

# The Audit Findings for the London Borough of Lewisham

# DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

**Year ended 31 March 2014**

September 2014

**Darren Wells**

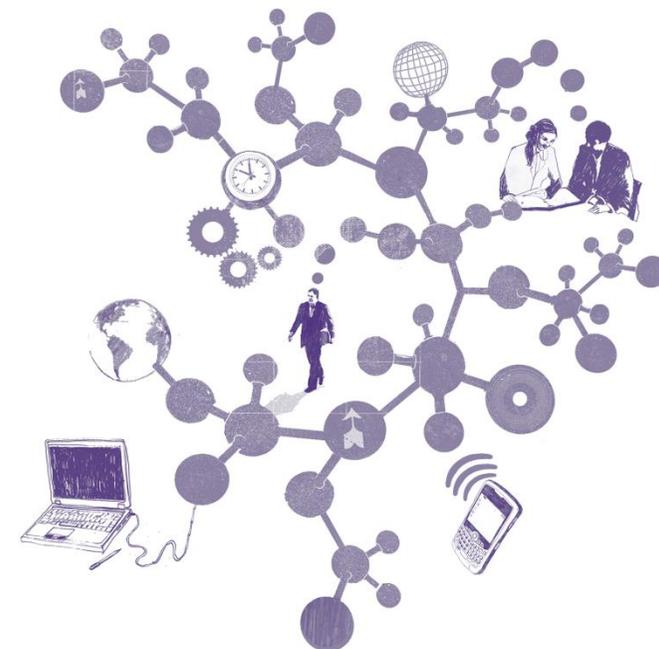
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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## Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of the London Borough of Lewisham's ('the Council's') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to officers and the Council's Audit Panel (as those charged with governance) in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan in June 2014.

Our audit is mostly complete although we are finalising our work in the following areas:

- sample testing of operating revenue expenditure and income
- supplementary queries arising from our review and quality assurance processes
- completion of testing of welfare benefits
- review of employee remuneration disclosure notes and pensions disclosures
- reviews of operating and finance leases

- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

## Key issues arising from our audit

### Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We did not identify any adjustments affecting the Council's reported financial position.

We identified a number of issues with the Council's arrangements for accounting for property, plant and equipment transactions and valuations. This has led to some material adjustments in your financial statements, which are detailed in this report. We also identified some classification errors and some adjustments to improve the presentation of the financial statements.

We recognise that this year has been one of significant change in the finance department, including a staff restructuring programme and a major upgrade to the financial ledger. We are committed to working closely with the finance team through this transitional period and to using the learning from this audit process to promote improvements for 2014/15. Further details are set out in section 2 of this report.

**Value for Money conclusion**

Based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

**Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable. The work is planned for September 2014 and the audit certificate will be issued after we have audited the WGA consolidation pack.

**Controls**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

We draw your attention in particular to the following issues identified in relation to controls:

- During 2013/14 the Council has not been carrying out regular reconciliations between the payroll system and the general ledger.
- The Council did not produce a full audit trail to support its bank reconciliations.

Further details are provided within section 2 of this report.

**The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Executive Director for Resources and Regeneration.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Executive Director for Resources and Regeneration and the finance team.

**Acknowledgment**

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

**Grant Thornton UK LLP**  
**September 2014**

## Section 2: *Audit findings*

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Panel on 24 June 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you.

## **Audit opinion**

We anticipate that we will provide the Council with an unqualified opinion as set out in Appendix B.

## Audit findings against significant risks

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

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions]</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>
3.	<p><b>Property, plant &amp; equipment</b></p> <p>Revaluation measurement not correct</p>	<ul style="list-style-type: none"> <li>• We have confirmed our understanding of the system for accounting for PPE valuations.</li> <li>• We wrote to the District Valuer to establish the scope and basis of valuations work for 2013/14</li> <li>• We reviewed the valuations information in your financial statements to establish whether they have been accounted for correctly.</li> <li>• We considered the reasonableness of your valuations information by reference to valuation trend data provided by the auditor's expert.</li> </ul>	<p>The District Valuer provided a reasonable valuation of the Council's PPE as at 1<sup>st</sup> April 2013 however we noted the following issues PPE being misstated on the balance sheet.</p> <ul style="list-style-type: none"> <li>- The valuation was dated as at 1<sup>st</sup> April and did not take into account the significant increases in London property values over the year. The subsequent amendment was £161 million.</li> <li>- Some valuation information was not available until a very late stage, which led to omissions (net) of £3.4 million and a valuation error of £18.8 million in the draft accounts.</li> </ul> <p>We also noted a number of errors in disclosure notes which are listed later in this report. The Council agreed to amend the accounts in respect of all these issues.</p>

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> <li>We reviewed and tested the year end creditors control account reconciliation.</li> <li>We tested a sample of transactions at the year end to confirm they are accounted for in the correct period</li> <li>We reviewed your accruals policy to confirm that it has been properly applied.</li> </ul>	Our work in this area is on-going. We will provide an update to members at the meeting of the Audit Panel on 11 September 2014.
<b>Employee remuneration</b>	Employee remuneration accrual understated	<ul style="list-style-type: none"> <li>We reviewed and test the year end payroll reconciliations</li> <li>We reviewed and tested your year end payroll accruals</li> </ul>	Our work found employee remuneration to be materially complete. We noted some issues with the process of payroll reconciliations which are described in the "internal controls" section.
<b>Welfare expenditure</b>	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> <li>Our work to certify your Housing and Council Tax benefits claim should give us adequate assurance over the accuracy of your financial statements.</li> <li>We reviewed the reconciliation between your financial statements and the Housing and Council Tax benefits claim.</li> </ul>	Our work in the housing and council tax benefits claim is on-going.
<b>Housing Rent Revenue Account</b>	Revenue transactions not recorded	<ul style="list-style-type: none"> <li>We reviewed and tested your year end reconciliations of housing rents.</li> <li>We carried out predictive analytical review to confirm rental income is in line with expectations</li> </ul>	We did not identify any significant matters against the risk identified
<b>Property, plant &amp; equipment</b>	PPE activity not valid	<ul style="list-style-type: none"> <li>We tested a sample of PPE additions to establish whether they have been appropriately accounted for in line with IAS16.</li> </ul>	We identified two errors in in Assets Under Construction, totalling £3.8 million. These are detailed under "adjusted misstatements. The amount is not material to our opinion and we found PPE activity to be otherwise valid. .

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Accounting policy - Revenue recognition</b>	Income from the provision of services or sale of goods is recognised when it is probable that the economic benefits or service potential associated with the transaction will be received by the Council.	The Council has adopted standard revenue recognition policies as set out in the Code of Audit Practice. We did not note any issues with the Council's revenue recognition policies or with their application.	● Green
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	● Green
<b>Judgements and estimates – depreciation</b>	Depreciation is charged by applying the straight-line method based on the asset's useful life.	The Council has an appropriate policy for depreciation. We have reviewed the Council's estimate of depreciation and found it to be fairly stated.	● Green

## Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements

Accounting area	Summary of policy	Comments	Assessment
<p><b>Judgements and estimates</b> Property plant and equipment valuations</p>	<p>The Council has a rolling programme of revaluations. Note 9a to your accounts shows that over 82 per cent of all your PPE was valued in 2013/14, including all council dwellings. This is a reasonable approach.</p>	<p>The Council no longer has its own in-house valuations expertise. For 2013/14 the Council engaged the District Valuer to carry out its valuations programme.</p> <p>We noted a number of issues with the process of obtaining valuations.</p> <ul style="list-style-type: none"> <li>•Some valuation information was provided late by the District Valuer, right up to the date of producing the draft financial statements. This contributed to a number of errors in accounting for valuations.</li> <li>•There was an error of £18.8 million in one valuation, which arose because of late information provided by the District Valuer.</li> </ul> <p>There were also issues with the accounting for revaluations leading to a number of material errors in note 9b. Errors have been made in this note in previous years.</p> <p>The Council's valuations were undertaken as at 1<sup>st</sup> April 2013. Over 2013/14 there was a significant increase in property values, meaning that this valuation was likely to be materially out of date by 31<sup>st</sup> March 2014. The Council agreed to uplift its property value by an appropriate index of 20 per cent, as advised by the DV, to reflect movements in house values over the year. This has led to an amendment of £161 million on the balance sheet .</p> <p>In order to address the timing issue between the valuation date and the accounting date, the Council proposes to obtain its valuations as at 1<sup>st</sup> February in future years, to minimise the likelihood of material valuation movements arising.</p> <p>The Council agreed to amend the accounts for these issues.</p>	<p style="text-align: center;">● <b>Red</b></p>

**Assessment**

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements and estimates – PFI liabilities</b>	The Council has developed and maintained PFI models to calculate the values of its PFI assets and liabilities on the balance sheet	<p>We engaged a Grant Thornton PFI expert to review the figures in your accounts to the values that would be expected using the assumptions in the Council's models.</p> <p>On several of the schemes we noted some differences between our calculated figures and the figures in the accounts. These are not material either individually or in aggregate and may be due to timing differences. Officers have agreed to investigate these differences in 2014/15.</p> <p>Our analysis identified one significant difference of £12 million on the Drumbeat school PFI scheme. Officers investigated this and confirmed the accounts were incorrect and they have agreed to correct.</p>	 <b>Amber</b>
<b>Judgements and estimates – bad debt provision</b>	Where it is likely that debts may not be settled, a charge is made to revenue for the income that might not be collected and the debtor is impaired.	In our 2012/13 audit we noted that the provision for bad debts in council tax may be overstated, as the Council has provided for more than the historic level of actual bad debts. In 2013/14 the Council has made a provision which is up to £7 million more than the actual rate of collection would indicate is required. The Council's view is that the approach is prudent and consistent with previous years. We raise this point for information.	 <b>Amber</b>
<b>Judgements and estimates – accruals and provisions</b>		The Council's policy is reasonable. Our work in this area is on-going	

## Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

## Adjusted misstatements

Our audit identified a number of adjustments to draft financial statements. We are required to report all significant misstatements and whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit of the financial statements which management has agreed to amend for.

### Impact of adjusted misstatements

All significant misstatements are set out below along with the impact on the key statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on surplus / (deficit) £000
<p>1 Expenditure on a decant programme had previously been brought forward and classified as an asset under construction which remained within assets under construction at 31 March 2014.. The expenditure was not a valid asset and so was removed. Dr I&amp;E – Impairment £1063k Cr PPE – Assets under construction £1063k</p> <p>This amount will subsequently be reversed via the movement in reserves statement to the capital adjustment account.</p>	1063	(1063)	(1063)
<p>2 Schemes brought forward from the prior period which remained within assets under construction at 31 March 2014 but should have been written out when the asset was brought into use. Dr I&amp;E – Impairment £1694k Cr PPE – Assets under construction £1694k</p> <p>This amount will subsequently be reversed via the movement in reserves statement to the capital adjustment account.</p>	1694	(1694)	(1694)

## Adjusted misstatements (2)

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on surplus / (deficit) £000
<p>3 Drumbeat school was recognised as an asset on 31 March 2013 by the Council. However the PFI liability was omitted from the Councils PFI model for Building Schools for the Future resulting in the liability being understated and so an amendment was required.</p> <p>Dr Capital adjustment account £11049k Dr revaluation reserve £1165k Cr PFI borrowings £12214k</p>	Nil	12214 (12214)	Nil
<p>4 Expenditure during the year on primary places which remained within assets under construction at 31 March 2014 but should have been written out when the asset was brought into use.</p> <p>Dr I&amp;E – Impairment Cr PPE – Assets under construction</p> <p>This amount will subsequently be reversed via the movement in reserves statement to the capital adjustment account.</p>	5881	(5881)	(5881)
<p>5 The Council's valuations were undertaken as at 1<sup>st</sup> April 2013. Over 2013/14 there was a significant increase in Property values, meaning that this valuation was likely to be materially out of date by 31<sup>st</sup> March 2014.</p> <p>Dr PPE – Dwellings £162697k Cr Revaluation reserve £110172k Cr I&amp;E – Reversal of impairment £52525k</p> <p>This amount of £52525k will subsequently be reversed via the movement in reserves statement to the capital adjustment account</p>	(52525)	162697 (110172)	52525

## Adjusted misstatements (3)

Detail		Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on surplus / (deficit) £000
6	A late amendment to a valuation of a school was not accounted for by the Council. Dr PPE – other land and buildings Cr Revaluation reserve	Nil	18797 (18797)	Nil
7	The late receipt of valuations led to a number of property valuations not being accounted for by the Council. Dr PPE – Surplus assets £3100 Dr revaluation reserve £2200 Dr I&E impairment £2200 Cr PPE – Dwellings £3700 Cr PPE – Other land and buildings £3800 This amount of £2200k will subsequently be reversed via the movement in reserves statement to the capital adjustment account	2200	3100 2200 (3700) (3800)	(2200)
8	The draft accounts disclosed a value for PPE which was less than the amount of assets disclosed within the Council's asset register. This was investigated and identified the accounts required amendment. Dr PPE – Surplus assets £1600 Cr revaluation reserve £300 Cr I&E – Impairments £1300 This amount of £1300k will subsequently be reversed via the movement in reserves statement to the capital adjustment account	(1300)	1600 (300)	1300
9	Two deposits have been incorrectly classified as cash equivalents when they are actually short term investments. Dr Investments – current assets Cr Cash equivalents – current assets	Nil	45000 (45000)	Nil
<b>Overall impact</b>		<b>£(42987)</b>	<b>£42987</b>	<b>£42987</b>

## Misclassifications & 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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	78,619	Revaluations - Council dwellings (note 9b)	Misclassification of revaluation transactions within note 9b for the movements due to revaluations
2 Misclassification	83,324	Revaluations – other land and buildings (note 9b)	Misclassification of revaluation transactions within note 9b for the movements due to revaluations
3 Misclassification	1,848	Impairments – other land and buildings (note 9b)	Misclassification of Impairment transactions within note 9b for the movements due to revaluations
4 Misclassification	10,947	Impairments – surplus assets (note 9 b)	Misclassification of Impairment transactions within note 9b for the movements due to revaluations
5 Misclassification	2,424	Impairments – Council dwellings (note 9b)	Misclassification of Impairment transactions within note 9b for the movements due to revaluations
6 Misclassification	24,064	Notional income - donated asset (Glass Mill)	The Council included this donation as Income within cost of services. However the Code requires this to be shown as income from recognised grants and contributions.
7 Disclosure	9,978	Movement in reserves statement 2013/14	The draft financial statements had an Inconsistency in the movement in reserves statement on the other comprehensive income and expenditure line of the statement.

## Misclassifications & disclosure changes (2)

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.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
8	Disclosure	5,766	Movement in reserves prior year 2012/13	The draft financial statements had an Inconsistency in the movement in reserves statement for 12/13. This was due to restatements made by the Council for IAS19 which were not subsequently amended for within the movement in reserves statement.
9	Disclosure	14,862	Note 14 overdrawn balances and total.	The draft disclosure did not cast and did not equal the balance sheet disclosure.
10	Disclosure	1,254	Note 35c – Movement in PFI assets in year	The disclosure was found to be inconsistent with the asset register requiring amendment.
11	Disclosure	2,606	Note 30 - Housing benefit grant income	The Housing benefit grant income disclosed did not agree to the grant claim.
12	Misclassification	9,708	Cash flow statement – Cash flows from investing activities	The draft financial statements had an Inconsistency between the disclosure and amounts disclosed elsewhere within the financial statements.
13	Disclosure	6,573	HRA Note 3 - rebates	The disclosure included incorrect amounts for rent rebates paid and received by the Council.
14	Disclosure	various	Collection fund	Additional disclosure to provide information regarding the impact on the council tax base due to the Welfare Reform Act that abolished the system of council tax benefits and replaced it with the Council Tax Reduction Scheme with effect from 1 April 2013.
15	Disclosure	various	Accounting for schools	Additional disclosure regarding the accounting of schools in the 2014/15 Code.

## Misclassifications & disclosure changes (3)

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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
16 Disclosure	various	Cash flow statement	The Council omitted a disclosure note to analyse items for the line disclosed as the Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities.
17 Disclosure	various	Cash flow statement	The Council omitted a disclosure note to analyse items for the line disclosed as the Adjustment to surplus or deficit on the provision of services for non-cash movements.
18 Disclosure	17,102	Note 34b(ii) – operating leases	The Council identified an error in the disclosure resulting in a reduction in the total of £17.1 million

# Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but 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 Account £'000	Balance Sheet £'000	Reason for not adjusting
<b>Overall impact</b>	<b>£0</b>	<b>£0</b>	

## Uncertainties

The table below provides details of uncertainties we identified during the course of our audit. The amounts are not material either individually or in aggregate. Management have agreed to investigate these in 2014/15.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
1 Difference between PFI models (BSF) and calculated values, arising because of timing differences on the start of the scheme		4,400	The net effect of PFI differences identified is immaterial. The Council has agreed to review these in 2014/15
2 Difference between PFI models (Brockley) and calculated values, possibly arising because of the valuation of the asset. The same scheme has a difference of £1,254 between the accounts and the supporting working papers		(2,194)	As above
3 Differences in other PFI schemes between the models and the calculated values		( 1,407)	As above
<b>Overall impact</b>	<b>£0</b>	<b>£799</b>	

## Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. 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.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	●	<ul style="list-style-type: none"> <li>We found that while most aspects of payroll are reconciled monthly (eg tax deductions) there is no regular reconciliation in total, to confirm that payroll has been completely and accurately transferred from the payroll system to the ledger. There is no evidence, however, that this has led to any errors in the accounts.</li> </ul>	<ul style="list-style-type: none"> <li>Carry out and retain evidence of regular and timely reconciliations of the payroll interface with the ledger.</li> </ul>
2.	●	<ul style="list-style-type: none"> <li>Management were not initially able to provide a schedule demonstrating that all its bank accounts had been satisfactorily reconciled to the ledger. As a consequence this area took significantly longer to audit than in 2012/13, when the Council provided a full reconciliation. There is no evidence, however, that this has led to any errors in the accounts. Internal Audit have also raised concerns about bank reconciliations.</li> </ul>	<ul style="list-style-type: none"> <li>Provide a full reconciliation and audit trail for principal bank accounts as in 12/13.</li> </ul>
3.	●	<ul style="list-style-type: none"> <li>We identified discrepancies of £700k between the schools bank reconciliations and the Council's accounts. The Council was subsequently able to explain the difference and that the accounts figures were correct.</li> </ul>	<ul style="list-style-type: none"> <li>Verify schools bank reconciliations and ensure these agree to the financial statements.</li> </ul>

### Assessment

● Significant deficiency – risk of significant misstatement

● Deficiency – risk of inconsequential misstatement

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Chair of the Audit Panel. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council.</li> <li>In particular, representations will be requested from officers in respect of the significant assumptions used in treating the Glass Mill centre as a donated asset.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>
7.	<b>Subsidiary companies</b>	<ul style="list-style-type: none"> <li>As in the previous years, the Council has not produced consolidated group accounts, because the effect of doing so would be immaterial to the accounts overall. The Council has included a detailed narrative disclosure note of its interests in companies. We concur with the Council's treatment of this.</li> </ul>
8.	<b>De-cluttering</b>	<ul style="list-style-type: none"> <li>The Council has continued its continued to endeavour to make its accounts more concise and user-friendly, including reducing the length and format of the Annual Governance Statement. We are committed to continue to work with the Council in its efforts to de-clutter its accounts.</li> </ul>

## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non audit services and independence

05. Communication of audit matters

# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

**The Council has proper arrangements in place for securing financial resilience** - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness** - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Overall our work highlighted [enter short summary of Securing financial resilience findings].

### Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

We have issued a separate report setting out our detailed findings in respect of the value for money conclusion.

### Overall VFM conclusion

Based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

The value for money conclusion is still subject to a moderation process.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
<b>Key indicators of performance</b>	The key indicators of financial performance for 2013/14 show the Council's performance to be similar to other London Boroughs.	<b>Green</b>
<b>Strategic financial planning</b>	The Council has developed a medium term financial plan aimed at maintaining a resilient financial position. The plan covers the period to 2018 and estimates that £95 million of annual savings will be required.	<b>Green</b>
<b>Financial governance</b>	Management and members demonstrate a sound understanding of the financial challenges facing the Council.	<b>Green</b>
<b>Financial control</b>	Overall the Council has adequate financial controls in place. However the savings needed to achieve a resilient financial position are very challenging. Although the Council has good arrangements for identifying efficiencies, the scale of the issue gives rise to a risk of this not being achieved in the time scale. The Council is projecting a Directorate level overspend of £10 million in 2014/15.	<b>Amber</b>
<b>Prioritising resources</b>	The Council has good arrangements in place for prioritising its resources. This has been demonstrated in the work of the Lewisham Futures Board and in the Council's active engagement with NHS partners to develop proposals for the Better Care fund.	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>	The Council has a good track record of improving its efficiency and productivity. However comparative costs appear to be above the average of other similar councils for Adult social care services. The medium term financial plan contains the target to save £12 million through shared services arrangements, however there are no firm proposals to underpin this target at present.	<b>Amber</b>

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission, and additional indicators identified by ourselves. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual risk identified	Summary findings	RAG rating
review key financial performance indicators for 2013/14.	The Council made a surplus of £1.8 million in 2013/14. The level of reserves, debt, working balances and schools balances are in line with those of other London councils.	Green
review and comment on your medium term financial projections.	The revised Medium Term financial plan was published in July 2014 and covers the period to 2018. A number of scenarios are set out in the plan, but the most probable is that the Council faces a funding gap of £95 million over the period. This arises due to cost pressures and reductions in central government programme. The scale of the challenge leads to the "amber " rating.	Amber
consider the work of the Lewisham Futures Board in seeking to ensure a sustainable future for the Council's services	Senior Management have established the Lewisham Futures Programme Board to drive through the changes needed to provide a sustainable financial position. The Council recognises that savings of this magnitude will have an impact on the way the Council provides its services. The Board has set out its thematic reviews to provide the framework for the transformational change which the Council needs to implement.	Green
Review your performance against your savings targets and comment on your identification of savings in 2014/15 and beyond.	The £95 million required savings have been profiled over four years. The Council estimates that £38 million is needed in 2015/16. As at September 2014 management is in the process of identifying proposals for cost savings and additional income which would achieve the £38 million. Around £27 million of proposals have been developed for further discussion with members.	Amber
Consider the management of staffing reductions in the finance function	The finance department has undergone a significant restructuring in 2013/14, with the number of principal accountants reducing from 14 to 9. This has had an impact on the accounts and auditing process in 2013/14 with some officers carrying out their new responsibilities for the first time. However it has been managed in a controlled way with responsibilities being appropriately reallocated to other officers.	Green
Comment on your partnership working in seeking to maximise the benefits of the Better Care Fund	The Council has engaged closely with its local NHS partners, particularly Lewisham CCG, to develop its approach to the better care fund.	Green

## Section 4: Fees, non audit services and independence

01. Executive summary

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05. Communication of audit matters

# Fees, non audit services and independence

We confirm below our final fees charged for the audit.

## Fees

	Per Audit plan £	Actual fees £
Council audit	255,044	255,044
Grant certification	36,500	36,500
<b>Total audit fees</b>	<b>291,544</b>	<b>291,544</b>

## Fees for other services

Service	Fees £
None	Nil

## Independence and ethics

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

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

## Section 5: Communication of audit matters

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05. Communication of audit matters

# Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

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

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

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

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

# Appendices

# Appendix A: Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Engage with the Council's valuers to improve the quality and the timeliness of the valuation process	High		
2	Review and improve the Council's arrangements for accounting for PPE valuations	High		
3	For 2014/15 ensure all expenditure treated as Assets under Construction is valid capital spending and complies with accounting standard IAS16.	Medium		
4	Investigate the differences highlighted between the expected PFI values and those reported in your financial statements.	Low		
5	Provide a full reconciliation and audit trail for principal bank accounts as in 12/13.	Medium		

## Appendix A: Action plan (2)

### Priority

**High** - Significant effect on control system

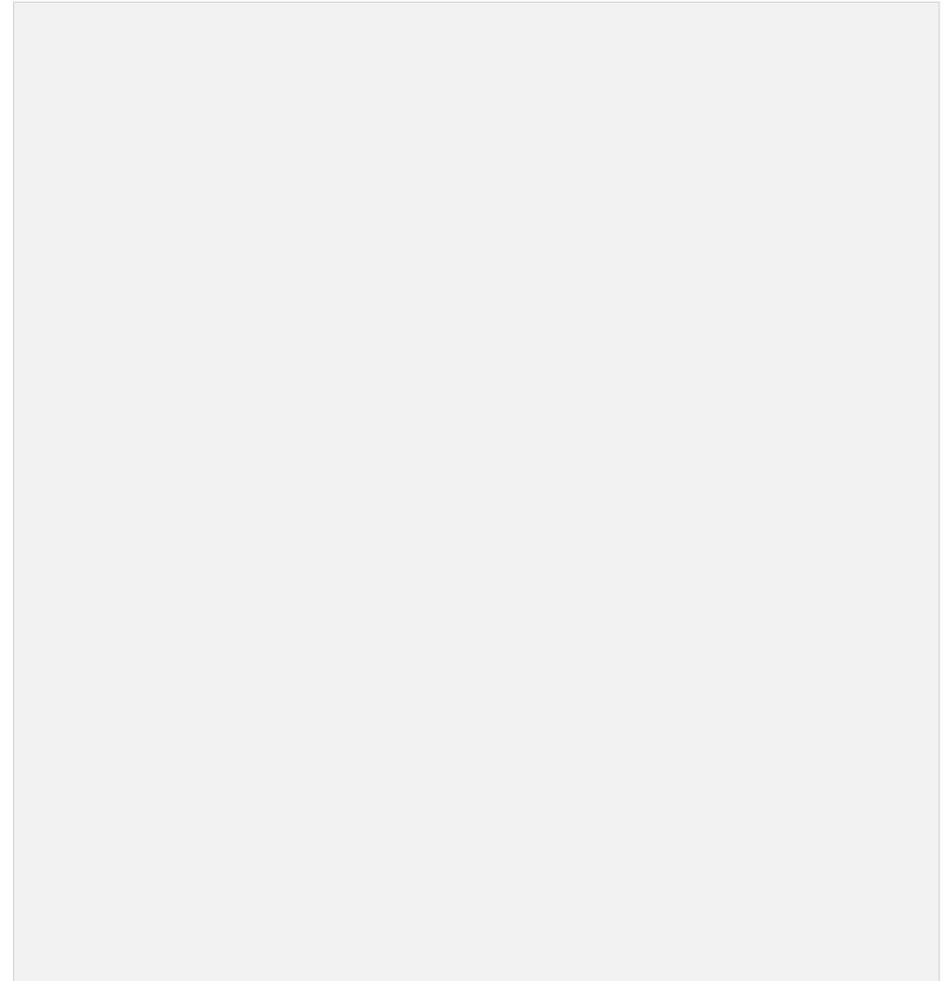
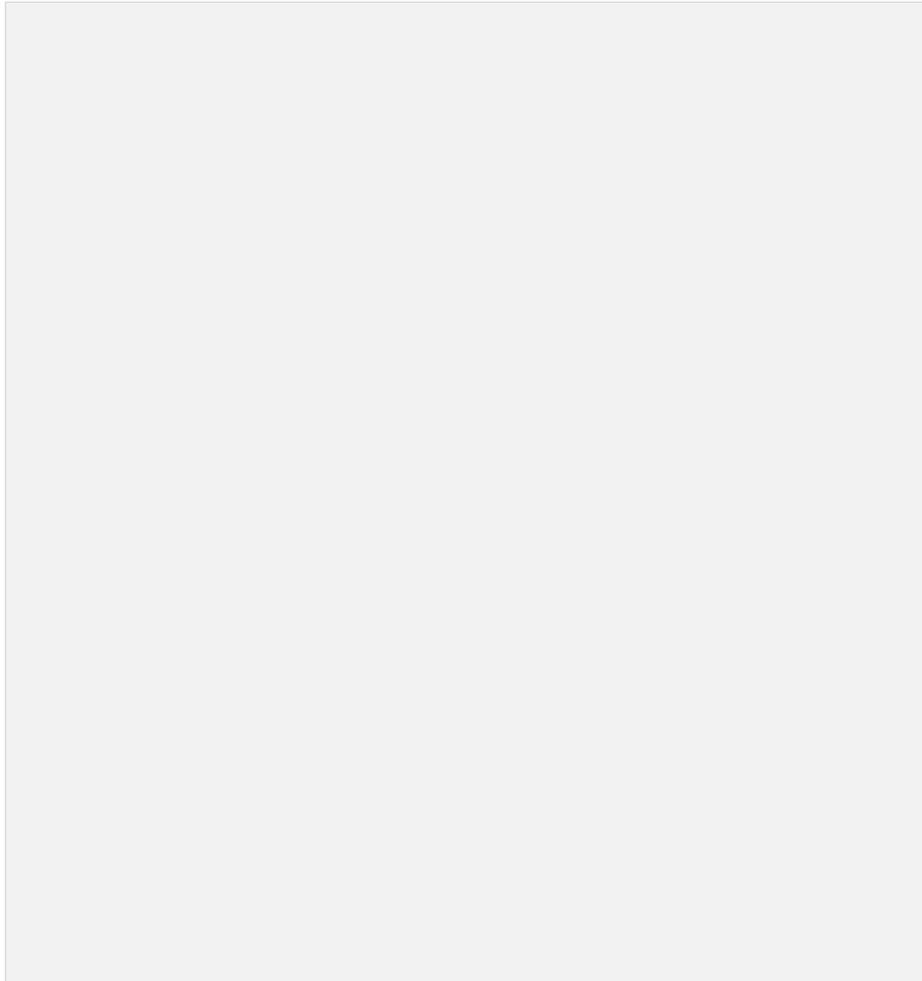
**Medium** - Effect on control system

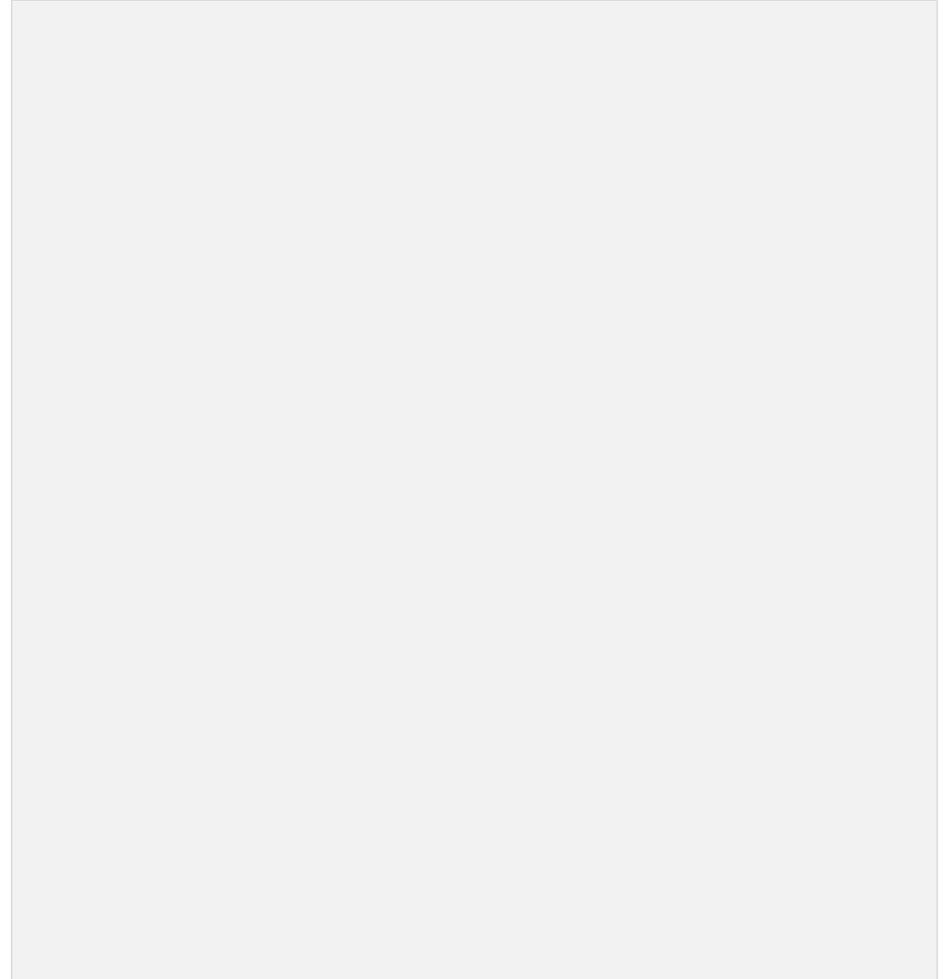
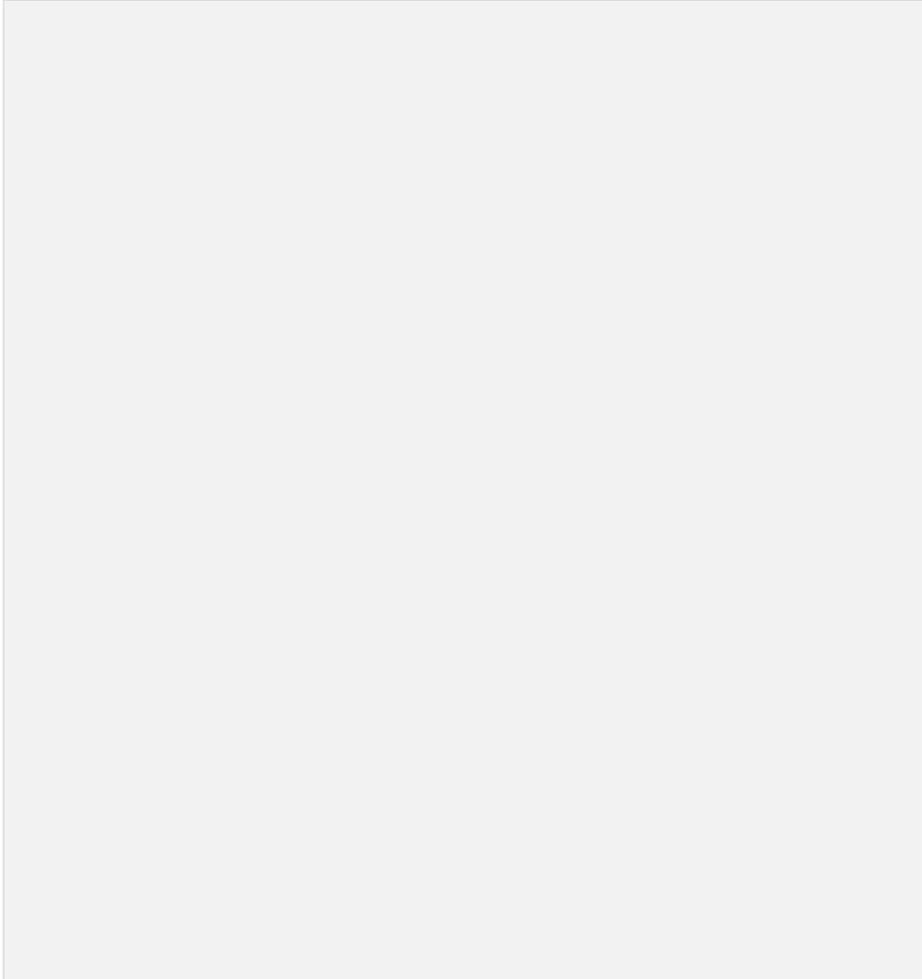
**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
6	Verify schools bank reconciliations and ensure these agree to the financial statements	Medium		
7	Carry out and retain evidence of regular and timely reconciliations of the payroll interface with the ledger.	Medium		

## Appendix B: Audit opinion

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







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