

The Audit Findings for London Borough of Lewisham

Year ended 31 March 2017

September 2017

Darren Wells

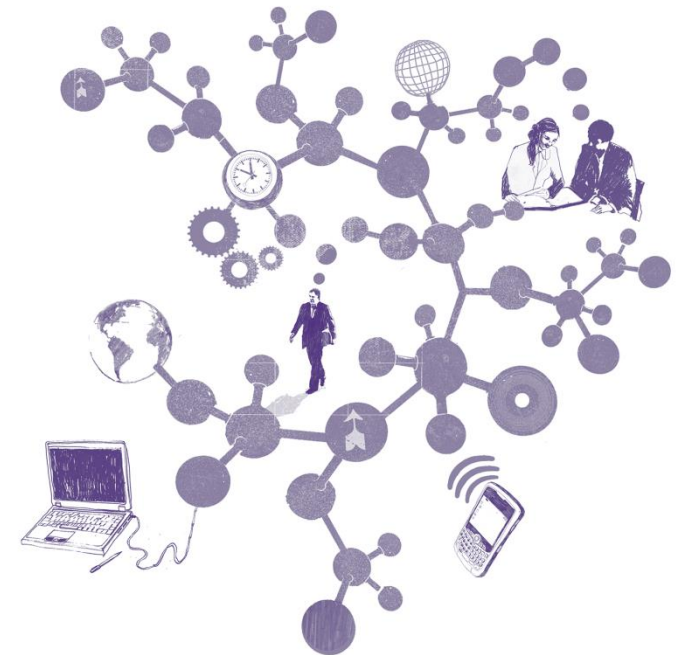
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September 2017

Dear Members of the Audit Panel

Audit Findings for London Borough of Lewisham Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of London Borough of Lewisham Council, the Audit Panel), to oversee the financial reporting process, 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 your auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), which is directed towards forming and expressing an opinion on the financial statements 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 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
Engagement lead

Chartered Accountants

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Section 1: Executive summary

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

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 group and Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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 (including the Annual Governance Statement (AGS) and Narrative Report), whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or otherwise misleading.

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 year.

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 in June 2017.

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

- Closing queries arising from quality review processes;
- Some tests within our other revenues cycle;
- Review of the final version of the financial statements;
- Obtaining and reviewing the management letter of representation;
- Updating our post balance sheet events review, to the date of the opinion; and
- Whole of Government Accounts.

We have recently been made aware of a national technical accounting issue regarding the treatment of pension liabilities relating to subsidiary companies. We are still considering whether this new guidance has an impact for the Council's financial statements and we are discussing this with management.

Key audit and financial reporting issues

Financial statements opinion

We did not identify any adjustments affecting the group's or the Council's reported financial position. We have recommended a small number of classification adjustments and other changes to improve the presentation of the financial statements.

Overall the financial statements have been of a very high quality and are following a trend of improvements year on year. This year was a notable improvement again and we have no significant issues we wish to bring to your attention.

Further details are set out in section two of this report. We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

This is the last audit year before the deadline for audit opinions is brought forward to 31 July. To support the Council to achieve the earlier deadline we:

- Carried out an extensive programme of early audit testing including journals, employee remuneration and operating expenses;
- Brought our audit testing forward to June and July; and
- Gave a joint presentation to the whole finance team on audit and early closedown.

The Council presented accounts for audit on 30th May, in line with the agreed earlier timetable. Finance staff responded very promptly to audit queries and provided good quality working papers. Consequently we believe the Council is well placed to meet the earlier deadlines from 2018.

Unplanned departures of audit staff and other staff issues meant that we had to defer some of our audit work into early August. We will be reviewing our capacity planning for 2017/18 for when the 31 July becomes a hard deadline. We will also be looking to further extend our programme of early audit testing and early audit work in 2018, to reduce the amount of work required at the peak time.

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to consider whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

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.

Further details are provided within section two of this report.

Findings

We have had due regard to control issues reported by internal audit around the accounts payable, accounts receivable and banking systems. These reports led to a Head of Internal Audit opinion giving “limited” assurance. Consequently we carried out additional audit testing to gain assurance in these areas. We have no matters to report to you on this additional testing.

As part of our standard audit approach we also carry out an annual review of the IT controls in place at the Council. Similar to the previous year our IT review raised weaknesses in the control system around IT security and access controls, which have been reported to management. We note that the Council is currently reviewing the future of its IT shared service arrangements.

Value for Money

Based on our review to date, we have not identified any significant issues in respect of the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources.

However we are unable to issue a vfm conclusion at this time. In our audit plan we reported a significant risk in respect of widely reported allegations of poor governance concerning the New Bermondsey planning decision. The inquiry into this is ongoing and we understand is due to report by December. We plan to issue our vfm conclusion after we had an opportunity to consider this report.

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 received three objections to the Council’s 2016/17 accounts and are currently considering the matters raised.

Further details of our work on other statutory powers and duties is set out in section four of this report.

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 2017. We will report the outcome of this certification work through a separate report to the Audit Panel. This is due in February 2018.

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 Head of Financial Services and 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.

Section 2: Audit findings

01. Executive summary

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 £ 20,389k (being 1.75% of gross revenue expenditure per the 2015/16 audited Statement of Accounts). We have considered whether this level remained appropriate during the course of the audit and revised our overall materiality to £19,612k (being 1.75% of gross revenue expenditure of the pre-audit 2016/17 Statement of Accounts).

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 that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £1,019k. Our assessment of the value of clearly trivial matters has been adjusted to £981k 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. These remain the same as reported in our audit plan.

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.	£1,000k

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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
<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; and • 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 audit work has not identified any issues in respect of revenue recognition.</p>
<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 entity controls • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • review of accounting estimates, judgements and decisions made by management • 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 have not identified, nor 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>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they were 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 satisfied themselves that these were not materially different to current value. 	<p>We did not identify any significant issues against the risk identified.</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
Employee remuneration	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Employee remuneration accruals understated (Remuneration expenses not correct) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> Walkthrough of your controls in place over payroll expenditure Review of the year-end reconciliation of your payroll system to the general ledger Trend analysis of the monthly payroll runs from during the year Other substantive testing as appropriate 	<p>We did not identify any significant issues against the risk identified</p>
Operating expenses	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Creditors understated or not recorded in the correct period (Operating expenses understated) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> Walkthrough of your controls in place over operating expenditure Review of the year-end reconciliation of your accounts payable system to the general ledger Testing of year-end creditors and accruals Testing of post-year end payments 	<p>We did not identify any significant issues against the risk identified</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Valuation of pension fund net liability	<p>The Council's pension fund asset and liability as reflected in its balance sheet represents a significant estimate in the financial statements.</p> <p>We identified valuation of pension fund net liability as a risk requiring particular audit attention:</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out. • We carried out procedures to confirm the reasonableness of the actuarial assumptions made. • We reviewed 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 significant issues against the risk identified.</p>

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK&I) 570).

We reviewed management's assessment of the going concern assumption and the disclosures in the financial statements. In the statement of accounting policies the Council has made a brief statement that the accounts are prepared on a going concern basis. There is no other explicit statement of why the going concern assumption is appropriate either in the accounts or elsewhere. In July 2017 the Council published a medium term financial strategy setting out its plans to continue to deliver services under balanced budgets for the period to 2022. Under accounting standard IAS1 there is a presumption that public sector entities should be considered as going concerns as long as the services continue.

We therefore concur with the Council preparing its statements on a going concern basis.

Significant matters discussed with management

	Significant matter	Commentary	
1	<p>During 2015/16 and 2016/17 the Council has made loans to its subsidiary Lewisham Homes to acquire social housing. Management concurred with our view that its interest in the subsidiary is now material and that group accounts are appropriate.</p>	<p>We reviewed the consolidation process involved in producing the group accounts. We also carried out targeted testing of the material items of account in Lewisham Homes accounts.</p>	<p>Auditor view</p> <ul style="list-style-type: none"> The Council's group disclosures are proportionate and appropriate. We did not identify any issues from targeted testing.
2	<p>Following the Grenfell Tower disaster the Chief Executive and other members of the Council's senior team have been working to support the Royal Borough of Kensington and Chelsea, following senior level resignations at that Council.</p> <p>At the same time the Council has responded by carrying out a programme of fire safety checks at all relevant properties it owns in the Borough.</p>	<p>We discussed with the Council whether a post balance sheet disclosure would be needed in respect of these matters and management concurred that this would be appropriate.</p>	<p>Auditor view</p> <ul style="list-style-type: none"> We will consider the Council's proposed post balance sheet event disclosures as part of our closing procedures.
3			

Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Lewisham Council	Yes	Comprehensive	<ul style="list-style-type: none"> - Management over-ride of controls (page 6) - Valuation of property, plant and equipment (page 7) - Employee remuneration (page 8) - Operating expenses (page 8) - Valuation of pension fund net liability (page 9) 	Full scope UK statutory audit performed by Grant Thornton	Our audit work has not identified any issues in respect of the consolidation of the group accounts.
Lewisham Homes Limited	No	Analytical	N/A	Desktop review performed by GT UK.	Our audit work has not identified any issues in respect of Lewisham Homes.
Catford Regeneration Partnership Limited	No	Analytical	N/A	Desktop review performed by GT UK	Our audit work has not identified any issues in respect of Catford Regeneration Partnership.




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	<ul style="list-style-type: none"> The Council's policies on grants, contributions and other revenues are set out in the statement of accounting policies. 	<p>We reviewed the Council's revenue recognition policies. We found that they are consistent with the previous years policy and with model examples in the Code. In our programme of testing we found that the policies have been applied appropriately.</p>	<p style="text-align: center;">● Green</p>
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> Useful life of PPE Revaluations Impairments Valuation of pension fund net liability Provision for NNDR appeals Insurance provisions 	<p>We reviewed valuations and impairments of property plant and equipment. The Council obtained independent valuations in the year covering substantially all its assets. We agreed the valuations in the accounts to the valuers' reports. We also confirmed that valuation movements were materially in line with our expectations, as informed by industry trends.</p> <p>We agreed the pension fund liability to the actuarial reports and we confirmed that the assumptions and underlying evidence were in accordance with our understanding.</p> <p>We confirmed that depreciation charges are materially in line with our expectations and that asset lives are reasonable and consistent with the previous year.</p> <p>We confirmed that provisions are not material to the Council's accounts.</p> <p>We reviewed the provision for impairment of receivables and found that the Council has a reasonable policy and has complied with it. The impairment is a high proportion at 59% of the total value of the current debtors, which suggests that some of the Council's debtors may now be irrecoverable and should be written off.</p>	<p style="text-align: center;">● Green</p>

Assessment

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<p>Judgements - changes to the presentation of local authority financial statements</p>	<p>The Council has changed the presentation of its Comprehensive Income and Expenditure in line with the guidance from the Local Government Code, as well as introducing a new Expenditure and Funding Analysis</p>	<p>We concluded that the EFA disclosure is appropriate and in line with guidance in the Local Government Code of Accounting</p> <p>The restatement is currently explained within the narrative statement. Our interpretation of the Code is that the restatement should also be explained within the main body of the financial statements.</p>	<p> Green</p>
<p>Going concern</p>	<p>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.</p>	<p>We concur that that the going concern basis of accounting is appropriate. In our view it would be good practice to include an explicit statement of why the going concern assumption is appropriate.</p> <p>In reviewing the information supporting the going concern assumption we noted that the Council has a cash flow projection which runs to the end of March 2018. We did not identify any concerns with the Council's liquidity or cash flow but we consider it would be good practice to produce a rolling cash flow projecting forward for a period of at least 12 months.</p>	<p> Amber</p>
<p>Other accounting policies</p>	<p>The Council has a full suite of accounting policies which are in line with the examples in the Code</p>	<p>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.</p>	<p> Green</p>

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 Committee. We have not been made aware of any other incidents of material fraud in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
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, including specific representations in respect of the Group, which is appended.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests in respect of cash, investments and loans. This permission was granted and the requests were sent and have been returned with positive confirmation. In cases where requests were not received we undertook alternative procedures, including confirming balances directly with the bank from the Council's systems.
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 have not identified any issues we would be required to report by exception in the following areas</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 Group/Council acquired in the course of performing our audit, or otherwise misleading.
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>As the Council exceeds the specified group reporting threshold of £350 million we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Note that work is not yet completed and the planned timescale for the work is to carry out the work before the end of September 2017.</p>

Internal controls

A number of significant control issues were raised by internal audit during the course of the year, particularly in their reports on accounts payable, accounts receivable and banking. These reports led to a rating of “limited assurance” in the Head of IA opinion. We have had due regard to these reports in our testing strategy but have not duplicated those findings here.

	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. Consistent with previous years the review highlighted significant issues specifically around default passwords and accounts, audit logs, change management, separation of duties and access controls.</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.</p> <p>We understand the Council is considering the future of its IT arrangements following the expiry of the current shared services contract.</p>	<p>Review the findings on IT controls and security arrangements with a view to strengthening these now and under any future IT service arrangements.</p>

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.

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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 being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	X	<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. 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. 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"> We recommended management review and improve access controls and separation of duties in IT systems with a focus on the detailed findings of our review. 	<p>Our findings this year have been consistent with the previous year, see previous page. We have discussed these ongoing concerns with management.</p>
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"> We recommended management strengthen quality control procedures to include management oversight of PPE valuations, to identify errors and omissions before the accounts are presented to audit 	<p>The Council has addressed these issues in 2016/17. We did not identify any material errors or omissions in PPE accounting and the Council demonstrated good controls, including checks and reconciliations.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
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"> We recommended that for 2017, management ensured full compliance with the public inspection requirements of the Local Audit and Accountability Act. 	<ul style="list-style-type: none"> The Council has addressed this point in 2016/17. There were no issues of compliance in the current year.

Assessment

- ✓ Action completed
- X Not yet addressed

Adjusted misstatements

We did not identify any misstatements affecting the Council's income and expenditure position or balance sheet.

Unadjusted misstatements

We did not identify any misstatements which management declined to amend.

Misclassifications and disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	15,302	Grant income	Misclassification between grant income and general government grants, which is a recurring issue from 2015/16.
2 Disclosure	30,354	Transfers to / from earmarked reserves	Formula error in the consolidated MiRS table (2015/16) only affects one line in the table
3			
4			
5			
6			

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 2016. AGN 03 identifies one single criterion for auditors to evaluate:

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

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 March 2017 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2017.

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. In arriving at our conclusion, our main considerations were:

- The Council continues to face faced significant budget pressures in key service areas, in particular adults and children's social care services.
- There is a continuing need to identify a significant level of savings as part of the Council's medium term financial challenge.
- During the year there was significant adverse publicity concerning the governance arrangements around a planning decision in New Bermondsey. This is currently subject to an independent inquiry.

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 on pages 29 to 33.

Overall conclusion

Based on our review to date, we have not identified any significant issues in respect of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

However we are unable to issue a vfm conclusion at this time. In our audit plan we reported a significant risk in respect of widely reported allegations of poor governance concerning the New Bermondsey planning decision. The inquiry into this is ongoing and we understand is due to report by December. We plan to issue our vfm conclusion after we had an opportunity to consider this report.

The text of our proposed report can be found at Appendix B.

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>Budget management The Council reported a forecast outturn of a £11.6 million overspend to the January meeting of the Public Accounts Committee. There is a risk that in year financial management is not adequate to deliver a sustainable financial position.</p>	<p>We will update our understanding of the pressures affecting the 2016/17 budget.</p> <p>We will consider whether the Council has adequate arrangements to manage those pressures and to secure a sustainable financial position.</p> <p>We will consider the Council's approach towards use of reserves.</p>	<p>Summary findings</p> <ul style="list-style-type: none"> In 2016/17 the Council experienced significant budget pressures resulting in overspends in key demand led service areas, particularly adults and children's social care and environment services. This was in part mitigated by underspends in other service areas, use of corporate contingencies and use of reserves. The Council is experiencing similar budget pressures in 2017/18. Sound budgetary control arrangements are in place to mitigate this including Directorate Expenditure Panels and Corporate Expenditure Panels. <p>While the whole sector continues to experience financial pressures, the Council has well established arrangements to manage the impact of its cost pressures. It also has a healthy balance sheet and reserves position sufficient to maintain financial resilience for the foreseeable future. In our view the risk is mitigated and an unqualified conclusion is appropriate in respect of this risk.</p> <p>2016/17 Financial Performance</p> <p>The outturn report 2016/17 shows the budget overspend at Directorate level was £9.8 million, which reduces to £7 million after applying a corporate contingency of £2.8 million. The overspend is carried forward into 2017/18 and added to the savings challenge in the current year.</p> <p>Key areas of overspend are in children's social care (£2.2 million) and adults social care (£5.2 million). The number and cost of placements appears higher than some other authorities and the Council is seeking to better understand the reasons for this.</p> <p>Other areas of overspend include environmental services £2.2 million, schools transport £1.2 million and slippage on planned savings schemes.</p> <p>Overspending service areas were partly mitigated by underspends in other budget areas including the Better care fund £0.7 million, Cultural and community services £1.5 million, Temporary accommodation £1.5 million and a £2.4 million underspend in the Resources and Regeneration Directorate</p> <p>The Housing Revenue Account made a surplus of £14.2 million, which is £4.1 million more than budgeted. The surplus will be used to help fund the Council's medium term housing programme. This will be reinvested as part of the 30 year business plan and used to fund decent homes and provide new homes in the Borough.</p>

Key findings (continued)

Significant risk	Findings and conclusions (continued)
Budget position and medium term financial planning (continued)	<p>Use of reserves</p> <p>As in previous years the Council has had to balance its revenue position through the use of reserves. Unlike in previous years this has resulted in an overall reduction in the level of revenue reserves by £3 million in 2016/17.</p> <p>Whilst this is not a sustainable solution in the long term, your 2016/17 financial statements show the level of general fund reserves is £13 million and earmarked revenue reserves is close to £150 million. The Council has a robust balance sheet position with large balances of cash and investments. This shows that the overall level of reserves is sufficient to mitigate short term risks and challenges.</p> <p>Benchmarking data</p> <p>Public Sector Audit Appointments has recently published its value for money profiles, which compare available cost data between English councils. The data is by its nature retrospective and shows that spending per head of population is slightly higher than, but not significantly out of line with statistically similar councils. Spending was also above average on the significant council services adults social care, children’s social care and environmental services,</p> <p>2017/18 financial position</p> <p>In 2017/18 the Council is forecasting a £12.8 million overspend at Directorate level. This far exceeds the corporate fund of £2.1 million, which is held for overspends, risks and pressures. The overspending is a consequence of ongoing demand pressures affecting the sector and of non-delivery of savings, As at July 2017 the Council was forecasting that £18.8 million of savings would be delivered compared with a plan of £22.2 million – a shortfall of £3.4 million.</p> <p>The Council is continuing to manage the pressures. The Council has a system of Directorate Expenditure Panels which meet weekly to consider the Council’s spending commitments. Since 2016 the Council also introduced a weekly Corporate Expenditure Panel, led by the Executive Director for Resources and Regeneration, as an additional level of scrutiny and challenge.</p> <p>Children’s social care</p> <p>The largest ongoing area of overspending in 2017/18 is in children’s social care at around £5 million. While the numbers of cases are stable, the unit costs of placements and foster care are very high. The Council has been working on a road map to address the pressures in children’s social care. Key to this is building capacity through a bank of local foster carers as an alternative to expensive agency carers or residential placements.</p> <p>Environment services</p> <p>Environmental services are forecast to be £2.4 million overspent in 2017/18. One of the key areas of overspending is in waste disposal, in which costs are high and rising largely due to the growing population in London. The Council is actively exploring different solutions to reducing costs in this area, including possible shared services with a neighbouring Borough and centralising depot operations.</p>

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
<p>Savings and medium term financial planning The budget for 2017/18 includes savings of £23.2 million. This is a significant challenge following on from savings already made.</p>	<p>We will consider and report on the Council's arrangements to identify and deliver efficiencies towards a sustainable medium term financial position.</p> <p>As part of this we will update our understanding of how the Council is working with partners in the local health economy to achieve savings from health and social care integration.</p>	<p>Summary findings</p> <ul style="list-style-type: none"> The Council continues to face a challenging financial outlook, with significant economic and political uncertainties. However the Council has a strong track record of achieving required efficiencies and has established arrangements in place. The Council's plans strike a balance between cost reduction, revenue growth and maximising available sources of funding. As part of this agenda the Council is developing an increasing focus on commercialisation <p>On this basis we consider that the risk is mitigated and an unqualified conclusion is appropriate in respect of this significant risk.</p> <p>The financial outlook in the medium term remains very challenging for local government, with significant uncertainties over the economic and political environment. Beyond 2020 it is difficult to predict what the size of the challenge is as this will depend on the decisions of a future government. The Council has made prudent assumptions about its future funding including:</p> <ul style="list-style-type: none"> Government will phase out the Revenue Support Grant NNDR will be completely devolved to local government Council tax increases continue to be capped below 2 per cent, with a precept for social care. <p>The Council has modelled best and worst case scenarios and under these and other assumptions the Council's best estimate of future savings requirements is:</p> <ul style="list-style-type: none"> 2018/19 £21 million 2019/20 £11 million 2020/21 £10 million 2021/22 £ 9 million <p>Substantially all of these savings still need to be identified and developed, however the Council has a strong track record of implementing savings. The Council has already made savings of £138.4 million between 2010/11 and 2016/17.</p> <p>Recent savings plans have had a strong focus on growth and income as well as on cost savings. The Council is involved in a number of significant regeneration developments including the Bakerloo extension, Convoys Wharf, Catford regeneration, New Bermondsey and Deptford. As these regeneration schemes come to fruition they are likely to significantly improve the tax base and future savings assumptions.</p> <p>As part of the overall savings challenge the Council has a focus on growing sources of sustainable income. As well as growing the tax base the Council is focussed on appropriately taxing the existing tax base. Recent papers to the Public Accounts Select Committee show how the Council is also seeking to create a more commercial mindset and a commercial culture through the organisation. The Council is appointing to key posts to support this priority.</p>

Key findings (continued)

Significant risk	Findings and conclusions (continued)
<p>Savings and medium term financial planning The budget for 2017/18 includes savings of £23.2 million. This is a significant challenge following on from savings already made.</p>	<p>The medium term financial plan is led by the Lewisham Futures Board, which leads the development of savings options for the Mayor and cabinet to consider. Its focus is on implementing the £22 million savings for 2017/18 and identifying options for 2018/19 and 2019/20. The current plan for the next two years 2018/19 and 2019/20 is based around 18 strategic work streams or themes, the key ones being.</p> <ul style="list-style-type: none"> A - Smarter and deeper integration of health and social care £9.2 million E – Asset rationalisation - £ 6.6 million I – Management and Corporate Overheads - £4.9 million N – Environmental Services - £3.4 million Q – Safeguarding and Early intervention £ 2.6 million <p>The Council is seeking to make the programme more manageable by reducing the number of work streams from 18 to about 9-10. Each work stream has a Head of Service Lead and is based around the teams that are responsible for the respective budgets. They have removed cross cutting work streams in order to keep the projects aligned more with the management structures.</p> <p>Smarter and deeper integration of health and social care</p> <p>Adults social care is the Council’s largest general fund budget and one of the key pressure areas. Costs have ben increasing year on year due to increases in population, demographic changes, increasing complexity of cases and rises of unit costs. As a London living wage employer the Council’s costs and the costs of its providers are higher than some other London Boroughs.</p> <p>The Council is also affected by the significant financial challenges in the health sector. Reconfiguration of health services and initiatives to release hospital capacity through transfers of care are a pressure to the Council, whose involvement in the Sustainability and Transformation Plan (STP) has been limited to date as the plan has been led by the health sector.</p> <p>The Better Care Fund is designed to address these pressures and to create capacity for the whole health and social care system. In 2017/18 the Council is eligible for Improved Better Care funding of £7.5 million. Added to this the Council is able to levy a social care precept of 2% this year and for the next two years. This means that adult social care is less of a budget pressure in the current year than it was in 2016/17, with the overspend forecast to be £1.1 million. This has also offset the need to make significant savings in 2017/18 and means that the Council has another year in which to develop its detailed proposals for sustainable savings, which were presented in outline to the Scrutiny Committee in September 2016. These include increased charging, demand management of accommodation, use of technology and reducing day care.</p> <p>Long term borrowing</p> <p>The Council has also been reviewing the cost of its long term borrowing, including its Lender Option Borrower Option (LOBO) loans which were all taken out before 2006. Options for replacing or reprofiling those loans are being considered which have the potential to reduce the long term cost and risk to the Council.</p>

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
<p>New Bermondsey planning decision There has been extensive reporting and public interest around the planned redevelopment at New Bermondsey for which the Council is seeking an independent review. Allegations of poor governance have been levelled at senior politicians and senior officers.</p>	<p>We will update our understanding of this development and any emerging findings from the review.</p> <p>We will consider whether any issues regarding the Council's governance and decision making are a risk to the Council's arrangements to secure economy, efficiency and effectiveness.</p>	<p>Summary findings</p> <ul style="list-style-type: none"> The Council's inquiry is ongoing and has not reported at the time of giving our audit report. Because of this we are not able to conclude against this significant risk at this stage. We will revisit the value for money conclusion when the inquiry findings are available, <p>The developer "Renewal" is seeking to develop the area around Millwall football club in Bermondsey. The developer has already acquired land in South Bermondsey and is seeking to acquire the remaining land through a CPO in order to progress the regeneration scheme. The development is planned to deliver 2,400 new homes, an overground station and would include plans for a sports village. A charitable company Surrey Canal Sports Foundation has been established to develop the sports village.</p> <p>To date the Council has been supportive of the regeneration because of the advantages it would bring in terms of new homes and quality sporting facilities, and the benefits to the local economy. The Council voted in favour of granting the proposed Compulsory Purchase Order in late 2016.</p> <p>The CPO includes land currently owned by Millwall football club and the order has met significant resistance from the club and its supporters, who claim this purchase could lead to the club having to relocate outside the Borough. The Council disputes that this is the case. Other aspects of the scheme have also caused controversy.</p> <ul style="list-style-type: none"> Adverse publicity has been generated from local residents who could have to leave their homes under the CPO. Allegations of conflicts of interest due to the Council's mayor also being a trustee of the Surrey Canal Sports Foundation (although the mayor was not involved in the planning decision). Concerns that the Chief Executive of Renewal is also a former Senior Officer at the Council. Allegations that false or misleading claims were made about Surrey Canal Sports Foundation having funding from Sport England and that this may have influenced the decision making. <p>These concerns have generated significant coverage in the local and national media and in January 2017 the Council decided to stop the Compulsory Purchase Order. A new decision will be made in due course.</p> <p>In response to the allegations and adverse publicity the Council has started an independent inquiry into the planning decision, which is being led by Lord Dyson, a former master of the rolls.</p> <p>Lord Dyson has a wide ranging remit in which he will look at the Council's decision making and planning processes, the alleged conflicts of interest and the risk management over the CPO decision. The cost of the investigation is capped at £0.5 million. The deadline for submission of evidence was 16 June with interviews taking place over the Summer. The report is expected by December 2017.</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

In the course of our work we have discussed the New Bermondsey inquiry with management. We are aware that there is currently an independent inquiry into the planning decision and that it is not likely to report until December 2017.

On this basis we are not able at this stage to reach a conclusion against the significant risk we identified at the planning stage. When an output is available from the inquiry we will consider this in reaching our vfm conclusion.

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 4: Other statutory powers and duties

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

	Issue	Commentary
1.	Public interest report	<ul style="list-style-type: none"> We have not identified any matters that would require a public interest report to be issued
2.	Written recommendations	<ul style="list-style-type: none"> We have not made any written recommendations that the Council is required to respond to publicly
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none"> We confirm we have not used this duty
4.	Issue of an advisory notice	<ul style="list-style-type: none"> We confirm we have not used this duty
5.	Application for judicial review	<ul style="list-style-type: none"> We confirm we have not used this duty

During the statutory inspection period we received two formal objections from local electors which related to the Council’s Lender Option Borrower Option loans. We received a third objection concerning the Council’s PFI schemes. The objectors have asked us to consider issuing a public interest report. We are still considering these objections and our response to them. We are unable to fully conclude this audit until we have responded to these objections.

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 non audit services

Fees

	Proposed fee £	Final fee £
Council audit	193,233	193,233
Grant certification	41,235	41,235
Total audit fees (excluding VAT)	234,468	234,468

The proposed fees for the year are 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'.

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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all non-audit services which were identified.

Fees for other services

Service	Fees £
Audit related services:	
• Housing capital receipts pooling return	3,000
• Teachers pensions return	6,000
Non-audit services	
• Place analytics 3 year subscription	26,000

Independence and non-audit services

We have considered whether non-audit services might be perceived as a threat to our independence as the group's / Council's auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees	Threat?	Safeguard
	Pooling of capital receipts	3,000	• No	
	Teachers pension return	6,000	• No	
	3 year subscription to Place analytics service	26,000	• No	
	TOTAL	£35,000		

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

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

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓
Matters in relation to the group audit including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

Appendices

A. Action Plan

B. Audit Opinion

A. Action plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1.	It would be good practice for the Council to make an explicit statement of why the going concern is appropriate.	Low		
2.	Produce and maintain a rolling 12 month projection of cash flow projections for the year ahead	Medium		
3.	Review the findings on IT controls and security arrangements with a view to strengthening these now and under any future IT service arrangements.	Medium		
4.	Review current debtors which have been impaired, to identify those debtors which should more appropriately be written off.	Low		
5.	Review the benchmarking data in the PSAA profiles to identify those service areas which may be more expensive than other comparable councils.	Low		

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

B: Audit opinion

We anticipate we will provide the Group 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 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement 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 2016/17.

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

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

As explained more fully in the Statement of Responsibilities, the Executive Director for 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director for 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 and Group as at 31 March 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 for the financial year for which the financial statements are prepared 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: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

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

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

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

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 for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, 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 this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. 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 for securing economy, efficiency and effectiveness in its use of resources.

Conclusion

We are still considering the Council's governance arrangements in respect of a planning decision for regeneration in the Borough, which is subject to an independent inquiry. The Council is still awaiting publication of the inquiry and until this is published we are not able to conclude on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2017. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Act and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2017. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code of Audit Practice until we have completed our consideration of objections brought to our attention by local authority electors under Section 27 of the Act. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Darren Wells
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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September 2017



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