



# The Annual Audit Letter for London Borough of Lewisham

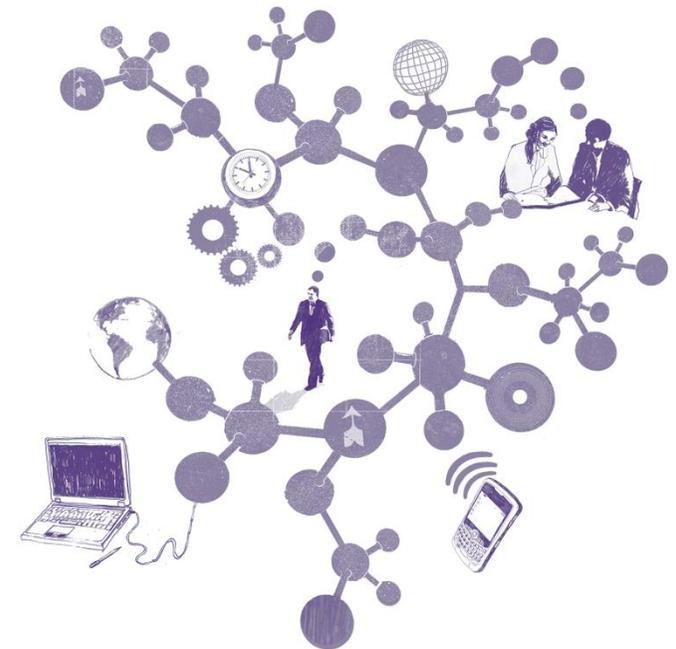
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**Year ended 31 March 2014**

October 2014

**Darren Wells**  
Director  
T 01293 554 120  
E [darren.j.wells@uk.gt.com](mailto:darren.j.wells@uk.gt.com)

**Jamie Bewick**  
Senior Manager  
T 01293 554 138  
E [jamie.n.bewick@uk.gt.com](mailto:jamie.n.bewick@uk.gt.com)



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# Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at London Borough of Lewisham ('the Council') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 24 June 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

## **Financial statements audit (including audit opinion)**

We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 11 September 2014 to the Audit Panel. We identified a number of errors requiring amendment in your financial statements. However none of these amendments affected your overall budget position or council tax. Most of the amendments were concerned with your arrangements for accounting for property valuations. The issues included late valuations, differences between your accounts and the valuation reports and incorrect classifications of valuations in your accounts. Your initial valuations were as at 1 April 2013 and did not reflect the significant increases in London property prices over the year.

Other amendments included the following:

- omission of a Private Finance Initiative school from the balance sheet;
- amounts incorrectly included as assets under construction; and
- a number of internal inconsistencies in the statements.

In the report we also commented on some aspects of internal control, including the need for regular and timely reconciliations between the payroll system and the ledger.

We issued an unqualified opinion on your 2013/14 financial statements on 25 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council. On the same date we also gave an unqualified opinion on the accounts of the Lewisham Pension Fund.

# Key messages

<b>Whole of Government Accounts</b>	<p>We reviewed the consolidation pack which you prepared to support the production of Whole of Government Accounts. We reported that the pack was consistent with the audited financial statements.</p>
<b>Value for Money (VfM) conclusion</b>	<p>We issued an unqualified Value for Money conclusion for 2013/14 on 25 September 2014.</p> <p>You have a good track record of managing your finances, making efficiencies and meeting your financial targets. In 2013/14 you made a surplus of £1.8 million and were able to add to your reserves.</p> <p>Budget pressures are having an impact in 2014/15. As part of your budget setting you had to draw on £3 million of reserves to support the revenue position. Additionally your current forecasts indicate a potential overspend at directorate level of over £10 million, which is partly mitigated by budget contingencies.</p> <p>You estimate that £38 million of savings are needed to set a balanced budget for 2015/16. Through the work of the Lewisham Futures Board you have identified options to achieve most of the necessary savings. You understand the scale of the challenge and that savings of this magnitude will necessarily mean changes to the way you provide services. While proposals have been identified you recognise that there are risks to implementing the proposals in time to achieve the required outcomes.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.</p>
<b>Certification of grant claims and returns</b>	<p>We have certified your capital receipts pooling return with one amendment, which did not affect the amount payable into the pool. We are still in the process of reviewing the housing benefit grant claim for certification. Our work to date has identified a number of errors which require us to carry out extended testing.</p>
<b>Audit fee</b>	<p>Our fee for 2013/14 was £294,144, excluding VAT which was in line with our planned fee for the year and represented a reduction compared with the previous year. Further detail is included within appendix B.</p>

# Appendix A: Key issues and recommendations

This appendix summarises the recommendations made during the 2013/14 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	<p>Some valuation information was provided late by the District Valuer up to the date of producing the draft financial statements. This contributed to a number of errors in accounting for valuations</p> <p><b>Recommendation:</b> Engage with the Council's valuers to improve the quality and the timeliness of the valuation process</p>	High	<p>This has been agreed with the Council's valuers and a tendering process to appoint a valuer is already underway. The detailed valuations will be as at 31st January 2015 and will be available by mid March 2015.</p> <p>Responsible officer: Richard Lambeth Due date: December 2014</p>
2.	<p>A number of issues were identified in accounting for revaluations leading to several classification errors in note 9b</p> <p><b>Recommendation:</b> Review and improve the Council's arrangements for accounting for Property, Plant and Equipment valuations</p>	High	<p>The earlier receipt of the valuation data (as above) will enable a quality review to be carried out and the PPE accounting entries to be actioned earlier and with enhanced accuracy.</p> <p>Responsible officer: Richard Lambeth Due date: March 2015</p>
3.	<p>We identified that some expenditure was incorrectly treated as Assets under Construction.</p> <p><b>Recommendation:</b> For 2014/15 ensure all expenditure treated as Assets under Construction is valid Capital spending and complies with accounting standard IAS 16.</p>	Medium	<p>A review of expenditure classified as Assets under Construction as at 1st April 2014 is being undertaken to ensure that it complies fully with IAS16. In addition, rigorous scrutiny of any proposed 2014/15 expenditure will be carried out to ensure that the correct accounting treatment is adopted.</p> <p>Responsible officer: Richard Lambeth Due date: April 2015</p>

## Appendix A: Key issues and recommendations (2)

This appendix summarises the recommendations made during the 2013/14 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
4.	<p>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.</p> <p><b>Recommendation:</b> Carry out and retain evidence of regular and timely reconciliations of the payroll interface with the ledger.</p>	Medium	<p>We have reviewed our processes in this area and will carry out and provide the reconciliations and audit trail as requested and agreed.</p> <p>Responsible officer: Richard Lambeth Due date: April 2015</p>
5.	<p>Management were not initially able to provide a working paper demonstrating that all bank accounts had been reconciled satisfactorily to the ledger, This consequently took longer to audit than in the prior year.</p> <p><b>Recommendation:</b> To provide a full reconciliation and audit trail of bank accounts.</p>	Medium	<p>We have reviewed our processes in this area and will carry out and provide the reconciliations and audit trail as requested and agreed.</p> <p>Responsible officer: Richard Lambeth Due date: April 2015</p>
6.	<p>There were differences of £700k between the schools bank reconciliation and the Council's accounts. The discrepancies were subsequently explained and this confirmed that the accounts figures were correct.</p> <p><b>Recommendation:</b> Verify school bank reconciliations and ensure they agree to financial statements.</p>	Low	<p>We will review schools bank reconciliations at year end and make sure that they agree to the financial statements.</p> <p>Responsible office: D Richards Due date: April 2015</p>

## Appendix A: Key issues and recommendations (3)

This appendix summarises the recommendations made during the 2013/14 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
7.	<p>We identified that there were differences between our calculated figures and the figures in the accounts on several PFI schemes.</p> <p><b>Recommendation:</b> Investigate the differences highlighted between the expected PFI values and those reported in your financial statements.</p>	Low	<p>A review of the PFI accounting models is being carried out to identify any such differences.</p> <p>Responsible officer: Richard Lambeth Due date: December 2014</p>

# Appendix B: Reports issued and fees

We confirm below the fee charged for the audit and confirm there were no fees for the provision of non audit services

## Fees

	Per Audit plan £	Actual fees £
Audit Fee	255,044	255,044
NNDR		2,600
Grant certification fee	36,500	26,443
<b>Total fees</b>	<b>291,544</b>	<b>284,087</b>

## Fees for other services

Service	Fees £
None	Nil

## NNDR audit fees

There is additional fee of £2,600 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NNDR3 certifications for London Borough Councils and is subject to agreement by the Audit Commission

## Reports issued

Report	Date issued
Audit Plan	June 2014
Audit Findings Report	September 2014
VfM – Financial Resilience Report	September 2014
Annual Audit Letter	October 2014
Certification report (to be issued)	December 2014



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