Grant Thornton

The Audit Findings for London Borough of Lewisham and London Borough of Lewisham Pension fund

Year ended 31 March 2022

December 2022

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit 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 Council 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.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Audit and Transparency Committee].

Name : Paul Grady
For Grant Thornton UK LLP
Date : 6 December 2022

1. Headlines

This table summarises the key findings and other matters arising from the statutory audits of London Borough of Lewisham ('the Council') and London Borough of Lewisham Pension Fund ('the Pension Fund') financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council and Pension Fund's financial statements give a true and fair view of the financial position of Council and Pension Fund and the Council and Pension Fund's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work commenced during September 2022 and is due to be completed by end of December 2022. Our findings are summarised on pages 6 to 25.

The overall quality of the financial statements continues to improve and at this stage we have identified less misstatements and presentational changes than the previous year. The Council remain on an improvement journey and the finance team are committed to turning responses to audit queries and requests for information around as quickly as possible. We have noted an improvement in response times from previous years, but delays are still occurring which continue to impact on the efficiency of the audit process.

We have identified adjustments to the Council's Financial position that are reported on page 35. These are immaterial extrapolated errors that are well below materiality levels. The Council has therefore decided not to adjust the financial statements. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is still in progress. At this stage there are no matters of which we are aware that would require modification of our audit opinion Appendix E or material changes to the financial statements, subject to the following outstanding matters;

- The Department for Levelling Up, Housing and Communities will issue an update to the Local Authority Capital Finance and Accounting Regulations to remove the requirement to consider component derecognition for infrastructure assts i.e. the statutory override. This will then allow us to complete our work in this area. This is not expected to become law until 25 December 2022;
- completion of our work on land and building revaluations;
- Completion of our work on group accounts;
- completion of testing on Pension Fund Investments and Journals;
- receipt and clearance of 7 queries on journals testing;
- receipt and clearance of 5 queries on creditors sample testing;
- receipt of and clearance of 5 queries on grant income sample testing;
- receipt and clearance of 2 queries for Property, Plant and Equipment Additions sample testing;
- receipt and review of assurance letters from the auditors of London Pension Fund Authority;
- receipt of the detail for 14 schools bank reconciliations;
- receipt of bank confirmations for 2 schools;
- responses to queries on the Cash Flow statement, the Expenditure and Funding Analysis, Reserves and Capital disclosures;

1. Headlines

Continued from prior page

Financial Statements

- completion of Senior Manager, Engagement Leader and Review Partner reviews and satisfactory resolution of any residual queries;
- receipt of management representation letter; and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion for the Council and the Pension Fund will be unmodified.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance.	We have completed the our VFM fieldwork and are our report is now with management for discussion. Our findings are summarised on page 27, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit upon the completion of the Whole of Government Accounts work.
Significant Matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit Panel.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council and Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Council and Pension Fund's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not altered our audit plan, as communicated to you on 21 June 2022.

Conclusion

We are progressing with our audit of the Council and Pension Fund's financial statements and subject to outstanding matters set out on pages 3 to 4 being resolved, we anticipate issuing unqualified opinions following the publication of the statutory override relating to the accounting for infrastructure assets.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by management, the finance team and other staff throughout the audit process.

2. Financial Statements

	Council amount planning (£)	Council amount final (£)	Group amount Planning (£)	Group amount Final (£)	Pension Fund amount planning (£)	Pension Fund amount final (£)
Materiality for the financial statements	17,200,000	16,500,000	17,300,000	16,770,000	16,000,000	17,000,000
Performance materiality	11,180,000	10,725,000	11,245,000	10,900,500	11,200,000	11,900,000
Trivial matters	860,000	825,000	865,000	838,500	800,000	850,000

Our approach to 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.

For the Council and the Group materiality levels have reduced from the levels reported in our Audit Plan in June 2022. This is due to expenditure in 2021/22 was lower than the previous year.

For the Pension Fund, we revised materiality levels from those reported in our Audit Plan as a result of significantly increased gross investment asset values as at 31 March 2022.

We detail in the table our determination of materiality for the London Borough of Lewisham and Lewisham Pension Fund.

2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Relates to	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities. The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, and 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.	Council, Group and Pension Fund	Audit procedures undertaken in response to the identified risk included: • Evaluation of the design effectiveness of management controls over journals. • Analysis of the journals listing and determined the criteria for selecting high risk unusual journals. • Testing unusual journals recorded during the year and the accounts production stage for appropriateness and corroboration. • Gaining an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. • Reviewed and tested transfers between the General Fund and HRA and inter group journals. As detailed on pages 3 and 4, at the time of writing, our audit procedures in response to this risk remain underway. At the time of drafting this report, we have 7 queries remaining on journals. To date, no issues have been identified which require reporting to those charged with governance. This position will be updated to the date of issuing the final version of this report and our audit opinions. Should any material issue arise in the final stages of our work, we will report this to you.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Risk of fraud related to revenue recognition	Council, Group and Pension Fund	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. In the Audit Plan, we reported that having considered the risk factors set out in ISA240 and the nature of the Council and Pension Fund revenue streams, we had determined that the risk of fraud arising from revenue recognition can be rebutted, because: • 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. Therefore, we did not consider this to be a significant risk for the London Borough of Lewisham or London Borough of Lewisham Pension Fund. There have been no changes to our assessment as reported in the Audit Plan.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Valuation of land and buildings 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 (£2.6 billion) and the sensitivity of this estimate to changes in key assumptions. Management has engaged the services of a valuer to estimate the current value as at 31 March 2022. We therefore identified valuation of land and buildings, specifically council dwellings, other land and buildings and surplus assets, as a significant risk of material misstatement. On 3 February 2022 CIPFA LASAAC launched a consultation on proposals for an update of the 2021/22 Code relating to the approach to measurement of operational property, plant and equipment. This consultation has now closed and CIPFA have confirmed no changes to the Code in respect of the valuation of PPE.	Council and Group	Audit procedures undertaken in response to the identified risk included: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Confirmed the basis on which the valuation was carried out to ensure that the requirements of the Code are met. • Challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding, which included engaging our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations. • Tested, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register. • Assessed the value of a sample of assets in relation to market rates for comparable properties. • Tested 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. • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end. As detailed on pages 3 and 4, at the time of writing, our audit procedures in response to this risk remain underway. To date, no issues have been identified which require reporting to those charged with governance. This position will be updated to the date of issuing the final version of this report and our audit opinions. Should any material issue arise in the final stages of our work, we will report this to you.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Valuation of pension fund liability The pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£564million in the Council's balance sheet at 31 March 2022) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	Council	Audit procedures undertaken in response to the identified risk included: • Updating our understanding of the processes and controls put in place by management to ensure that the pension fund net asset is not materially misstated and evaluated the design of the associated controls. • Evaluated the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work. • Assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation. • Assess the accuracy and completeness of the information provided to the actuary to estimate the liabilities. • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the reports from the actuary. • Undertaken 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. • Gained assurances over the validity and accuracy of assets, membership, contributions and benefits data sent to the actuary by the Fund. We have not identified any material misstatements in response to this risk. We are awaiting receipt of requested confirmations from the London Pension Fund Authority auditor over the LPFA pension fund liability balance. To date, no issues have been identified which require reporting to those charged with governance. This position will be updated to the date of issuing the final version of this report and our audit opinions. Should any material issue arise in the final stages of our work, we will report this to you.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Valuation of level 3 investments 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. 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 (£154 million) and the sensitivity of this estimate to changes in key assumptions 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. Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2022.	Pension Fund	Audit procedures undertaken in response to the identified risk included: • Evaluated management's processes for valuing Level 3 investments. • Reviewed 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 were met. • Independently requested year-end confirmations from investment managers and the custodian. • For a sample of investments, tested the valuation by obtaining and reviewing the audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2022 with reference to known movements in the intervening period. • In the absence of available audited accounts, evaluated the competence, capabilities and objectivity of the valuation expert. • Where available, reviewed investment manager service auditor report on design and operating effectiveness of internal controls. As detailed on pages 3 and 4, at the time of writing, our audit procedures in response to this risk remain underway. Should any material issue arise in the final stages of our work, we will report this to you.

2. Financial Statements – Other risks

Risks identified in our Audit Plan	Relates to	Commentary
Completeness of non-pay operating expenditure and associated short-term creditors Non-pay expenditure on goods and services represents a significant percentage (55%) of the Council's gross operating expenditure. Management uses judgement to estimate accruals of un-invoiced costs. In the prior year our sample audit testing identified payments that have been codded to the incorrect financial year. We identified completeness of non-pay expenditure and associated short-term creditors as a risk requiring particular audit attention.	Council	Audit procedures undertaken in response to the identified risk included: • Evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness, including the use of de minimis level set. • Gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls. • Obtained and test a listing of non-pay payments made in April, May and June to ensure that they had been charged to the appropriate year. Our testing identified 2 errors (total value £749k) in our testing where payments were made for capital expenditure for works completed in 21/22, but had not been accrued for. The extrapolated error is £2,170k. In addition, to the above we identified one item value £2,176k where a payment was made in 2022/23 following arbitration of a legal dispute with contractor. The payment relates to the 2021/22 period and there was sufficient information at the year end to have accrued / provided for the payment. The item of expenditure is capital. The Council has amended for this misstatement.
Value of Infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PPE note Infrastructure assets includes roads, highways, bridges and streetlighting. Each year the Council spends circa £5m on Infrastructure capital additions. As at 31 March 2021, the net book value of infrastructure assets was £109m which is over 6 times materiality. In accordance with the LG Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address: 1. The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets. 2. The risk that the presentation of the PPE note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced. For the avoidance of any doubt, these two risks have not been assessed as a significant risk at this stage, but we have assessed that there is some risk of material misstatement that requires an audit response	Council	Audit procedures undertaken in response to the identified risk included: • Reconciling the fixed asset register to the financial statements. • Considered the reasonableness of depreciation charge to infrastructure assets. • Obtained assurance that the Useful Economic Life applied to infrastructure assets is reasonable. • Documented our understanding of management's process for derecognising Infrastructure assets on replacement and obtain assurances that the disclosure in the PPE note is not materially misstated. Our initial work identified that the Council has not been fully derecognising infrastructure assets upon replacement. This is consistent with other Council's. We are awaiting for CIPFA to issue an update to the Code of Practice on Local Authority Accounting to remove the requirement to report on Gross Book Value and Accumulated Depreciation for infrastructure assets. In addition, the Department for Levelling Up, Housing and Communities will issue an update to the Local Authority Capital Finance and Accounting Regulations to remove the requirement to consider component derecognition i.e. the statutory override. This will then allow us to complete our work in this area.

2. Financial Statements – Other risks

Risks identified in our Audit Plan	Relates to	Commentary
Valuation of Level 2 Investments 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. We therefore identified the valuation of the Fund's Level 2 investments as a risk of material misstatement.	Pension Fund	In response to the risk identified we have: • Gained an understanding of the Fund's process for valuing Level 2 investments and evaluated the design of the associated controls. • Reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments. • Reviewed the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and sought explanations for variances. • Independently requested year-end confirmations from investment managers and custodian. • Reviewed investment manager service auditor report on design effectiveness of internal controls. Subject to the satisfactory completion of outstanding matters set out on pages 3 to 4, no findings have been identified in response to this risk which are required to be reported to those charged with governance.
Contributions Contributions from employers and employees' represents a significant percentage of the Fund's revenue. We therefore identified the completeness and accuracy of the transfer of contributions as a risk of material misstatement.	Pension Fund	In response to the risk identified we have: • Evaluated the Fund's accounting policy for recognition of contributions for appropriateness. • Gained an understanding of the Fund's system for accounting for contribution income and evaluated the design effectiveness of the associated controls. • Agreed changes in Admitted/Scheduled bodies to supporting documentation and agreed total contributions for each employer to employer contributions reports. • Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence. • Tested 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 employees to ensure that any unusual trends were satisfactorily explained. Subject to the satisfactory completion of outstanding matters set out on pages 3 to 4, no findings have been identified in response to this risk which are required to be reported to those charged with governance.

2. Financial Statements – Other risks

Risks identified in our Audit Plan	Relates to	Commentary
Pension Benefits Payable Pension benefits payable represents a significant percentage of the Fund's expenditure. We therefore identified the completeness, accuracy and occurrence of the transfer of pension benefits payable as a risk of material misstatement.	Pension Fund	In response to the risk identified we have: • Evaluated the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness. • Gained an understanding of the Fund's system for accounting for pension benefits expenditure and evaluated the design of the associated controls. • Tested a sample of lump sums and associated individual pensions in payment by reference to member files. • Tested 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 were satisfactorily explained. Subject to the satisfactory completion of outstanding matters set out on pages 3 to 4, no findings have been identified in response to this risk which are required to be reported to those charged with governance.
Actuarial Present Value of Promised Retirement Benefits 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. 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. We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a risk of material misstatement.	Pension Fund	In response to the risk identified we have: • Updated 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 evaluated the design of the associated controls. • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assessed the competence, capabilities and objectivity of the actuary who carried out the Fund's valuation. • Assessed the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability. • Tested the consistency of disclosures with the actuarial report from the actuary. • Undertaken 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. Subject to the satisfactory completion of outstanding matters set out on pages 3 to 4, no findings have been identified in response to this risk which are required to be reported to those charged with governance.

2. Financial Statements – key judgements and estimates - Council

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations: Other Land and Buildings £1,105m Surplus Assets £61m	Other land and buildings which were revalued during the year comprise £972m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£132m) are not specialised in nature and were required to be valued at existing use value (EUV) at year end. The Council engaged Wilks Head and Eve to complete the valuation of properties as at 31 March 2022. 99% of total other land and buildings assets were revalued during 2021/22. All surplus assets except for £889k have been revalued in the year. However, the accounting standards require all surplus assets to have been revalued. The total year end valuation of land and buildings was £1,104m, a net increase of £39.4m from 2020/21 (£1,065m). This net increase arises from the valuation process in combination with additions to and enhancements of property assets during the year.	Our work on your property valuations is ongoing. • We have assessed management's expert, Wilks Head and Eve, to be competent capable and objective. • The valuer has correctly prepared the valuation using DRC on a modern equivalent asset basis for specialised properties, and EUV for non-specialised properties. • 99% of properties have been valued as at 31 March 2022. • We engaged our own valuation specialist, Gerald Eve, to provide a commentary on the instruction process for WHE, the valuation methodology and approach, and the resulting assumptions and any other relevant points. • We have carried out testing of the completeness and accuracy of the underlying information provided to the valuer used to determine the estimate and have no issues to report. • Valuation methodologies applied are consistent with those applied in the prior year. • We have agreed the valuation reports provided by management's expert to the fixed asset register and to the financial statements. See results from the valuation testing on page 10.	TBC

Assessment

- ● [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates - Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Council dwellings valuations – £1,413m	The Council owns 13,699 dwellings in the Housing Revenue Account and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged its valuer to complete the valuation of these properties. The year end valuation of Council Housing was £1,413m, a net increase of £20m from 2020/21 (£1,393m).	Our work on your property valuations is ongoing. At this stage: • We have no concerns over the competence, capabilities and objectivity of your valuation expert. • No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. • There have been no changes to the valuation method this year. • The valuer has correctly prepared the valuation using the stock valuation guidance issued by MHCLG, and has ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH) value disclosed within the accounts. • All properties have been valued as at 31 March 2022.	TBC

Assessment

●	Dark Purple	We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
●	Blue	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
●	Grey	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
●	Light Purple	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates - Council

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management's approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr>
<td>Net pension liability– £564m</td>
<td>The Council's net pensions liability comprising assets and liabilities relating to the London Borough of Lewisham Pension Fund and London Pension Fund Authority Local Government Pension Schemes together with unfunded defined benefit pension scheme obligations. The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. Barnett Waddingham are used for the London Pension Fund Authority Scheme.

The latest full actuarial valuation was completed as at 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return.

Given the significant value of the net pension fund liabilities, small changes in assumptions can result in significant valuation movements. There has been a net decrease of £207m in the overall net pension fund liability in 2021/22.</td>
<td>

We have assessed the actuaries, Hymens Robertson, to be competent, capable and objective.
We have used PwC as our auditor's expert to assess the actuary and assumptions made by the actuary – see table below for out comparison of actuarial assumptions:

<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>2.7%</td><td>2.7% - 2.75%</td><td>●</td></tr>
<tr><td>Pension increase rate</td><td>3.20%</td><td>3.15% – 3.30%</td><td>●</td></tr>
<tr><td>Salary growth</td><td>3.90%</td><td>3.15 - 4.15%</td><td>●</td></tr>
<tr><td>Life expectancy – Males currently aged 45 / 65</td><td>22.5 / 21.2</td><td>21.4 – 24.3
20.1 - 22.7</td><td>●</td></tr>
<tr><td>Life expectancy – Females currently aged 45 / 65</td><td>25.5/23.8</td><td>24.8 -26.7
22.9 – 24.9</td><td>●</td></tr>
</table>

We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.
We have confirmed there were no significant changes in 2021/22 valuation method.
We have completed the same testing as above in relation to the Net LPFA pensions asset of £18.4m

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<td>Light purple</td>
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Assessment

- ● Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates - Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation- £609m credited to Service Income and £32m credited to Taxation and Non Specific Grants	Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that: • the Council will comply with the conditions attached to the payments, and • the grants or contributions will be received. Amounts recognised as due to the Council are not credited until conditions attached to the grant or contribution have been satisfied. The Council has credited £641m of grants to the Consolidated Income and Expenditure Statement in 2021/22. The Council has received a number of Grants and Contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned if not spent. The balances at the year-end for these grants is £26m. The Council acts as an Agent for Central Government in respect of the majority of Business Rates Grants that are used to support business during the current Covid pandemic. These grants are distributed by the Council from central government and therefore do no not appear in the Consolidated Income and Expenditure statement.	• We are satisfied with all the other grants tested that the Council's judgement on whether the Council is acting as the principal or agent which determines whether the authority recognises the grant at all. • Our sample testing has concluded that we are satisfied with the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. • We are satisfied over the allocation of the grants between specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES.	Light Purple

Assessment

●	Dark Purple	We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
●	Blue	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
●	Grey	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
●	Light Purple	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates - Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £13.7m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. MRP is required to be charged with respect to borrowing obtained as part of acquiring assets to be held in the General Fund (GF). No MRP charge is made in respect of borrowing for the acquisition of assets held in the Housing Revenue Account (HRA). According to regulations, this is on the basis that HRA assets should be self-financing, with local authorities being required to make an annual charge from the HRA to their Major Repairs Reserve in place of MRP, to maintain functionality of housing assets. The year end MRP charge including the repayment of principal on PFI schemes was £13,639k, a net increase of £580k from 2021/22.	• The MRP charge for the year has been calculated in accordance with the methodologies permitted in the statutory guidance. • The Council's policy on MRP in relation to borrowing taken out for the acquisition of non-housing General Fund assets complies with statutory guidance. • The Council's policy on MRP was discussed and agreed with those charged with governance and approved by full council as part of the Treasury Strategy in March 2021. • The level of increase in the MRP charge is reasonable in the context that there has been little change in borrowing during the year.	Light Purple

Assessment

●	Dark Purple	We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
●	Blue	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
●	Grey	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
●	Light Purple	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates – Pension Fund

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments	The Pension Fund has investments in Overseas Hedge Funds and Overseas Venture Capital that are valued on the net assets statement as at 31 March 2022 at £153m. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management relies on information provided by the General Partners to the private equity funds, who prepare valuations in accordance with the International Private Equity and Venture Capital Valuation Guidelines, and produce accounts to 31 December 2021 which are audited. The value of the investment has increased by £14m in 2021/22, due to a combination of purchases, sales and changes in market value.	• We have assessed the appropriateness of the underlying information used to determine the estimate, including fund manager and custodian reports, and audited accounts of the private equity funds as at 31 December 2021. • We have assessed the consistency of the estimate against peers and industry practice. • We have reviewed the reasonableness of the increase in the estimate. • We have assessed the adequacy of disclosure of estimate in the financial statements. Our work on Level 3 valuations is still in progress.	TBC

Assessment

● Dark Purple	We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
● Blue	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
● Grey	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
● Light Purple	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates – Pension Fund

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £1,502m	The Pension Fund has investments in pooled equity, bonds, private equity and property funds that in total are valued on the balance sheet as at 31 March 2022 at £1,502m. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management make use of evaluated price feeds, with the exception of the valuation of property investments which is based on evaluation of market data. The value of the investments have increased by £150m in 2021/22, largely driven by changes in market value.	• We have assessed the appropriateness of the underlying information used to determine the estimate. • We have assessed the consistency of the estimate against peers and industry practice. • We have reviewed the reasonableness of the increase in the estimate. • We have assessed the adequacy of disclosure of estimate in the financial statements.	TBC

Assessment

- ● Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Panel. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council and Fund, which is included in the Audit Panel papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council and Pension Fund's banking and investment counterparties. This permission was granted and the requests were sent. We have received responses from all counterparties. We are still awaiting responses in relation to two schools bank accounts.
Accounting practices	We have evaluated the appropriateness of the Council's and Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management were provided, with the exception of those relating to the outstanding matters detailed on pages 3 to 4 which, as at the date of writing, have not yet been provided. Whilst there has been an improvement in the timeliness of responses to audit queries and requests for supporting information, we are still encountering delays which continues to impact on the length of time it takes to deliver the audit. We are also undertaking significant work to follow up the various recommendations and control findings included in last years report. The financial statements were published and a full suite of supporting working papers was provided to the audit team prior to the commencement of the audit.

2. Financial Statements - other communication requirements

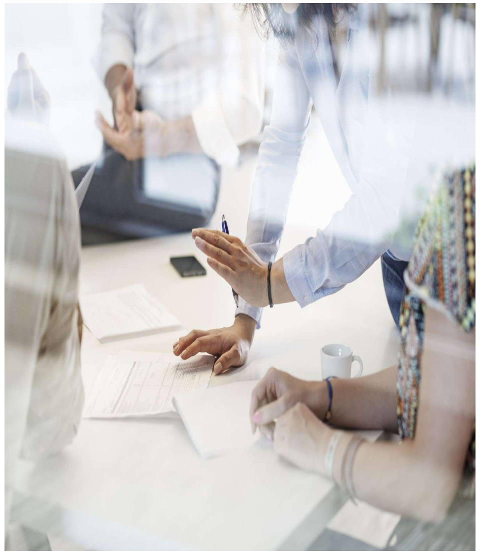
Our responsibility

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 entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and Pension Fund and the environment in which it operates • the Council and Pension Fund's financial reporting framework • the Council and Pension Fund's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Our work is limited as the Council does not exceed the £2billion audit threshold. At the moment we cant deliver this work as HM Treasury guidance has not been issued.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audit of London Borough of Lewisham **Council** in the audit report, as detailed in Appendix E, due to the Whole of Government Account return has yet to be completed. We also need to complete our review of the final Pension Fund Annual Report.



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

3. VFM - our procedures and conclusions

We have completed the our VFM fieldwork and are our report is now with management for comments. Our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Subject to finalisation, we have not identified any risks of significant weakness We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

4. Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers [and network firms]). In this context, we disclose the following to you:

- We become aware that a former GTUK employee did not inform us of his family connection to Lewisham Council. The individual became a consultant for GTUK on 8 May 2018 and subsequently became an employee of GTUK on 1 July 2021 and left in February 2022. The individual was obliged, under their consultancy terms and as part of their employment contract, to disclose to GTUK any connections they or their family might have with any audit clients of GTUK. However, the individual did not disclose that their partner works, or worked, at Lewisham Council.
- We have considered whether this gave rise to any form of independence issue as regards the 2020/2021 and 2021/2022 audit and have concluded that it did not. The Public Sector audit team that conducted the audit of Lewisham Council had no connection with the individual, who only carried out counter fraud investigations on non audit NHS bodies and had no wider connections with the GT London audit team. We are therefore informing you of this as a courtesy and to make you aware of the issue and the fact that it has been resolved.
- 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified. We have detailed below the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Housing Benefit Assurance Process	34,926	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 £34,926 in comparison to the total fee for the audit of £253,289 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.
Agreed-upon procedures relating to the Pooling of Housing Capital Receipts	5,000	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 £5,000 in comparison to the total fee for the audit of £253,289 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.
Agreed-upon procedures relating to the Teachers' Pensions end of year certificate	7,500	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 £7,500 in comparison to the total fee for the audit of £253,289 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.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 5 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2022/23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
🟦	Whilst preparing the financial statements officers identified that the balance on the Consolidated Income and Expenditure Statement did not equal the difference in reserves between 31 March 2021 to 31 March 2022. A correction journal of £2,286k was performed to ensure that the accounts balanced.	The Council should investigate the how this initial imbalance arose.
🟦	Our testing identified 2 errors (total value £749k) in our testing where payments were made for capital expenditure for works completed in 21/22, but had not been accrued for. The extrapolated error is £2,170k.	Your cut off procedures need strengthening to ensure that expenditure is coded in the year in which it relates
🟦	The Council has identified 132 assets that have a nil net book value. The Council were unable to locate these assets. The assets are fully depreciated and are years old and have now been written out of the asset register.	The Council should implement processes to ensure all assets are appropriately tracked to ensure they can be located.
⬜	Within our testing of operating expenditure on repairs and maintenance charges on Council dwellings we identified that there is no formal documentation between the Council and Lewisham Homes to confirm the nightly call out capped charge rates.	Implement a formal agreement setting out nightly capped call out charges for repairs and maintenance jobs undertaken by Lewisham Homes.
⬜	The Exacom system used to record and track the Section 106 agreements is not fully reconciled to the general ledger. The overall difference between the Exacom listing and the General Ledger Balance is £2.7m.	The Council need to complete their work on reconciling the Exacom system with the ledger.

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of the Council's 2020/21 financial statements, which resulted in 3 recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and note 2 are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Our testing of IT General Controls identified the following findings which have been reported in detail to management: • Insufficient evidence over the completeness and accuracy of data migration of the payroll system. • Absence of formally approved project related documentation. • Lack of formal approval by management on IT policy. • Lack of formal review of audit logs.	Our It team have followed up the prior year recommendations and were satisfied that they had been implemented.
In progress	Our review of your fixed asset register identified 123 assets that have a Net Book Value of nil. You should undertake an exercise to verify that these assets still exist. If the Council are still using the assets they will need to determine whether the current depreciation policy is appropriate.	The Council has undertaken this exercise and has identified 132 assets that have a nil net book value. The Council were unable to locate these assets. The assets are fully depreciated and are years old and have now been written out of the asset register. The Council should implement processes to ensure all assets are appropriately tracked to ensure they can be located.
✓	The school bank account reconciliations provided to audit were not reconciled to the bank statement as at 31 March 2021. There was a subsequent delay in providing the audit team with appropriate year end reconciliations. Our review of the Eurobank reconciliation also identified a trivial unreconciled difference of £7,082 between the trial balance and the ledger which management have not been able to explain.	The schools bank accounts have been reconciled to 31 March 2022. The Eurobank account had been reconciled as at 31 March 2022.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations continued

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Our review of the bank reconciliation for the image pay bank payment account identified several cheques that are over 6 months old which have not been stopped. These should be stopped and written back.	The number of cheques which are older than 6 months has reduced since last year. However, there are still 6 cheques of total £1,027.19 dated back to 2020 which are appearing in the bank reconciliation as unpresented cheques.
In progress	You had difficulties in providing us with evidence to support the accounting entries within Receipts in Advance and Creditors associated with your Section 106 agreements.	You provided us with sufficient evidence to support the Section 106 agreements selected for sample testing. We were satisfied that the Section 106 agreements had been correctly accounted for. However, the Exacom system used to record and track the Section 106 agreements is not fully reconciled to the general ledger. The overall difference between the Exacom listing and the General Ledger Balance is £2.7m.
✓	During our walkthrough of the schools expenditure process we identified that there is currently no reconciliation between the school finance reports used to journal the data in to the ledger and the source data (i.e. bank reconciliation or the school payroll reports).	Our 2021/22 walkthrough of schools expenditure proved that this reconciliation is now in place.
Work in progress	Our review of 20/21 starters identified that HR were not receiving signed contracts from new employees.	We have requested 13 contracts for officers that started working for the Council during the year. The Council were able to provide 12 contracts, but are currently unable to find the last one.

Assessment

✓	Action completed
X	Not yet addressed

B. Follow up of prior year recommendations Pension Fund

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	The current set up of the general ledger is not conducive for financial reporting. This results in management having to make several significant adjustments each year outside of the ledger to consolidate the pension fund financial statements. This makes the process more time consuming and increases the potential for errors/omissions to occur.	The Pension Fund's Custodian Northern Trust have agreed to amend the data they provide so that it is in line with the Oracle coding structure. Following the resolution of several queries we were able to reconcile the trial balance into the pension fund financial statements.
✓	Our testing of Admitted and Scheduled bodies monies identified an absence of monthly reconciliations of remittances made by admitted and schedule bodies to expected receipts and to posting on the ledger. In addition, there was no reconciliation of monthly payroll contribution data from the Administering Authority (Council) to posting in ledger	The Fund now reconciles remittances and monies received from the Admitted and Scheduled bodies to receipts posted to the ledger. Reconciliations have been undertaken from contributions payable from the payroll system to the ledger.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments Council

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	**Consolidated Income and Expenditure Account £'000**	**Balance Sheet £' 000**	**Impact on total net expenditure £'000**
Income from Council Tax included £1,000k that was Non Domestic Rates income. This is a classification error on the front of the Consolidated Income and Expenditure Statement.	Dr Income from Council Tax 1,000 Cr Non Domestic Rates Income and Expenditure 1,000	0	0
Business Rates S31 and Growth (from 2020/21) £1,009k was incorrectly classified in Non Domestic Rates Income, whereas it should be part of Recognised Capital Grants and Contributions. This is a classification error on the front of the Consolidated Income and Expenditure Statement.	Dr None Domestic Rate income 1,009 Cr Recognised Capital Grants and Contributions 1,009	0	0
Our bank cut off testing identified one payment of £2,176k made in 2022/23 following arbitration of a legal dispute with contractor. The payment relates to the 2021/22 period and there was sufficient information at the year end to have accrued for the payment. The item of expenditure is capital.		Dr Property Plant and Equipment 2,176 Cr Capital Creditors 2,176	
Overall impact	Nil impact on bottom line of CIES	2,176	0

C. Audit Adjustments Council

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Management Response	Adjusted?
Paragraph 3.5.5.1 of the CIPFA Code states that the total value of the land, houses and other property which includes assets under construction is a statutory disclosure in the HRA accounts. As such, we have challenged management on their omission of the assets under construction class. Management have agreed that including the assets under construction figure would bring it in-line with the Code. They have agreed to update the table to include balances for Assets Under Construction, being £59,622k and £27,929k respectively.	Management have agreed to amend the disclosure note.	✓
The Housing Revenue Account (HRA) Movement in Reserves Statement (MIRS) is inconsistent with that in the Core Movement in Reserves Statement. Management confirmed that the HRA MIRS will be amended to bring it in line with the core MIRS.	Management have agreed to amend the disclosure note.	✓
In Collection Fund, the value for Contributions from previous year in NNDR Colum for Greater London Authority (GLA) has been shown in the row for Central Government and vice versa. The correct value for GLA is £13,393k and for Central Government is £11,955k.	Management have agreed to amend the disclosure note.	✓
In Note 12a, the amount of Long Term debtors shown is £57,911k and short term debtors shown is £37,386k which is not matching with Note 14 with long term debtors of £59,520k and net Short Term Debtors is £67,505 (including financial instrument of £35,776k and the remaining amount of £31,729k). Adjustment from this also impact on note 12b.	Management have agreed to amend the disclosure note.	✓
In Note 12a, the amount of Short Term Investment of £275,247k and Cash & Cash equivalent of £174k shown under Financial Assets at Amortised Cost needs to be updated to match the balance sheet figures. Similarly, the same needs to be updated in Note 12d as well.	Management have agreed to amend the disclosure note.	✓
Note 31 Related parties transactions with companies. Income from Lewisham Homes needs amending from £10,814k to £12,045 to take into account interest. The Lewisham Homes debtors and creditors figures needed amending to £4,036k and £8,295k.	Management have agreed to amend the disclosure note.	✓
Note 23 There is a classification misstatement of £9m within note 23. Fees and charges decrease by £9m and Government grants and contributions increase by £9m. In note 30 other grants increase from £42,619k to £51,619k.	Management have agreed to amend the disclosure notes.	✓
Narrative report page 13 the prior year pension fund valuation figure states the liability increased by £242.8m during 2020/21" but on the prior year it states "pension reserve shown on the Balance Sheet has increased by £252.6m during the year". The £252.6m is the correct figure.	Management have agreed to amend the disclosure notes.	✓

C. Audit Adjustments Council

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit Panel is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Our bank cut off testing identified 2 errors (total value £749k) in our testing where payments were made for capital expenditure for works completed in 21/22, but had not been accrued for . The extrapolated error is £2,170k	0	Dr Property Plant and Equipment additions 2,170 Cr Capital Creditors 2,170	0	The misstatement is an extrapolation that is well below materiality levels.
Our testing of Section 106 payments identified 3 amounts total value £1,314k that were classified as reserves whereby the time limit to use the payment has yet to expire. So this should be included within Receipts In Advance. The extrapolated error was £1,609k	0	Dr Section 106 earmark reserves 1,609 Cr Receipts in Advance 1,609	0	The misstatement is an extrapolation that is well below materiality levels.
Overall impact	0	0	0	

C. Audit Adjustments Council

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Reason for not adjusting
Our testing from bank payments made identified 3 payments total value £537k made in April and May 2021 that related to 2020/21 had not been appropriately accrued for. The extrapolated error from our testing was £5,078k. This and estimated error and is not material and so management have taken the decision not to adjust the financial statements	Debit Gross Cost of Services 5,078	Credit Creditors 5,078	Amendment is based on an estimated extrapolation and is well below materiality levels.
Our testing of Property Plant and Equipment revaluations identified 3 assets whereby the Gross Internal Area of the assets used in the valuation did not agree to the documentation supplied to substantiate the areas. We extrapolated the misstatement and the impact was to increase Property Plant and Equipment Balances by £1.2m with an associated increase in the revaluation reserve.		Debit Property Plant and Equipment 1,219 Credit Revaluation Reserve (1,219)	This is an extrapolated misstatement and is not material.
Our testing of 16 Receipts in Advance identified the following issues: • 3 items where insufficient information audit evidence was provided to support the balance • 1 item incorrectly contained interest that overstated the receipt in advance • 1 item was held as a receipt in advance when the deadline to use the receipt had expired. The amount was due back to the developer so should have been recorded as a creditor. The total impact of these errors is set out opposite	Cr Income (880) (£752k extrapolated and £128k actual)	Dr Receipts in Advance 3,150 (£3,022k extrapolated and £128k actual) Dr Debtors 752 (extrapolated) Cr Creditors (1,745) (actual) Cr Cash (1,278) (extrapolated)	Total Error of £3,902k. £128k is an actual error not adjusted as it is trivial and £3,774k is based on an extrapolation and is not material.

C. Audit Adjustments Council

Impact of prior year unadjusted misstatements continued

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Reason for not adjusting
Our valuation testing of Lewisham Homes Limited dwellings in the group accounts identified two assets where the information provided to the valuer was not used. This has resulted in one asset being understated by £667 and one asset being overstated by £30,971 The total extrapolated error through the valuation of dwellings is £422,565 which is trivial.		Credit Group Property Plant and Equipment (423) Debit Group revaluation reserve 423	This is an extrapolated misstatement and is not material.
From our sampled valuation testing of the Catford Regeneration Partnership Limited investment properties we identified one asset where the information provided to the valuer was incorrect. This resulted in the asset being understated by £48,100. The total extrapolated error is £425,702.		Dr Group Investment Property 426 Credit Group Revaluation Reserve (426)	This is an extrapolated misstatement and is not material.
Overall impact	4,198	4,198	

C. Audit Adjustments Pension Fund

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022. There are currently no unadjusted misstatements.

Detail	Fund Account £'000	Net Assets Statement £' 000
Comparing the financial statements to the ledger identified the following misstatements: • Contributions were overstated by £9,323k • Other income was understated by £37k • Transfer values out overstated by £9,273k • Change in market value of investments understated by £14k	Dr Contributions 9,323 Cr Other income 37 Cr Transfer Values Out 9,273 Cr Change in market value of investments 14	Nil impact
Overall impact	Nil	Nil

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C. Audit Adjustments Pension Fund

Disclosure omission	Management Response.	Adjusted?
The prior year figures for investments on the Net Asset Statement were incorrectly restated to align to investment categories for 21/22. The total investment amount remains unchanged. The Investment balances need to be amended to report the prior year audited figures	Management have agreed to amend the prior year investment balances.	✓
Note 24a: Two scheduled bodies: Rathfern and Rushey Green have been omitted from the pension fund account.	Management have agreed to update the note.	✓

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

The fees reconcile to the financial statements.

Audit fees	**Proposed fee £**	**Final fee**
Council Audit	253,289	TBC
Pension Fund audit	38,008	TBC
Total audit fees (excluding VAT)	291,297	TBC

Non-audit fees for other services	**Proposed fee £**	**Final fee**
Housing Benefit Assurance Process	34,926	TBC
Agreed-upon procedures relating to the Pooling of Housing Capital Receipts	5,000	TBC
Agreed-upon procedures relating to the Teachers' Pensions end of year certificate	7,500	TBC
Total non-audit fees (excluding VAT)	47,426	TBC

E. Audit opinion Council

Our audit opinion is included below.

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of London Borough of Lewisham

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of London Borough of Lewisham (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2022, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Comprehensive Income and Expenditure Account, Housing Revenue Account Statement Movement in Reserves Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2022 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Executive Director for Corporate Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Executive Director for Corporate Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

E. Audit opinion Council

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Executive Director for Corporate Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Executive Director for Corporate Resources with respect to going concern are described in the 'Responsibilities of the Authority, Executive Director for Corporate Resources and Those Charged with Governance for the financial statements' section of this report.

Other information

The Executive Director for Corporate Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters

Responsibilities of the Authority, the Executive Director for Corporate Resources and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director for Corporate Resources. The Executive Director for Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director for Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

E. Audit opinion Council

In preparing the financial statements, the Executive Director for Corporate Resources is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority and the group will no longer be provided.

The Audit Panel is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:
www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, the Local Government Act 1972,the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992), the Local Government Finance Act 2012, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.
- We enquired of senior officers and the Audit Panel, concerning the group and Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit Panel, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - journal entries posted which met a range of criteria determined during the course of the audit, in particular those posted around the reporting date which had an impact on the Comprehensive Income and Expenditure Statement, and
  - accounting estimates made in respect of the valuation of assets and liabilities in the Balance Sheet

E. Audit opinion Council

- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Executive Director for Corporate Resources has in place to prevent and detect fraud;
  - journal entry testing, with a focus on entries meeting the risk criteria determined by the audit team;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of valuation of land and buildings including council dwellings, and the valuation of the defined benefit pensions asset valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to valuation of land and buildings, including council dwellings and investment property, and the valuation of the net defined pensions asset.
- Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority and group including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have nothing to report in respect of the above matter

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

E. Audit opinion Council

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

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

We documented our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we have considered whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for London Borough of Lewisham for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited]. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Paul Grady, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

Date:

E. Audit opinion Pension Fund

Independent auditor's report to the members of London Borough of Lewisham on the pension fund financial statements of London Borough of Lewisham Pension Fund

Opinion

We have audited the financial statements of Lewisham Pension Fund (the 'Pension Fund') administered by London Borough of Lewisham (the 'Authority') for the year ended 31 March 2022 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2022 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Executive Director of Corporate Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Executive Director of Corporate Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Executive Director of Corporate Resources' use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Executive Director of Corporate Resources with respect to going concern are described in the 'Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements' section of this report.

E. Audit opinion Pension Fund

Other information

The Executive Director of Corporate Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's financial statements. Our opinion on the Pension Fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Pension Fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund's financial statements or our knowledge of the Pension Fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Pension Fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters in relation to the Pension Fund.

Responsibilities of the Authority, the Executive Director of Corporate Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities , the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Corporate Resources. The Executive Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

E. Audit opinion Pension Fund

In preparing the Pension Fund's financial statements, the Executive Director of Corporate Resources is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Pension Fund will no longer be provided.

The Audit Panel is Those Charged with Governance for the Pension Fund. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities . This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Audit Panel, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit Panel, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - journal entries posted which met a range of criteria determined during the course of the audit, in particular those posted around the reporting date which had an impact on the fund's financial position, and
  - accounting estimates made in respect of the valuation of investment assets

E. Audit opinion Pension Fund

- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Executive Director of Corporate Resources has in place to prevent and detect fraud;
  - journal entry testing, with a focus on entries meeting the criteria determined by the audit team;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of level 3 investments, including directly-held investments in property and the IAS 26 pensions asset valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, the significant accounting estimates related to the valuation of level 3 investments, including directly-held investments in property, and the IAS 26 pensions asset valuation.
- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government pensions sector
  - understanding of the legal and regulatory requirements specific to the Pension Fund including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited.

E. Audit opinion Pension Fund

Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Grady, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date]

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