

# Annual Governance Report

London Borough of Lewisham

Audit 2009/10

September 2010

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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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## **2009/10 Annual Governance Report**

I am pleased to present the final version of my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Executive Director of Resources on 7 September 2010 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 4 to 12);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Susan M. Exton  
District Auditor

7 September 2010

# Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements	Results	Page
Unqualified audit opinion	Yes	7-11
Draft financial statements free from material error	No	7-11
Adequate internal control environment	Yes	7-11
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	12

## Audit opinion

- 1 My audit is currently in progress; in particular audit work is on going on fixed assets, and the Lewisham Homes pension indemnity issue. Subject to completion of outstanding audit areas, I plan to issue an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

## Financial statements

- 2 The Council submitted its accounts for audit by the deadline of 30 June 2010. Although the financial statements were complete they were not adequately supported by working papers on a timely basis. Improvements are needed to ensure working papers are provided to us promptly on production of the draft accounts.
- 3 My audit testing identified errors, other than those of a clearly trivial nature, and I reported these to management. The adjusted amendments to the accounts are detailed in Appendix 2.
- 4 Management has not adjusted the financial statements for the errors identified in Appendix 3. I would therefore ask you to consider whether to adjust the financial statements for the errors. If you decide not to do so, please tell me why in the letter of representation, a draft of which is in Appendix 4.
- 5 I expect to complete all outstanding testing before the opinion deadline of 30 September 2010. Should any further matters arise in concluding the outstanding work that need to be reported I will raise them with the Executive Director of Resources and the Chair of the Audit Panel.

## Key messages

- 6 I would like to thank the Finance team for their cooperation during the audit of this year's accounts and look forward to continuing to work with officers in 2010/11.
- 

## Value for money

- 7 I plan to issue a conclusion that the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are adequate.
- 

## Audit closure certificate

- 8 No matters have been brought to my attention requiring me to consider exercising my formal statutory powers so I plan to issue an audit closure certificate with my audit opinion.
- 

## Audit fees

- 9 I will discuss the amount of extra work I have had to carry out in the course of this audit Executive Director of Resources. In particular time has been spent dealing with private Finance Initiative (PFI) schemes valuations, Lewisham Homes pension indemnity and delays around working papers and responding to audit queries.
- 

## Independence

- 10 The wife of one of my Audit Managers, Thomas Edgell, who was involved in planning the 2009/10 audit, is a teacher at the Coopers Lane Primary school. Appropriate safeguards were established such that he was not involved in any work directly related to the activities of this school. I can confirm that I have carried out the audit in accordance with the Audit Commission's policies on integrity, objectivity and independence.

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# Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

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**11** I ask the Audit Panel to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 11);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

# Financial statements

**The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

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## Opinion on the financial statements

- 12** Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
- 13** At the time of writing this report, audit testing is ongoing in a number of areas and review of this work has yet to be completed. The main areas of focus are:
- pension indemnity - the finance team are reviewing the accounting treatment for the pension costs indemnity given to Lewisham Homes in respect of staff transferred;
  - fixed assets - this audit area is in progress;
  - cash flow statement - this audit area is in progress;
  - direct confirmation of school bank account and investment balances - I am awaiting confirmation of balances from external institutions;
- 

## Audit processes

- 14** I received the Council's financial statements for audit on 24 June 2010, in line with the agreed timetable. However, the initial deadline that I agreed for the finance team to provide a comprehensive set of supporting working papers was 1 July 2010.
- 15** I also noted that the Council did not fully utilise the working paper checklist supplied by my audit team. Using the checklist helps working paper files to be compiled whilst preparing the draft financial statements and ensures all key areas are covered.
- 16** The weaknesses in supporting information and audit trails meant that my audit team had to raise a large number of audit queries and, although I believe officers responded to queries as quickly as possible, the delays led to significant slippage in the audit programme.
- 17** These issues have been discussed with the Executive Director of Resources and her officers within the finance team. During the course of the audit my audit team have worked with your officers to resolve the issues and agree a revised audit timetable. Moving forward, I am keen to work together with the Executive Director of Resources to identify the underlying issues which have led to the delays this year, and to strengthen the arrangements to aid timely completion of the audit next year.
-

**Recommendation**

- R1** To review arrangements for the timely production of financial statements, working papers and dealing with audit queries.
- R2** Include appropriate quality control procedures in the final accounts closedown process.
- R3** Agree a timetable with the external auditors to deliver a full set of cross referenced working papers to support the financial statements.

**Errors in the financial statements**

- 18** I identified errors in the financial statements, other than those of a clearly trivial nature, and reported these to management.
- 19** Management has agreed to adjust the financial statements for the errors identified in Appendix 2. Further details on the significant errors are provided in table 1 which shows the key areas of judgement and risk I identified as part of my audit planning and reported to the Audit Panel in June 2010. The group accounts have been amended to reflect the adjustments in Appendix 2.
- 20** Additional errors that management has decided not to adjust as these are not material are identified in Appendix 3.

**Recommendation**

- R4** Consider whether the financial statements should be amended to reflect the unadjusted errors. If you choose not to amend, the reasons should be set out in the letter of representation.

**Significant weaknesses in internal control**

- 21** I have not identified any significant weakness in your systems of internal control that might result in a material error in your financial statements.

**Letter of representation**

- 22** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.



### Key areas of judgement and audit risk

23 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit and reported to the Audit Panel in June 2010.

**Table 1 Key areas of judgement and audit risk**

Issue or risk	Finding
<p><b>International Financial Reporting Interpretations Committee (IFRIC) 12 - accounting for service concession arrangements.</b></p> <p>The accounting requirements for Private Finance Initiative (PFI) schemes and similar contracts are no longer based on UK accounting standards but on International Financial Reporting Standards (IFRS), specifically IFRIC 12 Service Concession Arrangements. It is expected that under IFRIC 12, PFI schemes and similar contracts will be required to be recognised on-balance sheet.</p> <p>The Council may account for the balances relating to the PFI schemes incorrectly.</p>	<p>Four of the Council's PFI schemes fall within the scope of IFRIC12 and have been accounted for accordingly. My work on the revised accounting treatment identified a material error amounting to £83m as the values of the PFI assets in the draft accounts were not based on up to date valuations. There are also a small number of minor non material errors.</p> <p>Further details are disclosed in Appendix 2 and Appendix 3.</p>
<p><b>Lewisham Homes pension indemnity</b></p> <p>In 2008/09, the Council's and Lewisham Homes' differing interpretations of the Council's letter of indemnity in respect of pension costs led to a £2m imbalance in the Council's group accounts.</p>	<p>The Council incorrectly disclosed £20m debtor and £18m income in its group accounts in respect of this indemnity. My audit team have had numerous discussions with the finance officers on this matter over the last year and sought advice from the Audit Commission's technical unit over the accounting proposals. The finance team have now split the £20m into pre (relating to the Council) and post service (relating to Lewisham Homes). Further details are disclosed in Appendix 2 and Appendix 3.</p>
<p><b>Accounting for Large Scale Voluntary Transfers (LSVTs)</b></p> <p>In the 2008/09 accounts, £57m of impairments arising from LSVTs were presented incorrectly as losses on disposal. In addition the LSVT overhanging debt was offset against the loss on</p>	<p>Review of the Council's accounting treatment for the Lee housing stock transfer identified that £17m of impairments had been incorrectly treated as a loss on disposal. Further details are included in Appendix 2.</p>

Issue or risk	Finding
disposal of assets, rather than recognised as income. The accounting for LSVTs continues to be a risk area.	

**Accounting practice and financial reporting**

**24** I consider the non-numeric content of your financial reporting. Table 2 contains the issue I want to raise with you. There have also been a number of minor errors and presentational issues which I have identified and which have been corrected.

**Table 2**

Issue or risk	Finding
Post Balance Sheet Events	In his budget statement on 22 June 2010, the Chancellor announced that the government would start to increase public sector pensions in line with the consumer price index (CPI) rather than the retail price index (RPI), which has been the practice in the past. The Council has made a disclosure on this matter.
Accounting for Large Scale Voluntary Transfers	The £17m error relating to the Lee housing stock transfer is similar to the errors made in previous years.

**Recommendation**

**R5** Ensure that any future accounting for housing stock transfers considers the errors made in previous years.

**International Financial Reporting Standards (IFRS)**

**25** The council is required to produce IFRS compliant accounts in 2010/11. The effective date for transition to IFRS is therefore 1 April 2009 and the Council will be required to restate its 2009/10 balance sheet. This is a large amount of work for the Council and I will continue to liaise with the Council with regard to its arrangements and preparedness for making the transition to reporting under IFRS. My experience in other sectors has shown that despite an apparently long lead-in time, it is important for authorities to retain their focus and continue plan for early completion of work.

## Financial statements

- 26** My recent assessment of the progress that the Council was making scored them as 'amber.' During 2009/10 the Council have done fairly well against their IFRS implementation project plan in such areas as PFI, employee benefits, and aspects of non current assets. However there is still plenty of work to do especially around IFRIC 4, determining whether an arrangement contains a lease and restating the 2009/10 accounts.

### Recommendation

- R6** The Council should review its financial information to ensure it can meet the reporting requirements for the introduction of international financial reporting.

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## Other matters-Senior Employees Remuneration

- 27** Included in the financial statements is a disclosure of the salary of the Head Teacher of Tidemill School. Internal Audit has carried out a review and I have discussed this matter with the Executive Director of Resources. The Council has written to school governors making recommendations.

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# Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. I have based my conclusion on my work on the scored use of resources judgement.

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## Value for money conclusion

- 28** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5.
- 29** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

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## Audit work in support of the value for money conclusion

- 30** I carried out a review of a specific area of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. During the year I completed a data quality review of partnership activities. This provided me with additional assurance over the effectiveness of the Council's use of information.

# Glossary

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## Annual governance statement

- 31** Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 32** It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.
- 33** The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
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## Audit closure certificate

- 34** A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.
- 

## Audit opinion

- 35** On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:
- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
  - whether they have been prepared properly, following the relevant accounting rules; and
  - for local probation boards and trusts, on the regularity of their spending and income.
- 

## Qualified

- 36** The auditor has some reservations or concerns.
- 

## Unqualified

- 37** The auditor does not have any reservations.
-

### **Value for money conclusion**

- 38** The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

# Appendix 1 – Independent auditor’s report to the Members of London Borough of Lewisham

## **Opinion on the Authority and Group accounting statements**

I have audited the Authority and Group accounting statements and related notes of the London Borough of Lewisham for the year ended 31 March 2010 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. The Authority and Group accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the London Borough of Lewisham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

## **Respective responsibilities of the Executive Director of Resources and auditor**

The Executive Director of Resources' responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Authority and Group accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if

the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Foreword by the Executive Director of Resources. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

### **Opinion**

In my opinion:

- The Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended; and
- The Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Group as at 31 March 2010 and its income and expenditure for the year then ended.



### Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2010 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Lewisham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

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

The Executive Director of Resources' responsibilities for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

### Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

## **Opinion**

In my opinion the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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## **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Authority’s Responsibilities**

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 regularly to review the adequacy and effectiveness of these arrangements.

### **Auditor’s Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, London Borough of Lewisham made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

### **Certificate**

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

## **Appendix 1 – Independent auditor’s report to the Members of London Borough of Lewisham**

**Susan M. Exton**

**District Auditor**

**Officer of the Audit Commission**

Audit Commission

1st Floor Millbank Tower

Millbank

London

SW1P 4HQ

**September 2010**

# Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

**Table 3**

Adjusted misstatements	Accounts affected	Dr £000s	Cr £000s
<b>LSVT - Lee housing stock transfer</b> The Council transferred £19.7m of assets and incorrectly accounted for the impairment on this transfer as a loss on disposal.	HRA I&E account - impairment	17,226	
	HRA I&E account - loss on disposal		17,226
	Statement of movement on the HRA balance - impairment	17,226	
	SMHRAB - loss on disposal		17,226
<b>PFI valuations</b> The value of the PFI scheme fixed assets in the draft accounts were not based on up to date valuations. Valuations as at 31 March 2010 were subsequently obtained by the Council and the accounts amended accordingly. This has resulted in adjustments amounting to £83m.	Fixed assets - land		23,249
	Fixed assets - buildings		56,744
	Revaluation reserve		2,540
	Capital adjustment account	82,533	
	I&E account - impairment	74,979	
	Statement of Movement on the General Fund Balance		74,979

## Appendix 2 – Amendments to the draft accounts

Adjusted misstatements	Accounts affected	Dr £000s	Cr £000s
<p><b>FRS 17</b></p> <p>An adjustment relating to various changes in the 2008/09 FRS 17 disclosure was accounted for as a prior period adjustment (PPA) in the draft accounts. This has been amended to be accounted for as in-year as it did not meet the PPA criteria under FRS 3.</p>	<p>I&amp;E account - non distributed costs</p> <p>Statement of Movement on the General Fund Balance</p> <p>Statement of Total Recognised Gains and Losses - 2008/09 actuarial gains/losses</p> <p>Statement of Total Recognised Gains and Losses - 2009/10 actuarial gains/losses</p>	<p>1,606</p> <p>804</p>	<p>1,606</p> <p>804</p>
<p><b>Cash flow statement</b></p> <p>During my work a reclassification errors were identified.</p>	<p>Cash flow statement - interest received</p> <p>Cash flow statement - other operating cash payments</p> <p>capital activities capital grants</p> <p>revenue activities government grants</p>	<p>1,882</p> <p>13,608</p>	<p>1,882</p> <p>13,608</p>
<p><b>Lewisham Homes pension indemnity</b></p> <p>On its inception in February 2007, the Council indemnified Lewisham Homes against pension fund liabilities in relation to all staff transferred to Lewisham Homes from the date of transfer onwards.</p> <p>The Council incorrectly disclosed £20m debtor and £18m income in its group accounts in respect of this indemnity. Information subsequently obtained from the actuary has identified the amount that relates to pre service, which falls under FRS17.</p> <p>Corresponding entries will be</p>	<p><b>Group accounts</b></p> <p>Lewisham homes pension asset</p> <p>Group accounts pension reserve</p>	<p>18,585</p>	<p>18,585</p>

## Appendix 2 – Amendments to the draft accounts

made in the Council's accounts to correct this error.			
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# Appendix 3 – Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell me why in the representation letter. If you believe the affect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

**Table 4**

Description of error	Accounts affected	Value of error £000s
<p><b>Downham lifestyles PFI scheme</b> The annual unitary charge subsidy for the Downham Lifestyles PFI scheme has been incorrectly included in the minimum lease payment used in the calculation of the PFI liability. The subsidy should have been charged to Net cost of services. The resultant impact on the PFI liability and interest charges when recalculated is not material.</p>	<p>I&amp;E account - net cost of services I&amp;E account - Interest payable and similar charges Balance sheet - PFI liabilities</p>	<p>212</p>
<p><b>Grouped schools PFI scheme</b> Minor errors have been identified in the calculation of contingent rents and minimum lease payments for the Grouped Schools PFI scheme. These are as a result of formulae errors in the PFI model. The resultant impact on the PFI liability and interest charges when recalculated is not material.</p>	<p>Balance sheet - Contingent rent prepayment Balance sheet - PFI liability I&amp;E account -interest payable and similar charges</p>	<p>161</p>

### Appendix 3 – Unadjusted misstatements in the accounts

Description of error	Accounts affected	Value of error £000s
<p><b>Grouped schools PFI scheme</b> Prior to the start of the audit, officers identified that a capital contribution relating to the Grouped Schools PFI scheme had been misclassified.</p>	Balance sheet - Prepayments Balance sheet - PFI current liabilities Balance sheet - PFI long term liabilities I&E account - net cost of services I&E account - interest payable and similar charges	406
<p><b>Deferred government grants</b> Testing identified that the useful economic lives (UELs) of assets used to calculate deferred government grants amortisation was not consistent in some cases with the UELs used to calculate fixed asset depreciation. This has resulted in an overstatement of government grants deferred</p>	Government Grants deferred Net cost of services	232
<p><b>Lewisham Homes pension indemnity</b> On its inception in February 2007, the Council indemnified Lewisham Homes against pension fund liabilities in relation to all staff transferred to Lewisham Homes from the date of transfer onwards. The draft accounts disclosed a £20m contingent liability in respect of post service pension liability for Lewisham Homes. Following further information received from the Actuary this has reduced to £1,461k. In my view this fulfils the requirements of FRS12 and should be shown as a provision with the corresponding entry to housing revenue account expenditure. The group accounts are similarly</p>	HRA expenditure Balance sheet-Provisions	1,461



### Appendix 3 – Unadjusted misstatements in the accounts

misstated.		
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# Appendix 4 – Draft letter of representation

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To: Susan M. Exton  
District Auditor  
Audit Commission  
Millbank Tower  
Millbank  
SW1P 4HQ

## **London Borough of Lewisham - Audit for the year ended 31 March 2010**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of London Borough of Lewisham, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. All representations cover the Council's accounts and Group Accounts included within the financial statements.

### **Compliance with the statutory authorities**

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

### **Uncorrected misstatements**

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows:

- reason 1 etc
- reason 2

### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

## Appendix 4 – Draft letter of representation

### Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

### Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

### Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

### Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;

- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

**Related party transactions**

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

**Post balance sheet events**

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of London Borough of Lewisham

I confirm that this letter has been discussed and agreed by the Audit Panel on 21 September 2010

**Janet Senior**  
**Executive Director of Resources**

**Councillor Harris**  
**Chair of Audit Panel**

Date

# Appendix 5 – Value for money criteria

Key Line of Enquiry	Met
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural resources	Yes
Strategic asset management	Yes
Workforce	Yes

## Appendix 6 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Governance Report 2009/10 - Recommendations</b>						
8	R1. To review arrangements for the timely production of financial statements, working papers and dealing with audit queries	3	Richard Lambeth	Yes	The closing of accounts process is reviewed annually. For 2010/11, this will include greater liaison with the Audit Commission to identify key issues which lead to delays in 2009/10. The efficiencies will be incorporated in the 2010/11 timetable. The level of management review will also be re-assessed.	Jan 2011
8	R2. Include appropriate quality control procedures in the final accounts closedown process.	2	Richard Lambeth	Yes		
8	R3. Agree a timetable with the external auditors to deliver a full set of cross referenced working papers to support the financial statements.	3	Richard Lambeth	Yes	The content and extent of the working papers will be agreed with the Audit	Mar 2011

## Appendix 6 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					Commission.	
8	R4. Consider whether the financial statements should be amended to reflect the unadjusted errors. If you choose not to amend, the reasons should be set out in the letter of representation.	3	Richard Lambeth	Yes	We have agreed with the Audit Commission that the items included in Appendix 3 will be amended in 2010/11, rather than 2009/10. The reasons are as outlined in the letter of representation.	Sept 2010
10	R5. Ensure that any future accounting for housing stock transfer considers the errors made in previous years.	3	Richard Lambeth	Yes	This will be specifically addressed in the closing of accounts timetable.	Jan 2011
11	R6. The Council should review its financial information to ensure it can meet the reporting requirements for the introduction of international financial reporting.	3	Richard Lambeth	Yes	The IFRS Project Group is tasked with this requirement. A timetable is in place to ensure that the required actions will be carried out to meet the statutory deadlines.	Mar 2011

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# The Audit Commission

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As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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