

The Audit Findings for London Borough of Lewisham

Year ended 31 March 2016

September 2016

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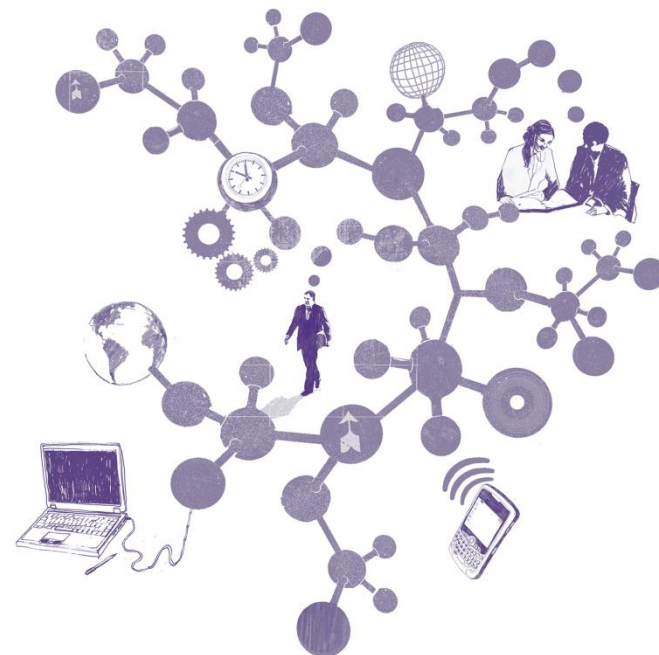
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Councillor Jonathan Slater
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5 September 2016

Dear Councillor Slater

Audit Findings for London Borough of Lewisham Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of the Audit Panel, as those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

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 and giving a value for money conclusion. 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.

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

Yours sincerely

Darren Wells

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Section 1: Executive summary

01. Executive summary

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Purpose of this report

This report highlights the key issues affecting the results of London Borough of Lewisham ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure 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 consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated March 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- housing benefits;
- responding to identified control weaknesses, particularly in operating expenses;
- finalising PPE valuation adjustments;
- additional queries arising from quality review procedures;
- review of the final version of the financial statements;
- obtaining and reviewing the management letter of representation;
- review of revised versions of the Annual Governance Statement;
- updating our post balance sheet events review, to the date of signing the opinion; and
- Whole of Government Accounts.

Key audit and financial reporting issues

Financial statements opinion

We have identified a number of significant adjustments affecting the Council's Comprehensive Income and Expenditure statement and balance sheet. From our work to date none of the identified adjustments affect the overall performance against the Council's revenue budget, although there are several which affect reported income and expenditure and asset values.

A separate schedule of adjustments has been prepared. Officers are still working through the overall impact of these on the primary financial statements, notes and collection fund. Some of the key adjustments affecting the accounts are as follows.

- There are a number of errors in the Council's accounting treatment of Property, Plant and Equipment, leading to some significant adjustments.
- The Council had not accounted correctly for NNDR in the collection fund. This requires multiple adjustments affecting all of the primary financial statements.
- There were several errors in the accounting treatment of grant income.

We have also recommended a number of adjustments to improve the presentation and disclosure of the financial statements. Further details are set out in section two of this report.

Subject to amendment of the issues we have highlighted, we anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Closedown arrangements

From 2017/18 all councils in England will be required to publish their audited financial statements by 31st July (currently 30 September). For an organisation as large and complex as London Borough of Lewisham this will be a significant challenge, requiring a major review of working arrangements.

In early 2016 we discussed this issue with the finance team and agreed to treat the 2015/16 audit as a 'dry run' for the earlier closedown. This plan entailed producing draft accounts by 31 May and the audit to be completed by 31 July. In April we gave a presentation to the finance department setting out the revised timetable and the audit requirements.

The Council successfully produced draft financial statements by 31 May, in line with the timetable agreed with management. Working papers were made available either at the start of our audit or when requested. By the end of July the audit was substantially further advanced than in the previous year.

However the target of completing the audit by the end of July was not achieved and some work, most notably housing benefits, had to be deferred to September. This was because of the volume of issues which arose and the Council's limited capacity to deal with the audit work in the shorter timescale. We have been in discussions with the finance team over lessons learned from this dry run and in particular how more capacity can be added to the finance team to complete the audit in a shorter and earlier timescale. Additional finance capacity during the audit would enable the Council to respond more quickly to queries, enabling the audit team to complete its work in a more efficient manner.

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

The draft version of the Annual Governance Statement did not make mention of the control issues which led to the limited assurance opinion from the Head of Internal Audit. We requested that the Council should make a fuller disclosure of control issues.

Controls

Roles and responsibilities

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.

Findings

We draw your attention in particular to control issues identified in relation to the IT control environment, including access controls and separation of duties. Further details are provided within section two of this report.

We also had due regard in our testing strategy to the control weaknesses raised by internal audit and in the Head of Internal Audit opinion, particularly in relation to the accounts payable system which received a "no assurance" opinion. To mitigate this risk we tested a larger sample of expenditure, with a focus on the robustness of the supporting evidence.

Although ours was not specifically an audit of controls, our observations during the audit were consistent with those of internal audit. We noted weaknesses in access, separation of duties and authorisation. The number of staff in the finance team has reduced significantly in recent years. Additionally the Council moved to a shared financial services system in 2014. It is not clear that the Council has maintained a full and compliant system of internal control following these changes. The Council should re-evaluate its control framework and ensure new ways of working are understood and complied with by staff.

We have discussed these control issues with the Head of Financial Services, involving specialists in those discussions.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Key messages from our review are:

- The Council is making good progress in identifying savings schemes to meet its targeted savings from health and social care integration.
- As previously noted, significant weaknesses in financial controls have been identified and reported during 2015/16. The Council is taking action to mitigate this including reviewing the future of its financial shared service arrangements.
- There was a significant overspend on service budgets in 2015/16, which was mitigated by use of corporate contingencies and reserves. The Council has sufficient contingencies and reserves to ensure financial resilience for the foreseeable future.
- The Council continues to develop its medium term financial strategy to meet the savings required by 2020. Management have reported that future savings will need to focus on service transformation as well as efficiencies.
- The Council has reported mixed performance against its key performance indicators. Overall this is not directly linked to savings plans but rather to wider trends which also affect other neighbouring councils.

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

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Previously in 2014 we received an objection to that year's accounts, which was not material to the accounts and did not prevent us from giving an opinion that year. The elector withdrew their objection during 2016 and consequently we were able to close the 2014/15 audit.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit Panel in February 2017.

We have held initial meetings with officers to discuss our approach to the benefits certification where there were errors in the previous year, which could indicate a risk of errors in the current year.

The way forward

Matters arising from the financial statements audit and our 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 at Appendix A. Recommendations have been discussed and agreed with the Executive Director for Resources and Regeneration and the finance team.

Acknowledgement

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 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £19,118k (being 1.75% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and we revised our overall materiality to £18,558k. Our lower materiality reflected an increased risk in the Council's system of internal control as highlighted by internal audit's findings.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect the accumulated effect of such amounts to have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £927k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Cash and cash equivalents	All transactions made by the Council affect the balance and it is therefore considered to be material by nature.	£500k
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£100k

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 (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we 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>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at London Borough of Lewisham, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including London Borough of Lewisham, mean that all forms of fraud are seen as unacceptable. 	<p>Our testing did not identify any significant issues.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> • Review of journal entry policies and procedures • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride 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 did not identify, nor have we been made aware of, any unusual significant transactions.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against other risks

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
	<p>Valuation of property, plant and equipment The Code requires the Council to ensure the carrying value at the balance sheet date is not materially different from current value. The Council considers the current value of its PPE assets annually, undertaking revaluations where deemed necessary to ensure that the PPE balance is fairly stated. This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> • Review of the competence, expertise and objectivity of any management experts used. • Walkthrough the system for PPE valuations • Review of management's processes and assumptions for the calculation of the estimate. • Review of the instructions issued to valuation experts and the scope of their work • Discussions about the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register • Evaluation of 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 to current value. 	<p>Accounting for PPE is complex and as in previous years we have identified a number of significant issues with the Council's accounting treatment in this area.</p> <p>Management have agreed to amend the accounts for those issues we identified. Amendments are presented in section two of this report.</p> <p>Additional to the amendments listed, the valuer has stated in his report that there has been a material movement in the value of specialised assets in 2015/16. We have discussed with officers that this may mean that there is a material understatement of the value of assets which were not valued in 2015/16.</p> <p>This is likely to lead to a further material amendment to the value of PPE, the amount of which is still being discussed with management.</p>
	<p>Employee remuneration Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<ul style="list-style-type: none"> • Walkthrough payroll system, updating our understanding • Reconciliation of payroll to the General Ledger (for completeness) • Undertake analytical procedures e.g. trend analysis • Test a sample of transactions at the year end to confirm they are accounted for in the correct period (cut-off testing) 	<p>Our work has not identified any significant issues against the risk identified.</p>

Audit findings against other risks



Risks identified in our audit plan	Work completed	Assurance gained & issues arising
<p>Operating expenses Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<ul style="list-style-type: none"> • Walkthrough of operating expenses system, updating our understanding • Review and test the year end creditors control account reconciliation. • Test a sample of transactions at the year end to confirm they are accounted for in the correct period (cut-off testing) • Review your accruals policy and confirm that it has been properly applied 	<p>We tested an extended sample of transactions, to respond to the enhanced risk highlighted in the "no assurance " report. Officers are also carrying out their own retrospective review of expenditure which they plan to share with us before we give our opinion.</p> <p>Our work to date has not identified any issues in relation to the risk identified</p>
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<ul style="list-style-type: none"> • identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • undertake procedures to confirm the reasonableness of the actuarial assumptions made. • review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>We did not identify any issues in relation to the risk identified</p>

Significant matters discussed with management

	Significant matter	Commentary
1.	Accounting treatment of National Non Domestic Rates (NNDR).	We found that the Council has not been accounting correctly for NNDR following the abolition of national pooling arrangements. We discussed this matter with management along with the appropriate accounting treatment. This has led to material changes in the accounts affecting multiple statements.
2.	Property, Plant and Equipment valuations (PPE).	We found multiple errors in the accounting treatment for PPE. This is a particularly complex area and has also been an issue in previous years. We recommend the Council reviews its arrangements for accounting for PPE.
3.	Minimum Revenue Provision	Management shared with us its proposals to change its arrangements for accounting for the Minimum Revenue Provision, following a review of asset lives. This affects the capital financing note to the accounts (note 31) and the effect is to create a notional income and expenditure benefit in the Council's budget reporting. The Council has disclosed this in the accounts. The amount is not material to our opinion on the accounts and we do not challenge the proposal.
4.	Financial controls	We have held a number of discussions with management around identified control weaknesses in financial systems. To mitigate the risk of this in our audit we have selected larger sample sizes than in previous years.




Accounting policies, estimates and 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
Revenue recognition	The Council's policies on grants, contributions and other revenues are set out in the statement of accounting policies.	The revenue policies are reasonable and consistent with the Code.	 Green
Judgements and estimates	<ul style="list-style-type: none"> <li data-bbox="561 518 975 572">– Useful life of PPE, revaluations and impairments <li data-bbox="561 848 696 872">– Accruals <li data-bbox="561 943 996 968">– Valuation of pension fund net liability <li data-bbox="561 1011 712 1035">– Provisions <li data-bbox="561 1092 830 1116">– Impairment of debtors 	<p data-bbox="1052 518 1748 572">As previously noted there were a number of significant errors with the Council's accounting for PPE valuations.</p> <p data-bbox="1052 586 1748 782">The valuer's report noted a significant movement in the value of property replacement costs in 2015/16. This means the value of properties which were not revalued in year could be materially understated. The Council did not receive this part of the valuer's report until 7 June, which was after the draft accounts were produced. Officers are quantifying the effect of this, to reflect it in the accounts</p> <p data-bbox="1052 833 1748 888">The Council's accounts are prepared on an accruals basis. We did not identify any issues with the accounting for accruals.</p> <p data-bbox="1052 919 1748 973">We found the pension fund liability is consistent with the actuary's report and appropriately disclosed.</p> <p data-bbox="1052 991 1748 1045">Provisions are not material to our opinion and are appropriately disclosed.</p> <p data-bbox="1052 1062 1748 1196">The impairment allowance for debtors is calculated in accordance with the Council's accounting policy. We note that at £63.9 million the impairment allowance now exceeds the balance of net debtors. The Council should review this and consider whether some of this should more appropriately be written off.</p>	 Red (PPE valuation)

Assessment

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Judgements - local authority maintained schools premises	The accounting for schools is unchanged since the previous year and is disclosed at note 2 to the accounts	We reviewed the Council's critical judgements on schools in the 2014/15 audit and have not noted any new issues in 2015/16.	 Green
Going concern	The Executive Director for Resources and Regeneration has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continues to adopt the going concern basis in preparing the financial statements.	We are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements. The Council did not make an explicit statement of going concern in the financial statements, although this is implicit in the narrative statement and in the Council's Medium Term Financial Strategy. Management agreed to add a fuller disclosure to the accounts.	 Green
Other accounting policies	Accounting policies are set out in section 2 of the financial statements	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	 Green

Assessment

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
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Panel. We have been made aware of incidences of fraud as they are reported to the Audit Panel. There are no matters identified which are material to our audit opinion.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> Note 30 (Related Party Transactions) made reference to the register of Members and Chief Officers Declarations of Interest. In our view this is not appropriate, as material transactions should be disclosed in the accounts. We were happy with officers' proposal to set an appropriate level of materiality for disclosures and to report transactions above this threshold in the accounts.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council,
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests in relation to loans, bank accounts and investments. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material disclosure omissions in the financial statements. A number of minor points were discussed with management.

Other communication requirements continued


	Issue	Commentary
7.	Matters on which we report by exception	<p>We are required to report on the following matters by exception:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading. <p>The draft version of the AGS stated there were no significant gaps or governance issues during 2015/16. It did not mention the adverse internal audit reports during the year and the limited assurance Head of Internal Audit opinion. Management agreed to amend the AGS so as to give a more balanced assessment.</p> <p>We did not identify anything in the Narrative Report which was inconsistent with our knowledge of the Council</p>
8.	Specified procedures for Whole of Government Accounts	<p>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.</p> <p>We plan to carry out this work before the end of September 2016.</p>

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. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as previously set out above. We also carried out a high level review of IT controls in respect of key financial systems and shared services.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.



	Assessment	Issue and risk	Recommendations
1.		<p>We carried out a high level review of IT controls at the Council and at the shared service provider, focussing on the interface between the two.</p> <p>The review highlighted some significant issues specifically around separation of duties and access controls. These findings are consistent with our audit of last year and with reports from internal audit this year.</p> <p>We have reported these findings in detail to management in a separate paper and we have discussed these with the Head of Financial Services, involving our Senior IT Specialist in that discussion.</p>	<ul style="list-style-type: none"> Review and improve access controls and separation of duties in IT systems, with a focus on the detailed findings of our IT review.

Assessment



-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

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.

Internal controls (continued)

	Assessment	Issue and risk	Recommendations
2.		<p>The Council's processes and quality control over PPE valuations are weak. We saw little evidence of checking of the valuer's report or of reconciliation between the report, the asset register and the accounts.</p> <p>When we carried out the reconciliation as part of our audit we noted several issues including</p> <ul style="list-style-type: none"> - Assets double counted - Assets which the Council does not own - Assets recorded at the wrong value 	<ul style="list-style-type: none"> • Strengthen quality control procedures to include management oversight of PPE valuations, to identify errors and omissions before the accounts are presented for audit.
3.		<p>The legislation for public inspection of the accounts has changed this year, with the introduction of the Local Audit and Accountability Act 2014.</p> <p>Although management knew about the revised legislation they were not aware that the public inspection period should include the first ten working days of July. Consequently they began the inspection period on 21 July, which ran for the full 30 day period as required.</p>	<ul style="list-style-type: none"> • For 2017 ensure full compliance with the public inspection requirements of the Local Audit and Accountability Act.

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

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.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	In our 2014/15 Audit Findings report we reported that bank reconciliations were not taking place on a regular or timely basis.	<ul style="list-style-type: none"> • Within the limited scope of our work on reconciliations we did not identify any issues with the frequency or timing of bank reconciliations.
2.	X	<p>As part of our 2014/15 audit we carried out a high level review of IT arrangements at the new ledger shared services provider. We identified a number of control weaknesses. Similar issues were raised by internal audit in their review of the ledger.</p> <ul style="list-style-type: none"> • We have shared the detailed findings with management. Key issues highlighted were as follows. • We identified seven accounts with default passwords • Excessive number of system administrators • Multiple users for the same person • Some individuals have excessive access levels • Weak and inconsistent password policies • Lack of segregation of duties • Incomplete logging of activity • Access rights that are not linked to an individual • Access rights are not formally reviewed for appropriateness. 	<ul style="list-style-type: none"> • As previously noted, similar issues were identified in our review of 2015/16

Assessment

- ✓ Action completed
- X Not yet addressed

Adjusted misstatements (Property, Plant and Equipment)

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management. There were no misstatements which management declined to amend.

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.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 Sydenham school – double counted additions from 2014/15	13,388	(13,388)	
2 Revaluation incorrectly accounted (Heathside)	(1,437)	1,437	
3 Disposed dwellings still in accounts	6,232	(6,232)	
4 Surplus assets still in 'dwellings'	412	1,436 (412)	412
5 Disposal of asset already recognised in previous year	7,970	(7,970)	7,970
6 Disposed assets still in the accounts	2,513	(2,513)	
7 Revaluation differences on reconciliation	1,960	(9,630) (gross)	1,960
8 Adjustment to reserves (investment properties)		4,370 (gross)	
9 Assets under construction overstated	4,453	(8,961) (gross)	4,453

Adjusted misstatements (NNDR)

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed 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.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 Collection fund adjustment – reclassify £51.7 million payment to the national pool between the following headings - LBL share of precepts and demands £15.5 million - GLA share of precepts and demands £10.3 million - central gov share of precepts and demands £25.8 million Additional collection fund deficit £3.3 million			
2 Collection fund adjustment account		988	988
3 GLA / Gov share of deficit		2,304	2,304
Overall impact		3,292	3,292

Adjusted misstatements (grants and other)

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed 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.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 NNDR grant income incorrectly taken to reserves	9,281	9,281	9,281
2 Adjustment needed between HRA and reserves	4,886	4,886	4,886
3 Creditors and CIES overstated in respect of cancelled recurring payments	1,215	1,215	1,215

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes above the threshold of £928k which were identified during the audit and which have been made in the final set of financial statements. Additionally there were numerous changes below this amount which we have not listed separately.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	Various	Note 30	Management to add details of material related party transactions during the year (note 30)
2 Misclassification	2,230	Note 29	Amendment to housing benefit grant income to match the grant claim
3 Misclassification	2,000	Note 29	Misclassification of public health grant
4 Misclassification	13,215	Note 29	Misclassification of grant income between general and specific grants
5 Misclassification	8,156	Note 9b	Misclassification between PPE additions and assets under construction
6 Misclassification	3,933	CIES	Misclassification of income between Adult social care and public health
7 Disclosure	5,003	HRA	Disclosure and misclassification error in the HRA and MiRS

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in July 2016 and identified the following significant risks, which we discussed and agreed with the Executive Director for Resources and Regeneration.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

- Consider how the Council can free up management capacity to focus on transformational change in services.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Health & Social Care Integration - The Council is working with partners in the local health economy towards greater health and social care integration. However the health economy is in significant financial difficulty which could create cost pressures for the Council and affect the Council's plans and assumptions around the Better Care Fund, social care funding and public health.</p>	<p>We will review the Council's plans and assumptions around health and social care integration particularly concerning the Better Care Fund. We will consider how the Council is managing associated cost pressures through working in partnership with local health bodies.</p>	<p>Health and Social Care Integration savings form a key part of the efficiency plan - £14.7m in total, £5.9m to be delivered in in 2017/18. The Council has been working closely with Health for three years, particularly around the Better Care Fund monies allocated to social care. The process is overseen by the Adult Integrated Care Programme Board which reports to the Health and Wellbeing Board. One of the key projects supporting the savings target is looking at a whole system process for social care, including children's (a paper to the AICP Board was presented in April 2016 on this project). Progress has already been made on the appointment of shared joint posts, other aspects include enabling systems, such as IT, flexible working and estates. Another key project relates to the prevention agenda however, this is more about managing increasing demand, rather than making savings by reducing it. A new provider model is being set up for social care, which will drive financial benefits, but won't impact for several years. There is some benefit to the Council from increased Better Care Fund receipts to fund Housing options to reduce residential care, new extra care places and enablement services, that would otherwise have had to face cuts.</p> <p>The Council has made good progress in developing defined savings schemes to meet the £5.9m target. The Council is a relatively high spender on ASC according to its own benchmarking information - the bulk of the immediate savings target will come from reconfiguring day care services, transport and some renegotiation of price from providers of residential and domiciliary care. Some of the future savings are less clear and are expected to come from managing demand, which is more uncertain. There is some work to be done on re-ablement, to prevent people becoming dependent on high levels of care. The schedule of developed savings schemes for 2017/18 presented in the February 2016 Budget, included almost £3m of the £5.9m required from social care for the year 2017/18. The remainder are being developed for further review and approval in September 2016 and officers expect them to be fully developed by the time the budget is signed off in February 2017.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Significant risk	Work to address	Findings and conclusions
<p>Financial control - the Council transferred to a financial shared service provider in 2014/15 and also to a new internal audit provider. At the same time there have been staffing reductions within the Council. IA have issued a number of limited or no assurance reports and the Head of IA opinion gave limited assurance.</p>	<p>We will consider the Council's arrangements to maintain a sound financial control environment during a period of significant change. We will consider working arrangements with the shared service provider. We will review how the Council is responding to issues raised by its internal auditors.</p>	<p>We carried out a review of IT controls at the Council and at the shared service provider. This highlighted a number of issues around separation of duties and access controls. We discussed these issues with management, involving our senior specialist IT auditor in those discussions. Management acknowledged the issues and informed us they are considering what arrangements should be introduced when the current shared service agreement expires in 2018.</p> <p>Internal audit issued a number of limited assurance reports during the year and gave no assurance over the accounts payable system. To mitigate this we have carried out extended testing of expenditure in 2015/16. We also met with management, including systems specialists in the discussion, to discuss what action they are taking to address this. They informed us they have acquired a new system AP forensics to give an extra layer of checking of the regularity of invoice payments. We also discussed the Council's arrangements for initiating and authorising payments and awarding contracts. Management are reviewing this and they informed us they are carrying out a retrospective review of expenditure in 2015/16 and will share the result of this before we issue our opinion.</p> <p>While acknowledging there have been significant control issues in 2015/16 we have not identified material errors in our 2015/16 audit resulting from those control issues. Additionally management are responding to the issues raised.</p> <p>On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Significant risk	Work to address	Findings and conclusions
<p>In year financial management and monitoring - the Council overspent against its 2015/16 budget and had to draw on reserves, which is not sustainable in the long term. The Council faces similar budget pressures in 2016/17</p>	<p>We will review the cost pressures facing the Council in the current year, its response to these and its arrangements for managing them. We will consider the Council's intentions, approach and strategy towards its use of reserves.</p>	<p>There was an overspend on budget in 2015/16, as had been forecast - approximately £6.3m overspent on service budgets overall. However, as in past years the corporate finance team has implemented planned mitigating action to maintain a balanced financial position. A £3.2m corporate contingency had been set aside in the budget to manage risks and other budget pressures. A further £1.7m was covered by other one off underspends in the corporate budget, and the remaining £1.4m was drawn from earmarked reserves (accounting for the bulk of the £1.6m reduction in Earmarked reserves in the year, as reported in the financial statements).</p> <p>The Council has significant reserves set aside to provide a buffer against budget overspends, and only a fraction of these were used in 2015/16. Approximately £30m of earmarked reserves, covering cost efficiency and redundancy reserves, have been set aside to cover budget pressures and risks (out of £68m earmarked reserves set aside for specific purposes). A further reserve of £16.3m generated from accumulated new homes bonus receipts was also available to be used to support the financial position, but this was not required in year. Capital receipts reserves are also available, but do not form part of the planned contingency at this stage. Including the £3.2m corporate contingency built into the budget, the Council has the resilience to be able to fund a similar budget deficit in each of the next 4 years up to 2020. The Council recognises that despite the resilience provided by reserves and budgeted contingencies, it cannot continue to incur budget overspends indefinitely. Budget holders are held to account for delivering their budgets - the corporate finance team established that the service overspends were primarily due to demand pressures and were not related to the failure to deliver savings plans.</p> <p>The two key areas of service overspend were in the Children and Young People (£7.4m overspend) and Customer Services (£3.9m overspend) directorates, with the overall overspend of £6.3m being achieved through the mitigating effect of underspends on the other directorates.</p> <p>We concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Significant risk	Work to address	Findings and conclusions
<p>Medium term financial planning - The Council estimates that it needs to achieve £45 million of recurring savings or additional recurring income over the next three years. This is a significant challenge following on from efficiencies already made.</p>	<p>The Council plans to present its budget and savings proposals in July. We will review these proposals, consider how realistic they are and consider the arrangements that are in place to implement them. We will consider the Council's plans for commercialisation and how these are contributing to the financial strategy.</p>	<p>The Council has a good track record of delivering cost efficiencies. As noted above, the Council has significant reserves set aside to provide a buffer against budget overspends, and in addition, there are a number of areas of discretionary spend that could be used if alternative schemes can not be found. Therefore the Council has financial resilience to set a balanced budget for the foreseeable future.</p> <p>The Council stripped out the savings required for 2016/17 from the February budget presented to members, and also put forward £17.5m of savings schemes for 2017/18, a year in advance of need. The Council has set out its revised financial efficiency plan, which revises the Council's cumulative funding shortfall and saving target up to £62.4m in the 4 years up to 2020. Key savings areas include Health and Social Care Integration (£14.7m), Asset Rationalisation (£9.4m), Management and Corporate Overheads (£9.2m) with other significant contributions from Culture and Community, Environment, Customer contact and Early Intervention. The savings are front-loaded with £23.8m deliverable in 2017/18. A further £21 million proposals is due to be put before members in September leaving £24m still to be identified and agreed. We reviewed the breakdown of savings proposals agreed to date and confirmed that the programme appears reasonable, if challenging, taking into account the track record of delivering savings to date.</p> <p>The Lewisham Futures Board is well established. It meets weekly and supports the savings plans at a strategic level. Most savings have been focused on efficiencies in business as usual – so haven't yet required a corporate programme to deliver. Management believe that future savings will have to focus much more on service transformation, rather than efficiency savings. This might require a more overt corporately led process. This would still need to be driven by service managers but would need Corporate coordination & support. Management acknowledge that service managers do find it difficult to free up time for thinking & developing ideas, from business as usual demands.</p> <p>To support the established work of the Lewisham Future Programme in 2015 the Council adopted its Lewisham 2020 strategy, which was developed around a large scale consultation with the community (the Big Budget Challenge). This focuses on four themes for transformation and enabling approaches to support the implementation of service reductions, which are summarised in the efficiency plan.</p> <p>We concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Significant risk	Work to address	Findings and conclusions
<p>Maintaining quality of service provision - The Council has had to implement significant reductions in staff numbers over the last three years as a result of significant reductions in external funding. There is a risk that these impact on service quality and continuity.</p>	<p>We will consider the Council's arrangements to minimise the impact of cuts on service provision. We will do this through:</p> <ul style="list-style-type: none"> -discussions with management -review of reports or comments, if any, from external regulators -review of benchmarking data of Council performance against other similar organisations 	<p>Lewisham Council has reported mixed performance against achieving its corporate priorities as at the 31 March 2016 year end. Of the 23 key performance indicators used, 10 (50%) reported as green or amber against target and 10 indicators (50%) were reported as falling below target. In regard to the direction of travel achieved since the prior year 2015, there was a similar mixed picture with 9 (45%) showing improving performance and 10 that were declining. There were some significant achievements against the targets, such as successfully reducing number of people in temporary accommodation over the year, delivering the decent homes standard, residual waste and landfill targets were also met or exceeded and delivering financial benefit to the Council. There has also been some good achievements in making financial processes more efficient, particularly in regard to NNDR collection and Housing benefit processing.</p> <p>The key areas where performance is below plan relate to the roll out of Education Health and Care Plans (ECHP), Recycling targets, Crime, and Adult social care - in regard to the level of direct payments and delayed transfers of care. However none of these areas of weaker performance can be directly attributed to the impact of savings plans implementation, for example crime levels are affected by a range of drivers many of which are outside the council's control. From our benchmarking data we noted that neighbouring councils are affected by similar trends.</p> <p>The Council is addressing the findings of the most recent Ofsted inspection, rated as "requires improvement" . The report focused around improvements to processes and systems - there was no indication that the issues raised had been directly attributable to savings plans or reductions in headcount. Paragraph 92 of the report states that 'The local authority has invested resources to ensure that caseloads are manageable and that all work is allocated. Staffing levels have been maintained, although there is a reliance on recently qualified social workers'.</p> <p>we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

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

Fees

	Proposed fee £	Final fee £
Council audit	193,233	TBC
Grant certification (Housing benefits)	25,569	TBC
Total audit fees (excluding VAT)	218,802	TBC

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services:	
• Housing capital receipts	TBC
• Teachers pension	TBC
• GLA Decent Homes	Not applicable
Non-audit services	0

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 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 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 Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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		✓
Non compliance with laws and regulations		✓
Expected modifications to 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
	Review capacity in the finance team to meet the earlier July audit deadline	High		
	Improve management oversight and control over accounting for PPE valuations	High		
	For 2017, ensure full compliance with the public inspection requirements of the Local Audit and Accountability Act 2014	High		
	Enhance quality control arrangements for the financial statements, to identify and correct errors before the accounts are presented for audit	Medium		
	Review the impairment of debtors, considering whether some debtors should more appropriately be written off	Low		
	Address the access and separation of duties issues highlighted in our IT controls review	Medium		
	Review the Annual Governance Statement, ensuring it gives a balanced view of control issues in the year.	Medium		

Appendix A: Action plan (continued)

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
	Set a level of materiality for disclosing Related Party Transactions and report all transactions above that level	Low		
	Consider how the Council can free up management capacity to focus on transformational change in services	Medium		

Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF LEWISHAM

We have audited the financial statements of London Borough of Lewisham (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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 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.

Respective responsibilities of the Executive Director of Resources and Regeneration and auditor

As explained more fully in the Statement of the Executive Director of Resources and Regeneration Responsibilities, the Executive Director of Resources and Regeneration 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Resources and Regeneration; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements: present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:
 in our opinion the Annual Governance Statement does not comply with the guidance included in ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007; or
 we issue a report in the public interest under section 24 of the Act; or
 we make a written recommendation to the Authority under section 24 of the Act; or
 we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority’s arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements to secure 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.

We are required under Section 20(1)(c) of the Act 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.

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Darren Wells
 for and on behalf of Grant Thornton UK LLP, Appointed Auditor
 Fleming Way
 Manor Royal
 Crawley
 RH10 9GT

September 2016



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