reported to the Audit Panel

(PY: £0.69m)

8. Value for Money arrangements

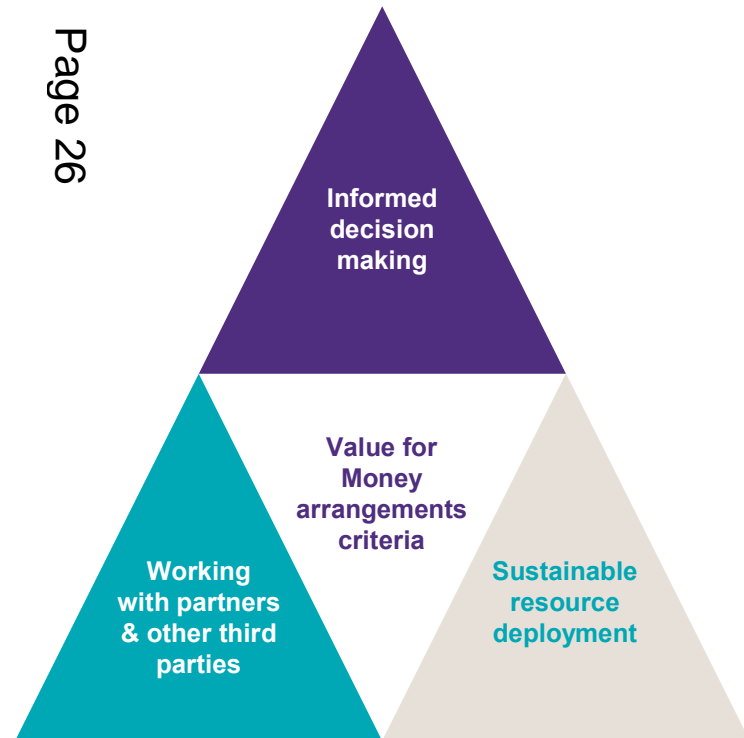
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.



Budget Management

You are currently projecting a £5.4m overspend on the 2019/20 budget. There remain significant pressures in Children & Young Peoples and the Housing, Regeneration and Environment directorates. The anticipated overspend will increase the pressure into 2020/21.

In response to this risk we will:

- Assess your understanding of, and responses to, the pressures and causal factors contributing to the 2019/20 overspend.
- Consider whether you have adequate arrangements to manage those pressures and to secure a sustainable financial position.
- Review your plans to respond to pressures within the Children and Young People Directorate.
- Consider your approach towards the use of reserves.



Medium term financial planning

In the context of future funding uncertainty arising from the fairer funding review and longer-term settlement decisions, combined with the reduction in your overall General und reserves (including earmarked) over recent years, in Spring 2020 you identified that you would be required to find £40m of savings in the three years to 2023/24 to maintain financial balance.

We will review your arrangements for setting the Medium Term Financial Plan and examine underlying assumptions and dependencies for robustness. We will examine in detail the savings plans aimed at reducing future funding gaps.



Cultural change

Your new Chief Executive has spent her first few months listening to staff across the Council and has identified communication, IT, Inclusivity, People and Leadership as key areas of improvement for the Council. The Change Network has been tasked to develop the detail of programmes identifying "quick wins" and working up projects that will strengthen these key areas across the Council. Finally, you are currently in the process of realigning your directorate structure to better reflect your future service delivery models.

We will review your arrangements for implementing cultural change and identifying and designing specific programmes.

9. Audit logistics & team



Paul Grady, Key Audit Partner

Paul is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Audit Panel. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Paul will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit work. Paul will sign your audit opinion.



Paul Jacklin, Senior Manager

Paul is responsible for overall audit management, quality assurance of audit work and output, and liaison with the Audit Panel. Paul will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable. Paul will be responsible for the delivery of our work on your arrangements in place to secure value for money.



Lakshmi Forster, Management support

Lakshmi is responsible for management and delivery of audit fieldwork, including both interim and final accounts work. Lakshmi will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, you must ensure that:

- All audit queries in our interim and final work are responded to in a timely manner and all required samples provided to enable completion of the interim audit prior to the end of March.
- The draft accounts are provided to us by 31 May and are fully accurate with minimal errors. Supporting schedules to all figures in the accounts and other working papers are provided to us by 31 May and in accordance with the agreed upon information request list. This must include all notes, the narrative report and AGS.
- The agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples. All supporting schedules are clearly presented exclude entries that are excluded and agree to figures in the accounts.
- Key management and accounting staff identified in our information request list are available throughout the duration of our audit visits to help us locate information and to provide explanations.
- All audit queries are resolved promptly and fully and within agreed timescales.

If any of the above requirements are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

10. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Executive Director of Resources and Assets and is subject to PSAA agreement.

	Actual Fee 2018/19	Proposed fee 2019/20
Council Audit	£174,789	£182,789
Pension Fund Audit	£16,170	£25,000
Total audit fees (excluding VAT)	£190,959	£207,789

Assumptions:

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Council

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	£148,789	This is this is the PSAA scale fee and is unchanged from 2018/19.
Raising the bar	£6,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. For major audits – as outlined earlier in the Plan, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling.
Materiality	£5,000	Reflecting this higher profile, and the expectations of stakeholders and our regulators, we are required to reduce the materiality level for all major audits. For the London Borough of Lewisham this means a change in materiality from circa 1.75% % to 1.5%. This will increase our work significantly, increasing the volume and scope of our testing and reporting to those charged with governance, as well as providing you with additional assurance in respect of the audit.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	£4,000	The Financial Reporting Council (FRC) has specifically highlighted that the quality and extent of work around IAS 19 valuations has to increase across local audit. We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	£9,500	The Financial Reporting Council (FRC) has specifically highlighted that the quality and extent of work around PPE and Investment Property valuations has to increase across local audit. We have responded by engaging our own audit expert (Wilks Head and Eve) and will increase the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. This fee increase includes an estimate for the fee payable to the auditor's expert. We estimate that the cost of the auditor's expert will be in the region of £5,000.
Group accounts	£2,000	We will be required to undertake additional audit procedures to gain assurance over your subsidiaries.
Accounting developments – IFRS 16	£3,000	The Council will be required to disclose in its 2019/20 financial statements the expected initial impact of the implementation of IFRS 16 on its net asset position and reserves as at 1 April 2020, to meet the requirements of IAS 8. This will require additional audit procedures.
Impact of delays	£4,000	In the previous years we experienced several delays in receiving appropriate audit evidence in a timely manner for some areas of the financial statements (such as for schools) information. The estimated cost will be considered throughout the audit and the final cost communicated at the conclusion of the audit.
Revised scale fee (to be approved by PSAA)	£182,789	

Audit fee variations – Pension Fund

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees.

Audit area	£	Rationale for fee variation
Scale fee	£16,170	This is the PSAA scale fee and is unchanged from 2018/19.
Raising the bar	£5,000	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Valuation of level 3 investments	£3,830	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of level 3 investments this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion.
Revised scale fee (to be approved by PSAA)	£25,000	This is subject to no direct property investments being made prior to 31 March 2020.

11. Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following other services were identified:

Service	£	Threats	Safeguards
Audit related:			
Certification of Housing Benefits subsidy claim	30,370	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is low in comparison to the total fee for the audit of the Council of £182,789 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Pooling of Housing Capital Receipts	5,000	As above	As above
Agreed upon procedures engagement relating to the Teachers' Pensions End of Year Certificate	6,500	As above	As above

11. Independence & non-audit services

No non-audit services were identified in respect of the Pension Fund.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Panel. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>

Appendices

A. Audit Quality – national context

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Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



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Audit Progress Report and Sector Update

London Borough of Lewisham
Year ending 31 March 2020
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Introduction



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This paper provides the Audit Panel 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 local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Panel may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

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Members of the Audit Panel can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk ..

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.

Progress at 2 March 2020

2018/19 Financial Statements Audit

We have completed our audit of the Council's 2018/19 financial statements. Our unqualified audit opinion was issued on the 4 October 2019.

We have completed our work on your Whole of Government Accounts and submitted our assurance statement on the consolidation pack on 11 November 2019.

We have had a feedback session with your key finance officers to discuss the 2018/19 audit. Finance officers are implementing plans to ensure that the accounts closedown and audit process is smoother in 2019/20, recognising that the audit opinion will be given by the end of September 2020.

2019/20 Financial Statements Audit

We began our planning for the 2019/20 audit in December, and we commenced our interim audit in February 2020. Our interim fieldwork includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

The results of our work to date are included in this report. We have conducted our early substantive testing of key account balances in February 2019. Whilst we were able to complete some of our planned activities, there remains a significant portion of work either incomplete or not yet started. A workplan tracker can be found on pages 9 to 11 which sets out achievement against planned activity. The quantum of work outstanding from our early testing visit increases the pressure on the June/July audit period.

Our audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements is a separate item on the agenda.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by 30 September 2020.

Other areas

Certification of claims and returns

We certified the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions by the 30 November deadline. The claim was subject to qualification with similar issues identified to previous years. The number of errors has decreased from the previous year and the value of the extrapolated errors in the 2018/19 qualification letter was lower than last year.

We have also completed our work on the Teachers' Pensions return. The only issue was that we identified a number of differences when comparing the breakdown of contributions in each tier to the percentage rate of the contributory salary. The total variances are £1,136 for Teachers' contributions and £24 for Employers contributions. These are small when compared with the overall value of the return of £22.4million.

Progress at 2 March 2020 (Cont.)

Other areas continued

Meetings

We met with Finance Officers on 4 February as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in October to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. We have invited your officers to attend our Financial Reporting Workshop, which will help to ensure that members of your Finance Team were up to date with the latest financial reporting requirements for local authority accounts. We have also provided a presentation to your closedown workshop on 2 March 2020.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits and discussed these with the Acting Chief Finance Officer including the proposed variations to the Scale Fee set by PSAA Limited, Details are included within the Audit Plan.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables 2018/19

2018/19 Deliverables	Planned Date	Status
<p>Audit Findings Report</p> <p>The Audit Findings Report was reported to the July and September Audit Panel.</p>	July and September 2019	Complete
<p>Auditors Report</p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	September 2019	Complete
<p>Annual Audit Letter</p> <p>This letter communicates the key issues arising from our work.</p>	October 2019	Complete
<p>Whole of Government Accounts return and assurance statement</p> <p>Issuing of our assurance statement on your Whole of Government Accounts return, provided to us and finalised following completion of your financial statements audit.</p>	October 2019	Complete
<p>Teachers' Pension return</p> <p>Issuing of audit report on your Teacher' Pension return.</p>	November 2019	Complete
<p>Housing benefits certification</p> <p>Certification of your housing benefits return.</p>	November 2019	Complete
<p>Pooling of Capital Receipts certification</p> <p>Certification of your pooling of housing capital housing benefits return.</p>	February 2020	Not yet started. We are awaiting the return from the Council.

Audit Deliverables 2019/20

2019/20 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2019	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Panel setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements.	March 2020	The Audit Plan is included on the agenda
Interim Audit Findings We will report to you the findings from our interim audit findings within our Progress Report.	March 2020	Included within this report
Audit Findings Report A progress report will be provided to the July Audit Panel with the final Audit Findings Report reported to the September Audit Panel.	September 2020	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	September 2020	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	October 2020	Not yet due
Whole of Government Accounts return and assurance statement Issuing of our assurance statement on your Whole of Government Accounts return, provided to us and finalised following completion of your financial statements audit.	October 2020	Not yet due
Teachers' Pension return Issuing of audit report on your Teacher' Pension return.	November 2020	Not yet due
Housing benefits certification Certification of your housing benefits return.	November 2020	Not yet due
Pooling of Capital Receipts certification Certification of your pooling of housing capital housing benefits return.	February 2020	Not yet due

Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
Internal audit	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention. We are yet to review internal audit's work on the Council's financial systems as we have only been provided with reports on the Council's schools to date. We have not identified any significant weaknesses impacting on our responsibilities.	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a significant risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.
Journal entry controls	<p>We have reviewed the Council'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 Council's control environment or financial statements.</p> <p>We are in the process of undertaking detailed testing on journal transactions recorded for the first ten months of the financial year, by extracting 'unusual' entries for further review.</p>	No issues have been identified that we wish to highlight for your attention.

Early testing audit work plan tracker 2 March 2020

Achieving the 31 July target for publishing audited financial statements remains a significant challenge for most local authorities. Achieving this for an organisation of your size and complexity, with a relatively lean finance team remains particularly challenging. We have worked closely with management and relationships remain open and strong. The Council has recognised that it remains highly unlikely that the audit will be completed in time to publish audited financial statements by 31 July, but would like the audit fieldwork to be completed by this date. In order for us to complete our audit fieldwork by the target date the Council will need to take the following actions to ensure the audit runs to time:

- Ensure that all outstanding interim queries are cleared down promptly so that the interim audit is full completed by 31 March 2020.
- Ensure all data from schools that do not reside on the Council's payroll is provided in full at the start of the audit.
- Provide us with a full set of financial statements by 31 May ensuring that these have been subject to rigorous internal challenge.
- Ensure that a full set of working papers are provided by 31 May which are reconciled to the accounts and every note of the financial statements has appropriate working papers.
- All transactions listings are cleansed so that any contra entries in listings are removed so we sample from transactions that are included in the year end balance.
- The response times for queries and particularly those queries that involve input from the directorates are improved. We expect that the majority of our queries and requests for information are turned around in 48 hours.
- Officers are available to answer audit queries face to face during June and July.

The table below sets out the progress achieved against the key areas of the interim audit

Planned activity	Progress	Issues and actions	RAG
Capital Pooled Receipts claim	Not Started	We have not been provided with the pre-audit claim and working papers. The department deadline was 7/2/2020. The request was raised on 20/1/2020.	Red
Substantive testing of payroll data: starters and leavers testing (months 1 to 10)	In progress	We have seven queries outstanding in relation to starters. We cannot complete our testing until management has responded to these queries which were raised on 25/2/2020.	Amber
Substantive analytical review of payroll (months 1 to 9)	In Progress	The R60 payroll system reports for Gross Pay, Tax, National Insurance and Employee and Employer Pension Contributions were received on 18/2/2020. There are some follow up queries on the reconciliation process to the General Ledger.	Amber

Early testing audit work plan tracker 2 March 2020

Planned activity	Progress	Issues and actions	RAG
Review of the outcome of the 2018-19 year end accruals to determine basis of estimation reasonable.	In progress	We have not been provided with the outcome of the 2018-19 year end accruals so that we can determine the accuracy of the Councils estimate. The request was raised on 18/2/2020. The Council are currently working on providing the required data and this will be provided prior to 31 March 2020.	Amber
Substantive sample testing of other revenues (Months 1 to 10)	In progress	The sample evidence for Months 1 to 10 was raised on 13/2/2020. On 2/3/2020 we received evidence for 13 out of the 17 samples selected for testing. The audit team are currently processing these items.	Amber
Documentation and walkthrough of the Council's key financial systems	Complete	None.	Green
School Expenditure	Not started	We planned to undertake testing on school expenditure, but the Council are unable to provide us with listings until the year end. The Council should review their processes to enable us to test these balances earlier in future years. We have raised the issue consistently over the last two audits and have yet to get the traction required particularly in relation to schools that reside off the Council's payroll system.	Red
Agreement of Opening balances on Fixed Asset Register.	In Progress	We received FAR report and General Ledger reports on 27/2/2020 which we are in the process of reviewing.	Amber
Substantive testing of operating expenditure (months 1 to 10)	In progress	We have 64 item outstanding for testing so we have not yet been able to complete this work during our planned visit in February. The request was raised on 13/2/2020.	Amber

Early testing audit work plan tracker Pension Fund 2 March 2020

Planned activity	Progress	Issues and actions	RAG
Review of Pension Fund contributions received from Scheduled and Admitted bodies (months 1 to 9)	In progress	We received returns and Banking statements on 27/2/2020 which we are currently reviewing.	Amber
Substantive testing of contributions from the Council's payroll system	Not started	We planned to undertake this testing during our interim visit but due to Pension Fund staff absence we were unable to ascertain how to obtain a listing which we could be confident that would reconcile to year end accounts . This testing will now be deferred to June.	Red
Pension Fund New Pensioners and lump sum testing (months 1 to 9)	Complete	None.	Green
Pension fund Starters and leavers (months 1 to 9)	Complete	None.	Green
Obtain all information on Pension Fund Investment managers, custodian and bank accounts and write to these prior to 31 March 2020	Complete	None.	Green

Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

Brydon Review – the quality & effectiveness of audit

The Brydon review is an independent review, led by Sir Donald Brydon, which has looked at the quality and effectiveness of audit, seeking to make proposals that will improve the UK audit ‘product’. The review has examined the nature and scope of audit from a user perspective and seeks to clarify and potentially close the ‘expectation gap’ (ie what stakeholders and society expect from audit compared to what it delivers today).

Full list of Sir Donald’s recommendations can be found online, and a brief summary is provided below:

Redefinition of audit and its purpose

- Creation of a corporate auditing profession, governed by principles
- Introduction of suspicion into the qualities of auditing
- Extension of the concept of auditing to areas beyond financial statements
- Mechanisms to encourage greater engagement of shareholders with audit and auditors
- Change in language of the opinion given by auditors
- Introduction of a corporate Audit and Assurance Policy, a Resilience Statement and a Public Interest Statement
- Suggestions to inform the work of BEIS on internal controls and improve clarity on capital maintenance
- Greater clarity around the roles of the audit committee
- A package of measures around fraud detection and prevention
- Improved auditor communication and transparency
- Obligations to acknowledge external signals of concern
- Extension of audit to new areas including Alternative Performance Measures
- Increased use of technology

On the auditor’s responsibility to detect fraud, Jonathan Riley, Grant Thornton Head of Quality and Reputation, said: “We are pleased to note that Sir Donald Brydon makes it clear that not only is there an expectation gap in relation to the purpose of audit and the detection of fraud but that the current ISAs need revision, and training of corporate auditors need to be enhanced, in order to allow auditors to better detect fraud. This is further reinforced by the new ability to make it easier for users of accounts, not just management, to inform the auditor of concerns relating to financial statements.”

“Notwithstanding these proposals, it is neither possible or desirable for an auditor to test in detail every transaction of the company and so materiality will still exist. In addition, a fraud involving collusion and sophistication may still prove extremely hard to detect.”

Grant Thornton welcomes the consideration given by Sir Donald on the quality and effectiveness of audit. These recommendations should bring far greater clarity and transparency to the profession and ultimately result in an audit regime that allows auditors to better assess, assure and inform all users of financial accounts.

Crucially, the Government must now consider these recommendations not just in context of earlier inquiries into the profession, but also against the backdrop of global trade and Britain’s future role as a pillar of global commerce. The report places new obligations not only on auditors, but also on company directors. Together with other regulations such as the revised Ethical Standard and wider corporate governance requirements, the proposed changes need to strike the right balance and not dent our place on the world’s financial stage. Careful explanation particularly of what this means to those fast growing mid-sized public entities seeking capital will be necessary.

The public perception of audit remains weak and failures continue to happen, so we agree that now is the right time to explore what needs to change to ensure that audit is fit for modern day business and meets the public interest. The report should contribute heavily towards this outcome.

Link to the full report and full list of recommendations:

<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was “working towards improving its approach to local government oversight and support”, Brokenshire promised.

“A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy,” he said.

“There are potentially far-reaching consequences when audits aren’t carried out properly and fail to detect significant problems.”

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still “fit for purpose”.

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: “Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

“Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure.”

He added: “This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole.”



In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was “open minded”, but believed the Audit Commission was “of its time”.

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts “must be of the highest level of transparency and quality”, the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, was expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.

The terms of reference focus on whether there is an “expectation gap” between the purpose of external audit and what it is currently delivering. It will examine the performance of local authority audit, judged according to the criteria of economy, effectiveness and efficiency.

Other key areas of the review include whether:

- 1) audit recommendations are effective in helping councils to improve financial management
- 2) auditors are using their reporting powers appropriately
- 3) councils are responding to auditors appropriately
- 4) Financial savings from local audit reforms have been realised
- 5) There has been an increase in audit providers
- 6) Auditors are properly responding to questions or objections by local taxpayers
- 7) Council accounts report financial performance in a way that is transparent and open to local press scrutiny

Redmond Review – Review of local authority financial reporting and external audit

The independent review led by Sir Tony Redmond sought views on the quality of local authority financial reporting and external audit. The consultation ran from 17 September 2019 to 20 December 2019.

Grant Thornton provided a comprehensive submission. We believe that local authority financial reporting and audit is at a crossroads. Recent years have seen major changes. More complex accounting, earlier financial close and lower fees have placed pressure on authorities and auditors alike. The target sign-off date for audited financial statements of 31 July has created a significant peak of workload for auditors. It has made it impossible to maintain specialist teams throughout the year. It has also impacted on individual auditors' well-being, making certain roles difficult to recruit to, especially in remote parts of the country.

Meanwhile, the focus on Value for Money, in its true sense, and on protecting the interests of citizens as taxpayers and users of services are in danger of falling by the wayside. The use of a black and white 'conclusion' has encouraged a mechanistic and tick box approach, with auditors more focused on avoiding criticism from the regulator than on producing Value for Money reports that are of value to local people.

In this environment, persuading talented people to remain in the local audit market is difficult. Many of our promising newly qualified staff and Audit Managers have left the firm to pursue careers elsewhere, often outside the public sector, and almost never to pursue public audit at other firms. Grant Thornton is now the only firm which supports qualification through CIPFA. It is no longer clear where the next generation of local auditors will come from.

We believe that now is the time to reframe both local authority financial reporting and local audit. Specifically, we believe that there is a need for:

- More clearly established system leadership for local audit;
- Simplified local authority financial reporting, particularly in the areas of capital accounting and pensions;

- Investing in improving the quality of financial reporting by local bodies;
- A realistic timescale for audit reporting, with opinion sign off by September each year, rather than July;
- An increase in audit fees to appropriate levels that reflect current levels of complexity and regulatory focus;
- A more tailored and proportional approach to local audit regulation, implementing the Kingman recommendations in full;
- Ensuring that Value for Money audit work has a more impactful scope, as part of the current NAO Code of Audit Practice refresh;
- Introducing urgent reforms which help ensure future audit arrangements are sustainable and attractive to future generations of local audit professionals.

We note that Sir Donald Brydon, in his review published this week, has recommended that *“the Audit, Reporting and Governance Authority (ARGA) (the proposed new regulatory body) should facilitate the establishment of a corporate auditing profession based on a core set of principles. (This should include but not be limited to) the statutory audit of financial statements.”* Recognising the unique nature of public audit, and the special importance of stewardship of public money, we also recommend that a similar profession be established for local audit. This should be overseen by a new public sector regulator.

As the reviews by John Kingman, Sir Donald Brydon, and the CMA have made clear, the market, politicians and the media believe that, in the corporate world, both the transparency of financial reporting and audit quality needs to be improved. Audit fees have fallen too low, and auditors are not perceived to be addressing the key things which matter to stakeholders, including a greater focus on future financial stability. The local audit sector shares many of the challenges facing company audit. All of us in this sector need to be seen to be stepping up to the challenge. This Review presents a unique opportunity to change course, and to help secure the future of local audit, along with meaningful financial reporting.

.”

National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. ‘Relevant authorities’ are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO consulted on potential changes to the Code in two stages:

Stage 1 involved engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO stated that they considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this informed the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

Stage 2 of the consultation involved consulting on the draft text of the new Code. To support stage 2, the NAO published a consultation document, which highlighted the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. The draft Code includes three specific criteria that auditors must consider:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

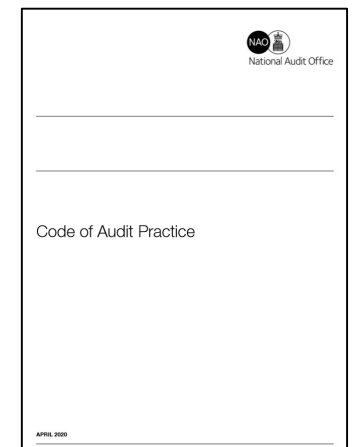
The auditor will be required to provide a commentary on the arrangements in place to secure value for money. Where significant weaknesses are identified the auditor should make recommendations setting out

- Their judgement on the nature of the weakness identified
- The evidence on which their view is based
- The impact on the local body
- The action the body needs to take to address the weakness

The consultation document and a copy of the new Code can be found on the NAO website. The new Code will apply from audits of local bodies’ 2020-21 financial statements onwards.

Link to NAO webpage for the new Code:

https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf



Financial Reporting Council – Summary of key developments for 2019/20 annual reports

On 30 October the Financial Reporting Council (FRC) wrote an Open Letter to Company Audit Committee Chairs. Some of the points are relevant to local authorities.

The reporting environment

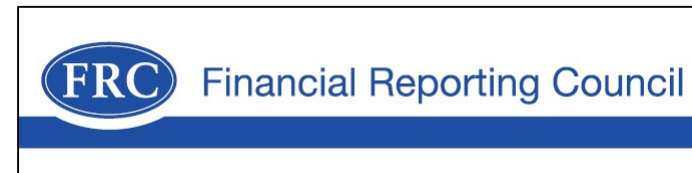
The FRC notes that, “In times of uncertainty, whether created by political events, general economic conditions or operational challenges, investors look for greater transparency in corporate reports to inform their decision-making. We expect companies to consider carefully the detail provided in those areas of their reports which are exposed to heightened levels of risk; for example, descriptions of how they have approached going concern considerations, the impact of Brexit and all areas of material estimation uncertainty.” These issues equally affect local authorities, and the Statement of Accounts or Annual Report should provide readers with sufficient appropriate information on these topics.

Critical judgements and estimates

The FRC wrote “More companies this year made a clear distinction between the critical judgements they make in preparing their accounts from those that involve the making of estimates and which lead to different disclosure requirements. However, some provided insufficient disclosures to explain this area of their reporting where a particular judgement had significant impact on their reporting; for example, whether a specific investment was a joint venture or a subsidiary requiring consolidation. We will continue to have a key focus on the adequacy of disclosures supporting transparent reporting of estimation uncertainties. An understanding of their sensitivity to changing assumptions is of critical value to investors, giving them clearer insight into the possible future changes in balance sheet values and which can inform their investment decisions.” Critical judgements and estimates also form a crucial part of local authority statements of account, with the distinction often blurred.

IFRS 16 Leases

The FRC letter also comments on the introduction of IFRS 16. Please refer to pages **XX** for more information on this topic.



Financial Reporting



Challenge question:

Will you have the opportunity to review and comment on your authority's statement of accounts before they are published at the end of May?

Financial Reporting Council – aid to Audit Committees in evaluating audit quality

On 19 December the Financial Reporting Council (FRC) issued an update of its Practice Aid to assist audit committees in evaluating audit quality in their assessment of the effectiveness of the external audit process.

The FRC notes that, “The update takes account of developments since the first edition was issued in 2015, including revisions of the UK Corporate Governance Code, the requirement for all Public Interest Entities (PIEs) to conduct a tender at least every 10 years and rotate auditors after at least 20 years, and increasing focus generally on audit quality and the role of the audit committee. It also takes account of commentary from audit committees suggesting how the Practice Aid could be more practical in focus and more clearly presented.

The framework set out in the Practice Aid focuses on understanding and challenging how the auditor demonstrates the effectiveness of key professional judgments made throughout the audit and how these might be supported by evidence of critical auditor competencies. New sections have been added addressing the audit tender process, stressing that high-audit quality should be the primary selection criterion, and matters to cover in audit committee reporting.

As well as illustrating a framework for the audit committee's evaluation, the Practice Aid sets out practical suggestions on how audit committees might tailor their evaluation in the context of the company's business model and strategy; the business risks it faces; and the perception of the reasonable expectations of the company's investors and other stakeholders. These include examples of matters for the audit committee to consider in relation to key areas of audit judgment, and illustrative audit committee considerations in evaluating the auditor's competencies.

The FRC encourages audit committees to use the Practice Aid to help develop their own approach to their evaluation of audit quality, tailored to the circumstances of their company. Audit committees are encouraged to see their evaluation as integrated with other aspects of their role related to ensuring the quality of the financial statements – obtaining evidence of the quality of the auditor's judgments made throughout the audit, in identifying audit risks, determining materiality and planning their work accordingly, as well as in assessing issues.”



The Practice Aid can be obtained from the FRC website:

<https://www.frc.org.uk/getattachment/68637e7a-8e28-484a-aec2-720544a172ba/Audit-Quality-Practice-Aid-for-Audit-Committees-2019.pdf>

Implementation of International Financial Reporting Standard 16 *Leases*

IFRS 16 *Leases*, as interpreted and adapted for the public sector, will be effective from 1 April 2020.

Background

IFRS 16 *Leases* was issued by the International Accounting Standards Board (IASB) in January 2016 and is being applied by HM Treasury in the Government Financial Reporting Manual from 1 April 2020. Implementation of the Standard will be included in the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) for 2020/21.

The new Standard replaces the current leasing standard IAS 17 and related interpretation documents IFRIC 4, SIC 15 and SIC 27 and it sets out the principles for the recognition, measurement, presentation and disclosure of leases. The IASB published IFRS 16 because it was aware that the previous lease accounting model was criticised for failing to provide a faithful representation of leasing transactions.

Impact on 2019/20 financial statements

Whilst the new Standard is effective from 1 April 2020, authorities are required by the Code to 'disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted'. This requirement of the Code (3.3.4.3) reflects the requirements of paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

In the 2019/20 financial statements we would therefore expect to see authorities make disclosures including:

- the title of the Standard
- the date of implementation
- the fact that the modified retrospective basis of transition is to be applied, with transition adjustments reflected through opening reserves
- known or reasonably estimable information relevant to assessing the possible impact that application will have on the entity's financial statements, including the impact on assets, liabilities, reserves, classification of expenditure and cashflows
- the basis for measuring right of use assets on transition
- the anticipated use of recognition exemptions and practical expedients recognising that what is sufficient disclosure for one body may not be sufficient for another

Information needed for 2019/20 financial statements

In order to make disclosures in 2019/20, a significant amount of data will be needed, most significantly:

- a complete list of leases previously identified under IAS 17 and IFRIC 4
- details of non-cancellable lease terms, purchase options, extension and termination options
- details of lease arrangements at peppercorn or NIL rental
- anticipated future cash flows and implicit interest rates or incremental borrowing rates to enable calculation of lease liabilities

Audit work on IFRS 16 transition

At this stage, we would expect you to have:

- determined whether the impact of IFRS 16 will be material for your authority
- raised awareness of the new Standard across the authority, potentially including procurement, estates, legal and IT departments
- assessed the completeness and accuracy of your lease register and taken action if necessary
- formalised and signed existing lease documentation
- identified leases of low value assets and leases with short terms
- considered whether liaison with valuation experts is necessary
- started to draft your 2019/20 disclosure note
- started to embed processes to capture the data necessary to manage the ongoing accounting implications of IFRS 16

and that you are monitoring progress against an approved IFRS 16 implementation plan. Your local engagement team will be in touch to discuss your progress with IFRS 16 implementation and audit working paper requirements.

Implementation of International Financial Reporting Standard 16 *Leases*

Further information and guidance

CIPFA published their 2020/21 Code consultation on 12 July 2019, including an Appendix concerned with IFRS 16 implementation, further details can be found at:

<https://www.cipfa.org/policy-and-guidance/consultations-archive/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-202021?crdm=0>

HM Treasury published IFRS 16 Application Guidance in December 2019 which can be found at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853238/IFRS_16_Application_Guidance_December_2019.pdf

CIPFA's IFRS 16 'Early guide for local authority practitioners' is available at:

<https://www.cipfa.org/policy-and-guidance/publications/i/ifrs-16-leases-an-early-guide-for-local-authority-practitioners>

IFRS 16 has been adopted a year earlier in the commercial sector. The Financial Reporting Council has published an IFRS 16 Thematic Review '*Review of Interim Disclosures in the First Year of Application*', containing key findings from their review and providing helpful insights into important disclosure requirements. The FRC's publication is available at:

<https://www.frc.org.uk/getattachment/a0e7c6e7-67d0-40fe-b869-e5cc589afe79/IFRS-16-thematic-review-2019-optimised.pdf>

What is the future for local audit?

Paul Dossett, Head of local government at Grant Thornton, has written in the Municipal Journal “Audit has been a hot topic of debate this year and local audit is no exception. With a review into the quality of local audit now ongoing, it’s critical that part of this work looks at the overarching governance and management of the audit regime. We believe there is a strong need for new oversight arrangements if the local audit regime is to remain sustainable and effective in the future.”

Paul goes on to write “Local (local authority and NHS) audit has been a key part of the oversight regime for public services for more than a century. The National Audit Office (NAO) has exercised this role in central government for several generations and their reporting to Parliament via the Public Accounts Committee is a key part of the public spending accountability framework.

Local audit got a significant boost with the creation of the Audit Commission in 1983 which provided a coordinated, high profile focus on local government and (from 1990) NHS spending and performance at a local level. Through undertaking value for money reviews and maintaining a tight focus on the generational governance challenges, such as rate capping in the 1980s and service governance failings in the 1990s, the Commission provided a robust market management function for the local audit regime. Local audit fees, appointments, scope, quality and relevant support for auditors all fell within their ambit.

However, the Commission was ultimately deemed, among other things, to be too expensive and was abolished in 2010, as part of the Coalition Government’s austerity saving plans. While the regime was not perfect, and the sector had acknowledged that reform of the Commission was needed, complete abolition was not the answer.

Since then, there has been no body with complete oversight of the local audit regime and how it interacts with local public services. The Ministry of Housing, Communities and Local Government; Department of Health; NHS; NAO; Local Government Association (LGA); Public Sector Audit Appointments Ltd (PSAA); the Financial Reporting Council (FRC); the Chartered Institute of Public Finance & Accountancy (CIPFA), audit firms and the audited bodies themselves all have an important role to play but, sometimes, the pursuit of individual organisational objectives has resulted in sub-optimal and even conflicting outcomes for the regime overall.

These various bodies have pursued separate objectives in areas such as audit fee reduction, scope of work, compliance with commercial practice, earlier reporting deadlines and mirroring commercial accounting conventions – to name just a few.

This has resulted in a regime that no stakeholder is wholly satisfied with and one that does not ensure local audit is providing a sufficiently robust and holistic oversight of public spending.

To help provide a more cohesive and co-ordinated approach within the sector, we believe that new oversight arrangements should be introduced. These would have ultimate responsibility for ensuring the sustainability of the local audit regime and that its component parts – including the Audit Code, regulation, market management and fees – interact in an optimal way. While these arrangements do not need to be another Audit Commission, we need to have a strategic approach to addressing the financial sustainability challenges facing local government and the NHS, the benchmarking of performance and the investigation of governance failings.

There are a number of possible solutions including:

- 1) The creation of a new arm’s length agency with a specific remit for overseeing and joining up local audit. It would provide a framework to ensure the sustainability of the regime, covering fees, appointments, and audit quality. The body would also help to create a consistent voice to government and relevant public sector stakeholders on key issues arising from the regime. Such a body would need its own governance structure drawn from the public sector and wider business community; and
- 2) Extending the current remit of the NAO. Give it total oversight of the local audit regime and, in effect, establish a local audit version of the NAO, with all the attendant powers exercised in respect of local audit. In this context, there would be a need to create appropriate governance for the various sectors, similar to the Public Accounts Committee.

While the detail of the new arrangements would be up for debate, it’s clear that a new type of oversight body, with ultimate responsibility for the key elements of local audit, is needed. It would help to provide much-needed cohesion across the sector and between its core stakeholders.

The online article is available here:

<https://www.themj.co.uk/What-is-the-future-for-audit/214769>

Grant Thornton's Sustainable Growth Index Report

Grant Thornton has launched the Sustainable Growth Index (formerly the Vibrant Economy Index) – now in its third year. The Sustainable Growth Index seeks to define and measure the components that create successful places. Our aim in establishing the Index was to create a tool to help frame future discussions between all interested parties, stimulate action and drive change locally. We have undergone a process of updating the data for English Local Authorities on our online, interactive tool, and have produced an updated report on what the data means. All information is available on our online hub, where you can read the new report and our regional analyses.

The Sustainable Growth Index provides an independent, data-led scorecard for each local area that provides:

- businesses with a framework to understand their local economy and the issues that will affect investment decisions both within the business and externally, a tool to support their work with local enterprise partnerships, as well as help inform their strategic purpose and CSR plans in light of their impact on the local social and economic environment
- policy-makers and place-shapers with an overview of the strengths, opportunities and challenges of individual places as well as the dynamic between different areas
- Citizens with an accessible insight into how their place is doing, so that they can contribute to shaping local discussions about what is important to them

The Index shows the 'tip of the iceberg' of data sets and analysis our public services advisory team can provide our private sector clients who are considering future locations in the UK, or wanting to understand the external drivers behind why some locations perform better than others.

Our study looks at over 50 indicators to evaluate all the facets of a place and where they excel or need to improve.

Our index is divided into six baskets. These are:

- 1 Prosperity
- 2 Dynamism and opportunity
- 3 Inclusion and equality
- 4 Health, wellbeing and happiness
- 5 Resilience and sustainability
- 6 Community trust and belonging

This year's index confirms that cities have a consistent imbalance between high scores related to prosperity, dynamism and opportunity, and low scores for health, wellbeing, happiness inclusion and equality. Disparity between the richest and poorest in these areas represents a considerable challenge for those places.

Inclusion and equality remains a challenge for both highly urban and highly rural places and coastal areas, particularly along the east coast from the North East to Essex and Kent, face the most significant challenges in relation to these measures and generally rank below average.

Creating sustainable growth matters and to achieve this national policy makers and local authorities need to do seven things:

- 1 Ensure that decisions are made on the basis of robust local evidence.
- 2 Focus on the transformational trends as well as the local enablers
- 3 Align investment decisions to support the creation of sustainable growth
- 4 Align new funding to support the creation of sustainable growth
- 5 Provide space for innovation and new approaches
- 6 Focus on place over organisation
- 7 Take a longer-term view

The online report is available here:

<https://www.granthornton.co.uk/en/insights/sustainable-growth-index-how-does-your-place-score/>



Institute for Fiscal Studies – English local government funding: trends and challenges in 2019 and beyond

The Institute for Fiscal Studies (IFS) has found “The 2010s have been a decade of major financial change for English local government. Not only have funding levels – and hence what councils can spend on local services – fallen significantly; major reforms to the funding system have seen an increasing emphasis on using funding to provide financial incentives for development via initiatives such as the Business Rates Retention Scheme (BRRS) and the New Homes Bonus (NHB).”

The IFS goes on to report “Looking ahead, increases in council tax and additional grant funding from central government mean a boost to funding next year – but what about the longer term, especially given plans for further changes to the funding system, including an expansion of the BRRS in 2021–22?”

This report, the first of what we hope will be an annual series of reports providing an up-to-date analysis of local government, does three things in this context. First, it looks in detail at councils’ revenues and spending, focusing on the trends and choices taken over the last decade. Second, it looks at the outlook for local government funding both in the short and longer term. And third, it looks at the impact of the BRRS and NHB on different councils’ funding so far, to see whether there are lessons to guide reforms to these policies.

The report focuses on those revenue sources and spending areas over which county, district and single-tier councils exercise real control. We therefore exclude spending on police, fire and rescue, national park and education services and the revenues specifically for these services. When looking at trends over time, we also exclude spending on and revenues specifically for public health, and make some adjustments to social care spending to make figures more comparable across years. Public health was only devolved to councils in 2013–14, and the way social care spending is organised has also changed, with councils receiving a growing pot of money from the NHS to help fund services.”

The IFS reports a number of key facts and figures, including

- 1) Cuts to funding from central government have led to a 17% fall in councils’ spending on local public services since 2009–10 – equal to 23% or nearly £300 per person.
- 2) Local government has become increasingly reliant on local taxes for revenues.
- 3) Councils’ spending is increasingly focused on social care services – now 57% of all service budgets.

The IFS report is available on their website below:

<https://www.ifs.org.uk/publications/14563>



CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "The index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by the extensive financial resilience work undertaken by CIPFA over the past four years, public consultation and technical stakeholder engagement. The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."

At the launch of the index in December, CIPFA commented " the index analyses council finances using a suite of nine measures including level of reserves, rate of depletion of reserves, external debt, Ofsted judgements and auditor value for money assessments."

CIPFA found that against these indicators the majority of councils are not showing signs of stress. But around 10% show "some signs of potential risk to their financial stability.



The Financial Resilience tool is available on the CIPFA website below:

<https://www.cipfa.org/services/financial-resilience-index/>



Audit Panel

Report title: Internal Audit Update Report.

Date: 12 March 2020

Key decision: No.

Class: Part 1

Ward(s) affected: All

Contributors: Interim Chief Finance Officer

Outline and recommendations

This report presents members of the Audit Panel with:

- Progress against the internal audit plans for 19/20,
- Progress of implementation of internal audit management actions, and
- The self-assessment of the Public Sector internal Audit Standards (PSIAS)

Summary

Progress against the corporate internal audit plan 18/19

1.1. All reports are now finalised, as the last two draft reports were finalised.

High or Medium recommendations not agreed by management

1.2. Management accepted all High and Medium actions.

Corporate follow-up reviews

1.3. There was one corporate audit follow-up done since the last meeting.

Management progress against actions agreed

1.4. The number of overdue corporate actions have increased to 46 % from 24% since the last meeting.

1.5. The number of actions taking over 12 months to implement, has increased from 20% to 35%.

Types of controls for corporate audit actions

1.6. The top two areas in the last rolling year where actions are made continue to be in the

areas of procedures and compliance / legal controls.

Schools – Progress on the 19/20 plan

1.7. Of the 24 schools in the plan, five are at draft report with all the others concluded.

School Follow-ups

1.8. There were three school follow up finalised since the last meeting.

Public Sector Internal Audit Standards (PSIAS) – External Review

1.9. The PSIAS is an external assessment that assesses how internal audit and the Audit Committee (panel) are adhering to the standards. The next one is due at the end of 2020/21.

1.10. Results of the self-assessment found that the service meets the standards, but with the updated standards needs clarification in some areas for 2020/21.

Any other business

1.11. Recruitment to Head of Internal Audit post is not yet filled, but a temporary post is actively being sought. To date unsuccessfully.

1.12. The internal control board (ICB), had it last meeting in February.

2. Recommendations

2.1. It is recommended that the Audit Panel note the content of this report

3. Background

3.1. Internal Audit is a statutory service. Its main priority is to provide management and members with independent and objective assurance on the control environment within the Council. This is set out more fully in the Internal Audit Charter that can be found here on page 33. [Audit Panel Report 11 July 2019](#)

3.2. The internal audit service consists of an in-house team that is supported by an external service provider.

3.3. Under the Terms of Reference (ToR) in the Council's Constitution as at November 2018, the Audit Panel is required to review and advise the Council on the Internal Audit function, control environment, risk, and anti-fraud policies and procedures.

3.4. The link below takes you to the Council's constitution, which contains the Terms of reference for the Audit Panel.

[The Constitution](#)

4. Progress against the corporate internal audit plan 18/19

4.1. All draft reports are now finalised.

2018/19-58 - OracleCloud - Financials – Post Implementation – Limited

2018/19-59 - OracleCloud - HR and Payroll Implementation – Satisfactory.

4.2. The executive summary for these were previously presented to the audit panel when they were at draft report stage.

4.3. The executive summary for the limited report is presented at Appendix 4.

5. Progress against the corporate internal audit plan 19/20

- 5.1. This year's plan started late due to the issues of completing the 18/19 plan (see [annual assurance report](#) for further details). The schools plan is near completion but the corporate plan is behind.
- 5.2. There are still issues with resourcing internal audit. The contractor has a lack of general auditor resources which we rely on if the plan is behind. This is in addition to a lack of specialist auditors, (procurement, IT etc.).
- 5.3. As a minimum it is internal audit's intention that at least the remaining core financials will be completed during 19/20, so that going forward, the service can catch up, and start afresh for 20/21. Options on how to procure extra resources are under review but as ever financial constraints, given the market supply pressures, remain a challenge.
- 5.4. The status of the 24 audits is as follows
- Final = 2
 - Draft = 3
 - Fieldwork ended / exit meeting = 4
 - Terms of Reference issues / fieldwork started = 12
 - Not yet started at time of writing= 3
- 5.5. There were two corporate audits completed since the last meeting:

Audit (Corporate)	Date of Final	Audit Opinion	H Recs	M Recs	L Recs	Follow up due
2019/20-26 - Grounds Maintenance - Contract Management	26/02/20	Satisfactory	-	4	5	N/A
2019/20-28 - Family Action - Contract Management	24/02/20	Satisfactory	-	7	1	N/A

Cancelled / Deferred audits

- 5.6. There were nine audits deferred, cancelled or to be considered for 20/21 plan since the last meeting:
- 2019/20-31 - Oracle HR and Payroll – Post implementation – deferred to 2020/21 as 'go-live' will now be for April 2020
 - 2019/20-49 - VAT Audit 19-20 - deferred to 2020/21 as the Council received two HMRC audits in the year and is responding to those in the first instance
 - 2019/20-50 - Rogue Landlords Framework 19-20 - deferred to 2020/21
 - 2019/20-51 - Schools' Finance Team 19-20 - deferred to 2020/21
 - 2019/20-52 - Lewisham Gateway Development – to be considered for 20/21 plan

- 2019/20-53 - Tendering and Procuring contracts and supplier Resilience 19-20 to be considered for 20/21 plan
- 2019/20-54 - Office 365 and SharePoint – to be considered for 20/21 plan as completion deferred due to need to service need to prioritise IT security work
- 2019/20-55 - LBL IT Strategy – to be considered for 20/21 plan
- 2019/20-56 - Planning Control Framework - to be considered for 20/21 plan

Additional work

5.7. There was no additional assurance or consultancy work required or requested.

6. High or Medium recommendations not agreed by management

6.1. Management agreed all High and Medium Recommendations.

7. Follow up reviews

7.1. Internal audit conducts a formal follow-up review on all reports with a Limited or No Assurance opinion, and Consultancy reviews. Internal audit also reserve the right to follow-up on any audit or any individual action as required.

7.2. There was one follow up review conducted since the last Audit Panel meeting.

- 2019/20-F03 - Apprenticeship Levy Spend including Professional Qualifications – follow up.

Process Areas	No of H	No of M	Total	Implemented	In Progress	Not Actioned	N/A	Status
Strategy Including Public Sector Targets	7	10	17*	6	8	1	2	9 of 17 actions still to completed
Recruitment and Appointment Process	-	4	4	4	-	-	-	All actions completed
Total	7	14	21	10	8	1	2	

*One additional medium action as two actions have been split into three. (01.01a-c)

8. Progress against management actions

Overdue actions

8.1. This section reports on the status of management actions since the last meeting.

8.2. The cut-off date for management to respond by was the 28/02/20 for those actions due by the 29/02/20. To accompany the table, Appendix 2 lists the individual audits with actions that are overdue and / or show those taking 12 months or more to complete.

8.3. The number of overdue actions has increased to 46%, which is disappointing considering that at the last meeting, it was reduced to 24%.

Month of meeting	Current no. of open actions	No. of overdue actions	Percentage of overdue actions
Mar 20	162	75	46%
Dec 19	200	49	24%
Sep 19	191	105	55%
Jul 19	151	68	45%
Mar 19	183	80	44%

8.4. The table below shows the breakdown of how many months over the 75 overdue actions are. Of those overdue, 19% are over six months overdue.

Month of meeting	Overdue 3 mths or less	Overdue by 4 to 6 mths	Overdue by 7 to 9 mths	Over by 10 to up to 12 mths	Over 12 mths to 18mths	Over 18 mths
Mar 20	48	13	5	1	6	2

Aged analysis report

8.5. This age analysis for actions is worked out by using the current due date for each open action against the date of the original report.

Month of Meeting	No. of recs taking under 3 mths to implement	No of recs 3 under 6 mths to implement	No of recs from 6+ to 9 mths to implement	No. of rec 9+ to 12 mths to implement	No of recs 12+ to 18 mths to implement	No of recs over 18+ mths to implement	No / % of recs over 12 mths to implement
Mar 20	48	44	7	7	14	42	56 / 35%
Dec 19	77	69	10	4	20	20	40 / 20%
Sep 19	82	43	4	6	27	29	56 / 29%
Jul 19	37	15	19	7	31	42	73 / 48%
Mar 19	38	34	28	14	29	40	69 / 38%

8.6. The table above shows that the percentage of open actions that are taking over one year to be completed. The percentage of actions taking over 12 months is increasing.

Please see appendix 2 for details.

9. Control issues found

- 9.1. The section reports on the types of controls as they relate to High or Medium findings. One finding may have more than one control recorded against it. This is because the controls are connected to the management actions.
- 9.2. For example – a finding could state that a policy was not in place. The actions for this finding could state that management will create a policy (Policies), get it approved (Governance) and then publish it (Other). As such, it would show three controls against one finding.
- 9.3. The table below provides the number of actions per control in relation to the reports during the last year
- 9.4. This table shows that main areas to date where actions are made are:
- Compliance / Legal – 28; and
 - Procedures – 26 and
 - Information security.

Type of control	Mar 19	Jul 19	Sep 19	Dec 19	Mar 20	Total
Authorisation	2	-	-	9	-	11
Compliance / Legal	-	1	16	13	6	57
Financial / Budget Monitoring	1	-	4	12	-	20
Governance	1	7	7	2	3	22
Information Security	4	7	3	10	-	30
IT	-	-	2	3	-	5
Policies	2	1	1	9	-	15
Procedures	8	10	23	66	2	118
Reconciliations	-	-	1	12	1	14
Separation of Duties	-	-	-	4	-	4
Other	2	2	9	1	-	20

Type of control	Mar 19	Jul 19	Sep 19	Dec 19	Mar 20	Total
Total	20	28	66	141	12	316

10. Progress against schools' internal audit plan

- 10.1. Of the 24 schools in the 2019/20 audit plan, only five are still at draft. Please see appendix 4 for the full schools' plan.
- 10.2. The table below shows the 11 school audits finalised since the last meeting.

Audits (Schools)	Date of Final	Audit Opinion	H recs	M recs	L recs
2019/20-01 - Brindishe Green Primary 19-20	10/01/2020	Substantial	-	11	2
2019/20-02 - Brindishe Manor Primary 19-20	06/01/2020	Substantial	-	14	3
2019/20-06 - Drumbeat School and ASD Service 19-20	30/01/2020	Satisfactory	-	16	5
2019/20-07 - Good Shepherd Catholic Primary School 19-20	25/11/2019	Substantial	-	4	5
2019/20-11 - Lucas Vale Primary 19-20	09/12/2019	Substantial	-	4	2
2019/20-13 - Myatt Garden Primary 19-20	19/12/2019	Substantial	-	11	6
2019/20-16 - Rushey Green Primary 19-20	30/01/2020	Satisfactory	-	15	5
2019/20-18 - St Augustine's Catholic Primary 19-20	21/11/2019	Satisfactory	1	11	4
2019/20-19 - St Joseph's Catholic Primary 19-20	06/01/2020	Satisfactory	1	15	-
2019/20-22 - Stillness Infant 19-20	08/01/2020	Satisfactory	1	14	-
2019/20-23 - Stillness Junior 19-20	02/12/2019	Satisfactory	-	12	2

School follow up reviews

- 10.3. There were three school follow up since the last meeting with good progress on the actions which is reassuring. They were:

- 2019/20-F04 - Bonus Pastor Catholic College - Follow up. Out of 49 actions:
 - 43 were implemented,
 - 5 were in progress, and
 - 1 was no longer applicable.
- 2019/20-F05 - Conisborough College - Follow up. Out of 22 actions:
 - 13 were implemented,
 - 7 were in progress, and
 - 2 were not actioned.
- 2019/20-F06 - Deptford Green Secondary - Follow-up. Out of 15 actions, all were implemented.

11. Public Sector Internal Audit Standards (PSIAS)

- 11.1. The PSIAS is an external assessment that assesses how internal audit and the Audit Committee (panel) are adhering to the standards. A self-assessment is done annually, and the external assessment is done every five years. The next one is due at the end of 2020/21.
- 11.2. At the last meeting it was agreed to give the Audit Panel the results of the self-assessment. While the internal audit service is confident it met the standards, there are some areas where it only partially met the standard, but has compensating controls, or need further action to improve. In addition there were areas where we met, but could make our work clearer for stakeholders and external assessors.
- 11.3. Due to accessibility issues with the table that CIPFA has supplied for the self-assessment, it is not possible to provide members with the 42 page checklist. However, please see a list of those areas and questions where the service partially met, or needs to provide clarification. The outcome will be formally reported in the annual assurance statement due at the June meeting.
- 11.4. Partially Conforms
- Based on your review of conformance with other requirements of the PSIAS and LGAN, is the internal audit activity independent and objective?
 - RESULT – the Head of Internal Audit (HIA) has additional responsibilities
 - ACTION - compensating controls in place for the internal audit manager as noted in the Audit Charter. No changes to outcome is expected.
 - Is appropriately positioned and adequately resourced.
 - RESULT – due to the HIA taking on extra responsibilities, there has effectively been a vacancy within the team for the last year, affecting delivery.
 - ACTION – recruitment of a temporary Head of Audit is underway.
 - Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by being insightful, proactive, and future-focused?
 - RESULT – met all areas with the exception of proactive.
 - ACTION – recruitment of HIA should resolve this.

- Does the CAE periodically assess individual auditors against the predetermined skills and competencies?
 - RESULT - The internal audit manager hasn't had a PES this year.
 - ACTION – with the new HIA this will be addressed.
- Is there a set of comprehensive targets which between them encompass all significant internal audit activities?
 - RESULTS – while they are in place, they are not currently measured due to the issues of delivery in previous year, which has affected the current years plan.
 - ACTION - will start to measure in 20/21 as should be back to a normal year.

11.5. Confirms but needs clarification.

- The following will need to be amended / clarified within the audit charter.
 - Note key officers within the senior management team
 - Be clear about who the board is in relation to Lewisham.
 - Be clear that the service covers all aspects of the Council's environment
 - Clarify that an auditor will only do a maximum of three years for an annual report, or not audit the same school more than three times.
 - A formal Quality Assurance Internal Plan will be put in place, rather than just noting in the annual assurance report.
 - Will clarify in the annual assurance report that the assessment look at its aims and objectives.
 - To clarify how the service links to the council's objectives and priorities.
 - Will put in reports that the engagement is conducted in conformance with the PSIAS.

12. Any other business

- 12.1. Recruitment to Head of Internal Audit post is underway but to date with limited success. More options are being requested from the recruitment team, including advertising.
- 12.2. The Internal Control Board (ICB), had it last meeting in February. The chief executive agreed that it should be disbanded with the Executive Management Team owning responsibility for internal controls. As noted in the separate risk management report for this meeting's agenda, this strengthens the role taken by the Audit Panel and this will be updated in 2020/21 as part of the review to move the Panel to a full Committee.

13. Financial implications

- 13.1. There are no financial implications arising directly from this report

14. Legal implications

- 14.1. There are no financial implications arising directly from this report

15. Equalities implications

15.1. There are no financial implications arising directly from this report

16. Climate change and environmental implications

16.1. There are no financial implications arising directly from this report

17. Crime and disorder implications

17.1. There are no financial implications arising directly from this report

18. Health and wellbeing implications

18.1. There are no financial implications arising directly from this report

19. Background papers

19.1. There are no background papers.

20. Glossary

Term	Definition
Assurance Opinion	An independent assessment on the controls in place.
Recommendation	A suggestion made by internal audit on how to improve controls.
Management Action	The actions that management have agreed to do to implement the recommendation made by internal audit.
Control	A process that is in place to prevent or reduce the risk from occurring.

21. Report author and contact

21.1. If there are any queries on this report, please contact: David Austin, Acting Chief Finance Officer, on 020 8314 9114, or email them at: david.austin@lewisham.gov.uk

Audit	Milestone	Audit Type	Final Report Date	Assurance opinion	H	M	L
2019/20-28 - Family Action - Contract Management	Final	Contract	24/06/20	Satisfactory	-	7	1
2019/20-26 - Grounds Maintenance - Contract Management	Final	Contract	26/02/20	Satisfactory	-	4	5
2019/20-43 - Asset Management 19-20	Draft	Core					
2019/20-29 - New Phone System and BCP (From 18/19)	Draft	IT					
2019/20-30 - Self Service IT Processes 19-20	Draft	IT					
2019/20-27 - School Health - Contract Management	At review stage	Contract					
2019/20-25 - Building Security - Contract Monitoring	Exit meeting	Contract					
2019/20-46 - Payroll 19-20	Exit meeting	Core					
2019/20-37 - Capital Expenditure 19-20	End of field work	Core					
2019/20-32 - Accounts Payable 19-20	Fieldwork started	Core					
2019/20-41 - Housing Benefit and Council Tax Reduction Scheme (CTRS) 19-20	Fieldwork started	Core					
2019/20-47 - Pensions for LGPS 19-20	Fieldwork started	Core					
2019/20-36 - Business Rates -19-20	Fieldwork started	Core					
2019/20-38 - Client Contribution for Care Provision 19-20	Fieldwork started	Core					
2019/20-33 - Accounts Receivable and Debt Recovery 19-20	ToR issued	Core					

Appendix 1 – Progress on the corporate audit plan 19-20

Audit	Milestone	Audit Type	Final Report Date	Assurance opinion	H	M	L
2019/20-42 - Main Accounting 19-20	ToR issued	Core					
2019/20-44 - Payments to Adult Care Providers 19-20	ToR issued	Core					
2019/20-35 - Budget Setting and Monitoring 19-20	ToR issued	Core					
2019/20-40 - Direct Payments 19-20	Pre meeting held	Core					
2019/20-45 - Payments to Child Care Provider & Foster Carers 19-20	Pre meeting held	Core					
2019/20-34 - Banking 19-20	Not yet started	Core					
2019/20-39 - Council Tax 19-20	Not yet started	Core					
2019/20-48 - Treasury Management 19-20	Not yet started	Core					

Appendix 2 – Status of management actions

Audit	Date of Final Report	Opinion	Original Actions (WEF 18/1/18)	Current open actions.	Actions Overdue High	Actions overdue Medium	Actions taking over 12+ mths High	Actions taking over 12+ mths Medium
Accounts Payable 18-19	21/10/19	Limited	31	10	1	6		
Accounts Payable 2016-17	16/03/17	Satisfactory	2	1				1
Accounts Receivable and Debt Recovery 18-19	21/10/19	Limited	21	8				
Adherence to the Local Government Transparency Code	12/10/18	Limited	15	9		2		9
Adult Social Care System - Back up and BCP	04/04/16	Limited	2	2	1	1	1	1
Apprenticeship Levy Spend including Professional Qualifications	27/09/18	Limited	24	9			5	4
ASH Aspien - Debt Recovery System	22/10/19	Limited	11	4				
Banking 16-17	18/05/17	Limited	1	1				1
Banking 17-18	22/02/18	Satisfactory	3	3			3	
Banking 18-19	17/10/19	Satisfactory	13	13	2	10		
Besson Street Project	11/06/19	Satisfactory	9	3		3		
Budget Monitoring and Setting 2017-18	05/12/17	Satisfactory	3	2		2		2

Appendix 2 – Status of management actions

Audit	Date of Final Report	Opinion	Original Actions (WEF 18/1/18)	Current open actions.	Actions Overdue High	Actions overdue Medium	Actions taking over 12+ mths High	Actions taking over 12+ mths Medium
Business Rates 18-19	04/10/19	Substantial	4	1				
Client Contribution for Care Provision 18-19	12/08/19	Limited	26	9	4		1	1
Complaints (Corporate)	06/11/18	Satisfactory	7	3				3
Council Tax 18-19	14/10/19	Satisfactory	8	3				
Data Breach Management	18/05/17	Limited	3	1				1
Direct Payments 18-19	23/04/19	Satisfactory	20	3		1		
Family Action - Contract Management	24/02/20	Satisfactory	7	7				
Garden Waste Service 2017/18	05/01/18	Satisfactory	2	2		2		
Grounds Maintenance - Contract Management	27/02/20	Satisfactory	4	4				
Health Visiting	29/05/18	Limited	6	1			1	
Homelessness Applicants 2017/18	18/05/18	Satisfactory	1	1				1
Housing Benefit and Council Tax Reduction Scheme (CTRS) 18-19	14/03/19	Substantial	1	1		1		
Icasework IT System	25/10/19	Satisfactory	3	1		1		
ICT Disaster Recovery	11/04/17	Substantial	1	1		1		1

Appendix 2 – Status of management actions

Audit	Date of Final Report	Opinion	Original Actions (WEF 18/1/18)	Current open actions.	Actions Overdue High	Actions overdue Medium	Actions taking over 12+ mths High	Actions taking over 12+ mths Medium
Implementation of GDPR	04/06/19	Substantial	4	2				1
IT Helpdesk - Shared Services	17/05/18	Substantial	2	2		2		2
Main Accounting 17-18	06/02/18	Satisfactory	3	2			1	1
Mobile Devices Contract 16-17	07/07/17	Satisfactory	2	2		1		2
Non-Current Assets 18-19	10/10/19	Satisfactory	11	11		3		
Oracle Cloud - Migration 17-18	02/07/18	No Assurance	4	4	3	1	2	1
OracleCloud - HR and Payroll Implementation	17/01/20	Satisfactory	3	3		3		
Payments to Adult Care Providers 18-19	04/10/19	Satisfactory	15	9	2	4		
Payments to Child Care Provider and Foster Carers for Looked After Children 18-19	20/08/19	Limited	11	2	2			
Payroll 18-19	08/05/19	Satisfactory	5	4		2		
Performance Indicators and Service Planning 17-18	21/07/17	Advisory / Consultancy	2	1		1		1
Pooled Budgets and Section 75 Payments	20/08/19	Satisfactory	5	2		2		
Prepaid Cards 16-17	17/03/17	Limited	4	4		1		4

Appendix 2 – Status of management actions

Audit	Date of Final Report	Opinion	Original Actions (WEF 18/1/18)	Current open actions.	Actions Overdue High	Actions overdue Medium	Actions taking over 12+ mths High	Actions taking over 12+ mths Medium
Public Sector Network 16-17	01/02/17	Limited	1	1		1		1
Recording of Safe Guarding – Section 42 Referrals	03/07/17	Limited	8	2		1		2
Recruitment Process	04/06/19	Satisfactory	8	1		1		
Special Educational Needs	24/06/19	Substantial	3	2		2		
Synergy Application	19/06/18	Satisfactory	3	1	1			
Treasury Management 18-19	02/02/19	Substantial	8	2		2		
Vehicle and Fuel Maintenance	19/06/17	Satisfactory	2	2	1	1	1	1
Total			332	162	17	58	15	41

Appendix 3 – Progress against the schools audit plan

Audit	Status	Report date	Assurance opinion	H	M	L
Brindishe Green Primary 19-20	Final	10/01/20	Substantial		11	2
Brindishe Manor Primary 19-20	Final	06/01/20	Substantial		14	3
Dalmain Primary 19-20	Final	12/11/19	Satisfactory		11	6
Deptford Park Primary 19-20	Final	14/11/19	Satisfactory	1	13	5
Drumbeat School and ASD Service 19-20	Final	30/01/20	Satisfactory		16	5
Good Shepherd Catholic Primary School 19-20	Final	25/11/19	Substantial		4	5
Holy Cross Catholic Primary 19-20	Final	05/11/19	Satisfactory		11	5
Lucas Vale Primary 19-20	Final	09/12/19	Substantial		4	2
Myatt Garden Primary 19-20	Final	19/12/19	Substantial		11	6
Rangefield Primary 19-20	Final	05/11/19	Substantial		7	1
Rushey Green Primary 19-20	Final	30/01/20	Satisfactory		15	5
Sandhurst Primary 19-20	Final	07/11/19	Satisfactory		12	4
St Augustine's Catholic Primary 19-20	Final	21/11/19	Satisfactory	1	11	4
St Joseph's Catholic Primary 19-20	Final	06/01/20	Satisfactory	1	15	
St Mary's Church of England Primary 19-20	Final	08/07/19	Substantial		9	2
St Stephen's Church of England Primary 19-20	Final	07/10/19	Substantial		9	3
Stillness Infant 19-20	Final	08/01/20	Satisfactory	1	14	

Appendix 3 – Progress against the schools audit plan

Audit	Status	Report date	Assurance opinion	H	M	L
Stillness Junior 19-20	Final	02/12/19	Satisfactory		12	2
Torridon Primary 19-20	Final	30/09/19	Satisfactory		17	1
Clyde Nursery 19-20	Draft					
Horniman Primary 19-20	Draft					
John Stainer Primary 19-20	Draft					
Marvels Lane Primary 19-20	Draft					
Rathfern Primary 19-20	Draft					

Oracle Cloud – Financials Post Implementation- 2018/2019

Limited

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	Process Areas	High	Medium	Low
▲	1. Application Management and Governance	1	1	-
●	2. System Security	-	1	-
●	3. Interface Controls and Processing	-	1	-
★	4. Data Input	-	-	-
★	5. Data Migration	-	-	-
★	6. Data Output	-	-	-
●	7. Change Controls	-	1	-
●	8. System Resilience and Recovery	-	1	1
●	9. Support Arrangements	-	1	-
	Total	1	6	1

Key ★ Substantial ● Satisfactory ▲ Limited ■ No Assurance

The background for this internal audit are included in the Terms of Reference at the end of this report. The findings in this report are by exception. This means only those areas where further management action is required to improve internal control are mentioned.

A Limited Assurance Opinion has been assigned to this review. The Council has yet to establish a support agreement outlining the key system management responsibilities and the individuals responsible for these across the Council. In the absence of this control, there is a risk that that key system processes and controls may not be enforced, exposing the organisation to a high degree of unnecessary risk.

This includes both Council employees and employees of Evolutionary Systems Company Limited (Evosys), the sub-contractor who was originally responsible for implementing the Oracle Financials Cloud system and is still relied upon to undertake system testing for the Council without a formal agreement in place. A business continuity risk also arises when interfacing arrangements and change control procedures have not been formally agreed by the Council.

The Council was unable to provide us with access to the data mapping schedules and testing undertaken by Evosys. In the absence of this information, it has not been possible to test the operation of the data mapping strategy agreed between Evosys and the Council. This means that assurance cannot be given over the completeness and accuracy of the data sets pulled across from the legacy system to the corresponding data fields on the new Oracle Financials Cloud system

Assurance Opinion and Recommendations Made

The audit of the Oracle Financials Cloud System has been assigned a rating of Limited.

To improve controls, recommendation are agreed by management. The number of recommendations and their categories were:

- 1 High Recommendation
- 6 Medium Recommendations
- 1 Low Recommendation.

We noted that the Council do not have a control in place to ensure that all new and existing users have undertaken formal IT Security Training prior access being granted to the Oracle Financials Cloud system. However, this is a wider corporate issue that will be addressed in another audit

Key Findings

- There is no support agreement outlining the key system management responsibilities and the individuals responsible for these across the organisation. This includes the parties responsible for managing the change management process, system resilience and continuity and system security.
- The Oracle Cloud licences have not been paid for the current licencing year, with payment overdue by 14 days.
- A process has not been established to undertake regular user access reviews for the Oracle Cloud Financials system.
- The operation of the Oracle Financials Cloud interfaces have not been documented in sufficient detail to assist in timely fault detection and correction in the absence of key members of staff.
- There is no documented change control procedure to govern the testing of the Oracle Cloud System. While a set of standard test schedules

have been circulated, it was observed that the IT Team does not have a process in place to obtain assurance that errors detected during the testing are addressed in a timely manner and signed off prior to the application of the update. Evosys also undertakes testing of quarterly updates prior to the introduction to the live environment. However, a formal support agreement is not in place between the Council and Evosys.

- The Council has been unable to demonstrate the Oracle disaster recovery test expectations are aligned with the service requirements of the Council.
- The Oracle Cloud Services Agreement has been signed by a representative of the Council but has not been signed by a representative of Oracle. In addition, the Council was unable to demonstrate that performance against service levels agreed with Oracle are currently monitored.

Areas that worked well

- Segregation of duties is enforced for key control processes sampled, including the approval of journals, the amendment of supplier accounts and the processing of invoices.
- Data input validation controls are in place, including, format checks, improbable and erroneous data checks and user review checks.
- For the data migration exercise, test cases have been used and procedural guidance provided to staff.

Limitations to the scope of the audit:

Our work does not provide absolute assurance that material error, loss, or fraud does not exist. It is not a substitute for management checks and controls.



Audit Panel

Risk register – December 2019

Date: 12 March 2020

Key decision: No.

Class: Part 1.

Ward(s) affected: None specifically

Contributors: Acting Chief Finance Officer

Outline:

This report presents the most recent Council's corporate risk register as reviewed by the Executive Management Team.

Recommendation:

The Panel are asked to review and note the contents of the report.

Timeline of engagement and decision-making

Going forward this is the regular quarterly report on risk for the Audit Panel to enable them to fulfil their terms of reference in respect of ensuring assurance work is effectively directed to risk.

1. Summary

- 1.1. This report presents the December 2019 risk register and changes agreed by the Executive Management Team (EMT). The next risk register update will be for the end of March 2020, following the update of the Directorate registers.

2. Recommendations

- 2.1. The Committee are asked to review and note the contents of the report.

3. Policy Context

- 3.1. The Council's strategy and priorities launched its new Corporate Strategy in 2019, with seven corporate priorities as stated below:

- **Open Lewisham** - Lewisham will be a place where diversity and cultural heritage is recognised as a strength and is celebrated.
- **Tackling the housing crisis** - Everyone has a decent home that is secure and affordable.
- **Giving children and young people the best start in life** - Every child has access to an outstanding and inspiring education, and is given the support they need to keep them safe, well and able to achieve their full potential.
- **Building and inclusive local economy** - Everyone can access high-quality job opportunities, with decent pay and security in our thriving and inclusive local economy.
- **Delivering and defending health, social care and support** - Ensuring everyone receives the health, mental health, social care and support services they need.
- **Making Lewisham greener** - Everyone enjoys our green spaces, and benefits from a healthy environment as we work to protect and improve our local environment.
- **Building safer communities** - Every resident feels safe and secure living here as we work together towards a borough free from the fear of crime.

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- 3.2. The risks in the register are aligned to these priorities along with a more general one for governance and operational effectiveness.

4. Background

- 4.1. The Council has a three year risk management strategy, presented to the Audit Panel in 2018/19, which guides the approach followed. This starts at service level through their annual plans and as part of project planning. It then builds into Directorate risk registers and preparation on the Corporate risk register. The Directorate and Corporate risk registers are prepared quarterly and reviewed by the Executive Management Team (EMT) and the Internal Control Board (ICB). The forward look for risks is 12 to 18 months.
- 4.2. As confirmed at the previous Audit Panel, because of the links to the financial statements and importance to the direction of assurance work, the Corporate risk register is now to be presented as a standing agenda item to the Audit Panel. The version presented to the Audit Panel is less the notes as these are management working papers.
- 4.3. Since this agreement, the Council has also agreed to stop the ICB with work to rely on the review by EMT, supported by the Member review of risk at the Audit Panel.

5. EMT consideration of the December risk register

- 5.1. EMT considered the December corporate risk register in February. The most significant risks in terms of current score and distance from target are:
- 1.A.1 Info Governance Failure
 - 2.A.1 Internal Control
 - 2.B.2 Cyber Security
- 5.2. There were no new risks and none for deletion in the corporate risk register. There are two score changes this quarter. They are:
- Un-balanced budget has been downgraded from 15 (red) to 10 (amber) following the better than expected financial settlement for 2020/21; and
 - Brexit disruption has been downgraded from 12 amber to 8 amber as the government's decisions are now known.
- 5.3. All actions in the Strategic Register are either completed or progressing satisfactorily in accordance with expected timescales, with the exception of those listed below where the dates have slipped or been extended:
- 1.B.1 Building Manager Handbook – slipped from Sept 18 now forms part of wider action for Apr 20
 - 2.A.1 Phase 2 business improvements (payroll) – slipped Mar 19 to June 20, control environment for Oracle Cloud – slipped to Mar 20, LOBO objection still open with external audit – slipped from June 18 to June 20 (PFI objection closed Jan 20)
 - 2.A.3 Transformational change strategy slipped from Dec 19 to Mar 20
 - 2.B.1 ICT infrastructure raise performance target slipped from Dec 19 to Mar 20
 - 2.B.2 Implementation of recs from IT security audit – slipped Sept 19 to Jan 20

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5.4. EMT also review the future risk horizon using a PESTLE framework. This identifies the following:

Political	<ul style="list-style-type: none"> <input type="checkbox"/> Integration of elements of the Health system – including commissioning <input type="checkbox"/> Changes to funding flows in respect of NNDR and CTax Benefit <input type="checkbox"/> Loss of Business Rates income from appeals &/or proposals to devolve to local level. <input type="checkbox"/> Trend to free schools and academies. <input type="checkbox"/> Governance and operational impact of Devolution agenda for London on Lewisham priorities and services.
Economic	<ul style="list-style-type: none"> <input type="checkbox"/> Continuing austerity measures restricting work of local government <input type="checkbox"/> Catford and Lewisham regeneration/development, including Bakerloo line, new build priorities, organisation of housing service providers. <input type="checkbox"/> Impact of migration on demand for services (short and medium term). <input type="checkbox"/> Consequence of Brexit <input type="checkbox"/> Changes to National Funding Formula for schools and falling rolls
Social	<ul style="list-style-type: none"> <input type="checkbox"/> Resourcing (skills) mix and staff churn from reorganisation changes <input type="checkbox"/> 2011 Census outcomes and predicted demographic changes <input type="checkbox"/> Consequence of Brexit
Technological	<ul style="list-style-type: none"> <input type="checkbox"/> Estate rationalisation and impact on ways of working <input type="checkbox"/> IT strategy and fit for purpose systems to support changing ways of working
Legislation	<ul style="list-style-type: none"> <input type="checkbox"/> Impact of Universal Credit, Welfare Reform and Public Services legislation <input type="checkbox"/> Scale and pace of statutory/legislative changes, e.g. Social Care changes
Environment	<ul style="list-style-type: none"> <input type="checkbox"/> Flood and Water Management Act <input type="checkbox"/> Carbon Reduction Commitment

5.5. EMT also review questions on the risk register to be included in the next quarterly update. The key points (in risk order not necessarily importance) to note for change in the December 2019 corporate risk register include:

5.5.1. 1.A.1 Information Governance and 2.B.2 Cyber risks are on watch as environment changing. *Are these the Council's two largest 'live' risks?*

EMT felt this is not the full picture. The capital programme needs to be more fully reflected – in particular, the Building for Lewisham programme (see comment below)

5.5.2. 1.B.3 Air quality risk has been renamed to include impact of climate change so has more dimensions and is jointly owned by Community and HRE. *Do EMT wish to expand upon or add anything to this risk?*

EMT note this is work in progress. The actions and notes to be updated for the climate change strategy once it has been briefed to Cabinet.

5.5.3. 3.A.1 & 2 Workforce and resilience risks have been updated but need fuller review. Should these focus on culture change and leadership and what are the next actions?

EMT reviewed these risks. The actions on leadership and staff events to be moved from 3.A.1 to 3.B.2. The staff invitations for 2020 are out and the risk actions and notes will be updated as the change network plan is finalised – due by April 2020.

- 5.5.4. 3.B.1 Ineffective partnership working. Should this be merged with 3.B.2 Integrated delivery models for health and care? What are the next key steps/milestones to consider all of the 'key' partnerships that should be included?

EMT agreed not to merge these risks at this time. 3.A.1 actions to be updated to include work beginning now on developing a shared long term vision with partners for the borough. The notes of 3.A.1 to also be updated to prompt a scan across key partners (police, education, health, business, voluntary sector, GLA) each quarter.

- 5.5.5. Currently the risks from the emerging Housing supply programme are not mentioned in the Strategic Register. This risk is included in the HRE register as an amber risk – red against target. *Do EMT wish to add this to the Strategic Register?*

EMT agree this is important and should be a new risk for the register. It will need to draw from the HRE directorate register once finalised there.

- 5.5.6. Do any immediate considerations arise from the current known 2019-nCoV that should be recorded? Are there other risks that EMT would like recorded?

EMT discussed this. The flu pandemic is already covered and plans in place under the risk on resilience. This need to be actively monitored. No other additions or changes were noted for this quarter

- 5.6. The Audit Panel are invited to review the December 2019 corporate risk register appended at Appendix 1.

6. Financial implications

- 6.1. There are no direct financial implications arising from this report.

7. Legal implications

- 7.1. There are no direct legal implications arising from this report. The regular assessment of the Council's risks forms part of the evidence reviewed as part of preparing the Annual Governance Statement in the financial statements.

8. Equalities implications

- 8.1. There are no direct equalities implications arising from this report.

9. Climate change and environmental implications

- 9.1. There are no direct climate or environmental implications arising from this report.

10. Crime and disorder implications

- 10.1. There are no direct crime and disorder implications arising from this report.

11. Health and wellbeing implications

- 11.1. There are no direct health and wellbeing implications arising from this report.

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12. Background papers

12.1. Appended to this report is the Hymans Robertson quarterly investment report.

13. Report author and contact

13.1. David Austin, Acting Chief Finance Officer

APPENDIX 1: Corporate Risk Register – December 2019

Ref	Risk Category – levels 1 & 2		Lead	RAG	Change / Comment
1	COMPLY WITH THE LAW				
1A	Governance	1. Information Governance Failure	CS	R	Actions & Notes updated
		2. Governance failings implementing service changes	CEO	A	Actions & Notes updated
1B	Regulatory	1. Non-Compliance with Health & Safety	CEO	A	Actions & Notes updated
		2. Respond to legislative change	CS	A	No change
		3. High levels of poor Air Quality – Renamed Impact of Climate Change	COM	A	Renamed. Actions & Notes updated
2	SECURE SERVICES TO USERS				
2A	Process	1. Adequacy of Internal Control	CS	R	Actions & Notes updated
		2. Failure in Child Safeguarding	CYP	R	Actions & Notes updated
		3. Non-delivery of transformational change	CS	R	Actions & Notes updated
		4. Elections not conducted efficiently or effectively	CEO	G	Actions & Notes updated
		5. Serious Adult Safeguarding concerns	COM	R	Actions & Notes updated
2B	Technology	1. ICT not fit for purpose/does not meet business needs	CS	A	Actions & Notes updated
		2. Cyber Security breaches corrupt or locks down systems or data	CS	R	Actions & Notes updated
3	DEVELOP STAFF & PARTNERS				
3A	Workforce	1. Loss of constructive relations	CS	A	Actions & Notes updated
		2. Maintain sufficient management capacity & capability	CEO	A	Actions & Notes updated
3B	Partnerships	1. Multi-agency governance leads to ineffective partnership working	CEO	A	Actions & Notes updated
		2. Agree integrated delivery models for local health and care services	COM	A	No change
4	SERVICES REPRESENT VFM				
4A	Procurement	1. Failure to manage suppliers and procurement programmes.	CS	A	Actions & Notes updated
4B	Performance	1. Failure to manage performance leads to service failure	CEO	A	Actions & Notes updated

APPENDIX 1: Corporate Risk Register – December 2019

Ref	Risk Category – levels 1 & 2	Lead	RAG	Change / Comment	
5	MANAGE WITHIN BUDGET				
5A	Financial	1. Financial failure unable to maintain delivery within balanced budget	CS	A	Score change – Red (15) to amber (10) Actions & Notes updated
		2. Unforeseen expenditure/loss of income from funding streams	CS	A	Actions & Notes updated
		3. Loss of income - debt collection	CS	A	No change
5B	Bus. Continuity	1. Failure to contain impacts of emergency	CS	A	Actions & Notes updated
6	BREXIT				
6		1. Risk of disruption to Council services and impact on residents/businesses	CS	A	Score change 12 amber to 8 amber Actions and notes updated

Key

Scoring

5x5 Likelihood and Impact with 1 Low and 5 High. See Risk Management Strategy for guidance on assessing impact and likelihood

RAG rating

- △ Red
- Amber
- ★ Green

Direction of Travel

- ↗ Better
- Same
- ↘ Worse

APPENDIX 1: Corporate Risk Register – December 2019

Ref	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
1. Comply with the Law: A. Governance										
1.A.1	Information Governance failure	△	16	8	△	➔	Executive Director for Corporate Services	<ul style="list-style-type: none"> • PSN and PCI accreditations to be completed • Work with new SIRO and MD for Shared Service to bring them up to speed • Roll out mandatory online information governance and security training for all staff • Decommission old server environment • Implement audit recommendations 	Done Jan 20 Done Starting in Dec 19 (slipped - Oct 19) Done Mar 20 Ongoing – next milestone Mar 20	Good governance and effective operational performance
	Impact		4	4						
	Likelihood		4	2						

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APPENDIX 1: Corporate Risk Register – December 2019

Ref	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
1. Comply with the Law: A. Governance										
1.A.2	Governance (opportunities and threats) in the implementation on of service changes	●	12	8	●	➔	Chief Executive	<ul style="list-style-type: none"> Design and communicate approach to service redesign and change work for 2021 – LA MTFS – to prepare 2021/22 Budget. Implementation of 20/21 service changes in line with Budget to live within financial limits. 	<p>May 20</p> <p>Next update May 20</p>	Good governance and effective operational performance
	Impact		4	4						
	Likelihood		3	2						

APPENDIX 1: Corporate Risk Register – December 2019

Ref	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
1. Comply with the Law: B. Regulatory										
1.B.1	Noncompliance with Health & Safety Legislation	●	12	6	△	➔	Chief Executive	<ul style="list-style-type: none"> All DMTs to review annual self-assessments, incidents and audits Undertake a review of how H&S is currently managed and adjust accordingly, This will cover: <ul style="list-style-type: none"> - Operational - Assets (inc PO Handbook) - Staff welfare Review approach to tree risk assessments and related work programme Respond to HSE on questions regarding BPP lake incident in the summer H&S Board monitoring progress with fire risk works and statutory & planned building maintenance works 	Done – next cycle launched in Oct 19 Apr 20 Mar 20 Jan 20 Done Ongoing – next update Jan 20	Good governance and effective operational performance
	Impact		4	3						
	Likelihood		3	2						

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APPENDIX 1: Corporate Risk Register – December 2019

Ref	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
1. Comply with the Law: B. Regulatory										
1.B.2	Failure to anticipate and respond appropriately to legislative change	●	12	5	△	➔	Executive Director for Corporate Services / Director of Law	<ul style="list-style-type: none"> • Reports to Council on changes necessary to reflect Legislation. • Constitution to Full Council to adopt latest updates • Responding to Govt consultations and lobbying in various areas of political change (e.g. fair funding review, schools funding, improved health & social care funding, London devolution) 	Quarterly for CWP Nov 20 As dictated by Gov't agenda	Good governance and effective operational performance
	Impact		4	5						
	Likelihood		3	1						

APPENDIX 1: Corporate Risk Register – December 2019

Ref	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
1.	Comply with the Law: B. Regulatory									
1.B.3	Impact of climate change (e.g. air quality, extreme weather, flooding, compliance with new requirements/standards for service delivery).	●	12	6	△	➔	Executive Director for Community Services/Executive Director HRE	<ul style="list-style-type: none"> Develop strategy and supporting plans to work towards climate emergency targets LEZ fleet procurement strategy – refuse and transport – delivery by summer 2020 Electric vehicle parking and charging strategy consultation launched Apr 19 – next steps Building team and extending work to improve Home Energy conservation Reviewing resources required accelerate work on changes to improve air quality Work to develop indicators to monitor effects of initiatives Lewisham Climate Emergency Public Forum 	Mar 20 Done – next Jun 20 TBC Feb 20 Feb 20 Apr 20 Jan 20	Making Lewisham Greener
	Impact		4	3						
	Likelihood		3	2						

APPENDIX 1: Corporate Risk Register – December 2019

Ref	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
2. Secure Services to Users: A. Process										
2.A.1	Adequacy of Internal Control	△	16	8	△	➔	Executive Director for Corporate Services	<ul style="list-style-type: none"> Implement new Oracle ERP system. Various milestones. Finance and PBCS live. Preparations for Payroll and self-service continue although delayed. Next phase to get wider business improvements to realise benefits of investment Improvement plan for Liquid Logic (LAS/LCS and Controc) system and processes for CSC and ASC, aligned with service operating models and procedures. Approach agreed and work in progress Internal audit to work with finance on 'to be' control environment for Oracle Cloud Two 16/17 objections – LOBO and PFI – still open with external audit Action recommendations from external auditor re 17/18 VFM opinion Develop and plan project assurance approach to support transformation work 	Phase 1 – Mar 20 (Mar 19) Phase 2 – Jun 20 (slipped for payroll) Next milestone Mar 20 Mar 20 (slipped as Oracle delayed) Jun 20 (slipped Jun 18) Done Mar 20	Good governance and effective operational performance
	Impact		4	4						
	Likelihood		4	2						

APPENDIX 1: Corporate Risk Register – December 2019

Ref	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
2. Secure Services to Users: A. Process										
2.A.2	Failure in Child Safeguarding	△	25	20	★	➔	Executive Director Children & Young People	<ul style="list-style-type: none"> Continue to implement improvement programme for CSC. Drive and monitor through fortnightly Improvement Board chaired by the lead member. Improvement programme refreshed in light of Ofsted ILACS inspection July 2019. Support establishment of new Lewisham Safeguarding Children Partnership. Refreshed Improvement plan will be presented to the Mayor. Regular updates on improvement plan progress to be provided to CYP Select 	Improvement programme runs to September 2020. Monthly reporting to SMT & DMT Done Done Next on agenda Jan 2020	<i>Giving children and young people the best start in life</i>
	Impact		5	5						
	Likelihood		5	4						

APPENDIX 1: Corporate Risk Register – December 2019

Ref	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
2. Secure Services to Users: A. Process										
2.A.3	Strategic programme to develop and implement transformation change does not deliver	△	15	10	●	→	Exec Director for Corporate Services	<ul style="list-style-type: none"> Develop change strategy in line with Corporate Priority objectives. Review approach (one year on) to ensure delivery as planned, in particular support for culture change. 	Mar 20 (slipped from Dec 19) Apr 20	Good governance and effective operational performance
	Impact		5	5						
	Likelihood		3	2						

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Ref	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
2.A.4	Elections not conducted efficiently or effectively	★	5	4	★	➔	Chief Executive/ Head of Law	<ul style="list-style-type: none"> Undertake delayed Canvas update Implement Boundary Commission changes once confirmed Prepare for London Mayoral Election 	Feb 20 TBC in 2020 May 20	Open Lewisham
	Impact		5	4						
	Likelihood		1	1						

APPENDIX 1: Corporate Risk Register – December 2019

Ref	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
2. Secure Services to Users: A. Process										
2.A.5	Serious Adult Safeguarding Concerns	△	20	20	★	➔	Executive Director for Community Services	<ul style="list-style-type: none"> There are robust Safeguarding processes in place throughout operational and provider services and partner organisations. Safeguarding performance is scrutinised by the LSAB and DMT. Cases that meet the threshold for a statutory safeguarding audit are referred to the Adult Review Board that meets monthly. Deprivation of Liberty Safeguards applications continue to rise. To mitigate the risk of legal challenge for unauthorised detentions Community DOLS are being processed on time and COP applications made. New system Liberty Protection safeguards will be implemented in September 2020 now that government legal sign off process has been completed. Task and Finish group in place to monitor all actions from DHRs. These are reviewed at Safeguarding Boards and Safer Lewisham Partnership. 1 new DHR has begun 	LSAB meets quarterly SAR meets monthly. DMT performance monitored monthly. Monthly quality assurance and call over sessions are in place to monitor practice trends and quality provision. Monthly reviews to monitor practice trends Reviewed quarterly Monthly reviews in place Reviewed in March annually	Delivering and defending health, social care, and support
	Impact		5	5						
	Likelihood		4	4						

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Ref	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
2. Secure Services to Users: B. Technology										
2.B.1	ICT infrastructure is not fit for purpose and/or does not meet business needs (2)	●	12	6	△	➔	Executive Director for Corporate Services	<ul style="list-style-type: none"> • New MD for Shared Service appointed • Complete work to improve network security – online work done (e.g. cloud solutions) but on premise work (e.g. SharePoint to conclude) • Work with Shared Service to raise performance target from 99% to 99.9% reliability as part of new operational plan for 20/21 to be agreed by all partners. • Prepare business case and agree phase 2 smarter tech rollout to remaining staff/sites • Review 8 x 8 telephony one year ahead of next procurement 	Dec 20 Done Ongoing Next milestone Mar 20 Mar 20 (slipped Dec 19) June 20 June 20	Good governance and effective operational performance
	Impact		4	3						
	Likelihood		3	2						

APPENDIX 1: Corporate Risk Register – December 2019

Ref	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
2. Secure Services to Users: B. Technology										
2.B.2	Cyber Security breaches corrupt or locks down Council systems or data.	△	15	5	△	➔	Executive Director for Corporate Services	<ul style="list-style-type: none"> Plan for implementation of recommendations from IT security audit concluded in June Monitor attack levels and develop response reporting Review assessment of Cyber Security risk and actions required 	Jan 20 (slipped Sept 19) Next milestone Mar 20 Jan 20	Building Safer Communities
	Impact		5	5						
	Likelihood		3	1						

Ref	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
3. Develop Staff and Partners: A. Workforce										
3.A.1	Loss of constructive employee relations	●	9	8	★	➔	Chief Executive	<ul style="list-style-type: none"> Extend the programme of employee communications to help inform that changes that will take place. Manager and all staff events booked. Change Champion Network re-launched to promote Lewisham Way changes Base line employee staff survey action plan to be reviewed Regular senior leader and all staff events booked for 2020 	Next milestone Jan 20 Done Jan 20 Done Jan 20 Done Jan 20 Done	Building an inclusive local economy
	Impact		3	4						
	Likelihood		3	2						

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Ref	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
3. Develop Staff and Partners: A. Workforce										
3.A.2	Failure to maintain sufficient management capacity & capability to deliver business as usual and implement transformation changes	●	12	9	★	➔	Chief Executive	<ul style="list-style-type: none"> Recruitment of Director of CYP and Regeneration in progress 	Dec 20 Done (interims appointed)	<p>Good governance and effective operational performance</p> <p>Tackling the housing crisis</p>
	Impact		4	3						
	Likelihood		3	3						

Ref	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
3. Develop Staff and Partners: B. Partnerships										
3.B.1	Multi-agency governance leads to ineffective partnership working - Health -Housing -Police - VSec -Business -Schools	●	8	4	●	➔	Chief Executive	<ul style="list-style-type: none"> Implement new joint H&SC governance working arrangements Review holistic approach for grant funding Review need for a new Community Strategy for Lewisham Review of changes to Police/CRC+NFS/Fire 	<p>June 20</p> <p>June 20</p> <p>June 20</p>	Building safer communities
	Impact		4	4						
	Likelihood		2	1						

APPENDIX 1: Corporate Risk Register – December 2019

Ref	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
3. Develop Staff and Partners: B. Partnerships										
3.B.2	Failure to agree with partners integrated delivery models for local health and care services	●	12	4	△	➔	Executive Director Community Services	<ul style="list-style-type: none"> CEO leading work to agree place based joint working arrangement for LBL and CCG / NHS various milestones to be concluded by April 20. Continue to develop the strategic commissioning function. Proposals for Commissioning Alliance and provider alliances are being developed. Work with providers to develop an operational model for care at home and Adult Mental Health. 	Apr 20 Completed April 2020	<i>Delivering and defending health, social care, and support</i>
	Impact		4	2						
	Likelihood		3	2						

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Risk	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
4. Develop Staff and Partners: A. Procurement										
4.A.1	Failure to manage strategic suppliers and related procurement programmes. (13)	●	12	6	△	➔	Executive Director for Corporate Services	<ul style="list-style-type: none"> Update approach and review of contract management for types of contract. Conclude Fees & Charges work for 20/21 budget and accelerate work on memorandum trading accounts for priority services re commercial work Publish work on community wealth building as part of inclusive growth strategy development 	Mar 20 Mar 20 Apr 20	Building an inclusive local economy
	Impact		4	3						
	Likelihood		3	2						

Ref	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
4. Services Represent VFM: A. Performance										
4.B.1	Failure to manage performance leads to service failure (10)	●	12	4	△	➔	Chief Executive	<ul style="list-style-type: none"> Review and update 19/20 performance targets and align Directorate report presentation into corporate system Transfer reporting of risk to Audit Panel Director sessions, as part of Budget/MTFS planning, to improve alignment and monitoring of key service activity, forecasts etc to assess cost rivers 	Jan 20 Done Mar 20 May 20	Good governance and effective operational performance
	Impact		3	2						
	Likelihood		4	2						

APPENDIX 1: Corporate Risk Register – December 2019

Ref	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
5. Manage within Budget: A. Financial										
5.A.1	Financial Failure and inability to maintain service delivery within a balanced budget	●	10	4	△	↗	Executive Director for Corporate Services	<ul style="list-style-type: none"> Prepare 20/21 Budget based on Spending Review 19 and £16.6m of cuts agreed and update MTFS Reset and rightsize service budgets with Directors to sign for their cash limits to facilitate future service reviews through 2020. Continue with detailed quarterly cuts and service spend financial monitoring. 	Feb 20 Mar 20 Next update May 20	Good governance and effective operational performance
	Impact		5	4						
	Likelihood		2	1						

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Ref	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
5. Manage within Budget: A. Financial										
5.A.2	Lack of provision for unforeseen expenditure or loss of income in respect of Council's liabilities or funding streams	●	12	6	△	➔	Executive Director for Corporate Services	<ul style="list-style-type: none"> Prepare for 75% Business Rates devolution Pension Fund triennial actuarial valuation underway Assess impact of delayed CSR & FFR with Autumn Chancellor's budget. Actuarial review of insurance provisions and reserves 	As per Gov't timetable Done – next milestone Mar 20 On hold Jan 20 Done	Good governance and effective operational performance
	Impact		4	3						
	Likelihood		3	2						

APPENDIX 1: Corporate Risk Register – December 2019

Ref	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
5. Manage within Budget: A. Financial										
5.A.3	Loss of Income to the Council	●	12	9	★	➔	Executive Director for Corporate Services	<ul style="list-style-type: none"> ASC review of process and systems for charging and improvement programme business case agreed and presently being scoped. Ash review for sundry debt concluded to move with a manual solution to: <ul style="list-style-type: none"> - Avoid more IT risk & time - Have immediate impact - Realise Oracle & Controc benefits 	April 20 Mar 20	<i>Good governance and effective operational performance</i>
	Impact		3	3						
	Likelihood		4	1						

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Ref	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
5. Manage within Budget: B. Business Continuity										
5.B.1	Failure to effectively contain the impacts of an emergency affecting the public, business, environment and/or organisation (1)	●	10	8	★	➔	Executive Director Corporate Services	<ul style="list-style-type: none"> London wide standardised training packages are now available and training has commenced and will run throughout 2020. Run exercise safer city in line with new resilience standards Brexit Corporate Group set up overseeing the implications of Brexit including developing an action plan. Updates provided to EMT, the Mayor and Cabinet Run a cyber-exercise in 20/21 	Ongoing – LALO, LACO & Gold training delivered Mar 20 Following Gov't steer Next review Jan 20 Done Sept 20	Building safer communities
	Impact		5	4						
	Likelihood		2	2						

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Ref	Risk	Current status	Current score	Target score	Current v target	Direct'n of travel	Responsible	What are we planning to do	By when	Notes
6. BREXIT										
6.A.1	Brexit: Risk of disruption to council services and impact on residents and businesses operating in the borough	●	8	8	★	↗	Responsible – Head of Corporate Policy and Governance	<ul style="list-style-type: none"> Corporate Group set up to manage and plan mitigation. Meets fortnightly. Emergency planning liaising with London Resilience as information and guidance is released. Regular briefing to EMT and Mayor and Cabinet. Review all Brexit risk assessments for end January or next possible exit date Maintain a watching brief as negotiations for next phase begin 	Done Ongoing milestone Jan 20 Dec 20 – next review June 20	Good governance and effective operational performance
	Impact		4	4						
	Likelihood		2	2						