



# SUPPLEMENTARY AGENDA AUDIT PANEL

**Date: THURSDAY, 17 SEPTEMBER 2015 at 7.00 pm**

**Committee Room 4  
Civic Suite  
Catford Road  
London SE6 4RU**

**Enquiries to: Olga Cole  
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## **COUNCILLORS**

Councillor Helen Klier (Chair)  
Councillor Jonathan Slater (Vice  
Chair)  
Councillor Bill Brown  
Councillor Mark Ingleby  
Councillor Jim Mallory  
Councillor Eva Stamirowski

## **Independent Members**

Paul Dale  
Richard King  
(2 vacancies)

This meeting is an open meeting and all items on the agenda may be audio recorded and/or filmed

**Members are summoned to attend this meeting**

**Barry Quirk  
Chief Executive  
Laurence House  
Catford  
London SE6 4RU  
Date: 9 September 2015**



INVESTOR IN PEOPLE

The public are welcome to attend our committee meetings, however occasionally committees may have to consider some business in private. Copies of reports can be made available in additional formats on request.

## ORDER OF BUSINESS – PART 1 AGENDA

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# The Audit Findings for London Borough of Lewisham

# DRAFT

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

Year ended 31 March 2015

September 2015

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**Darren Wells**

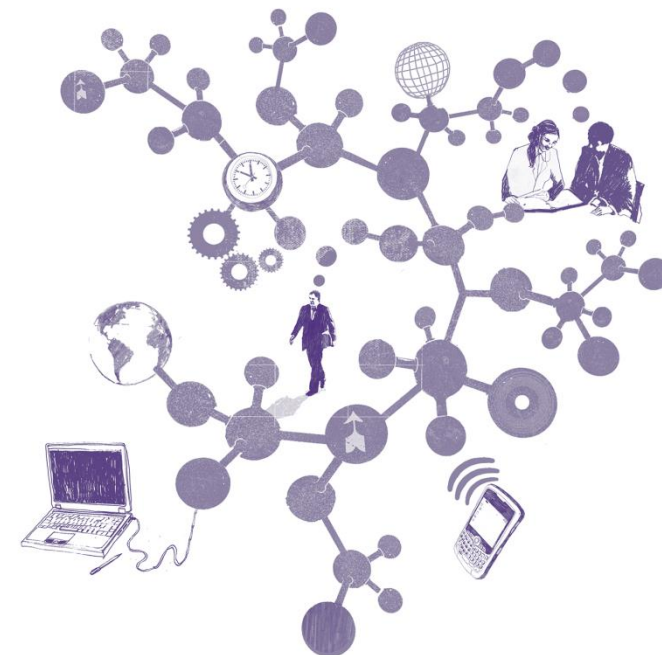
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Dear Councillor Klier

**Audit Findings for London Borough of Lewisham for the year ending 31 March 2015**

This Audit Findings report highlights the significant findings arising from the audit for the benefit of the Audit Panel , as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management. .

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

Darren Wells (Director)

**Chartered Accountants**

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# Section 1: Executive summary

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- 03. Value for Money
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- 05. Communication of audit matters

# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of London Borough of Lewisham (the Council) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

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

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated June 2015.

Our audit is progressing well with the aim of giving the opinion in the final week of September. We are finalising our work in the following areas:

- review of housing benefit payments
- completion of work on operating expenses
- review of the final version of the financial statements
- dealing with closing queries on the file

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

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

## Key issues arising from our audit

### Financial statements opinion

Subject to the satisfactory completion of outstanding work we anticipate providing an unqualified opinion in respect of the financial statements.

The financial statements presented for audit were of a good quality overall. We did not identify any misstatements affecting the Council's net expenditure position.

We identified a number of classification and disclosure issues regarding the Council's accounting for property plant and equipment, including the accounting treatment of schools. This has led to some material amendments to the financial statements which are detailed on pages 20 and 21.

We also highlighted a number of other classification and disclosure errors which are also detailed on pages 20 and 21.

None of the matters we identified affect the Council's reported financial position. Further details are set out in section two of this report.

### Early close down

Council staff have been helpful in engaging with the audit and responding to our queries. However from 2017/18 accounts the Council will have to submit draft accounts for audit by 31 May, a month earlier than present. The deadline for audit certification will move forward to 31 July. This is a challenging timescale which will require the Council and the audit team to work together closely. Grant Thornton are the external auditors for several councils who are already achieving the earlier deadline. We plan to meet with finance staff to discuss simplifying and improving the closedown process, drawing on lessons from those councils.

### Value for Money conclusion

The Council continues to face significant financial challenges. We have reviewed the Council's arrangements to secure financial resilience. Although the Council faces significant risks to its financial position, our view is that it has arrangements in place to manage those risks. Based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified Value for Money conclusion.

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

### Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

## Controls

### Roles and responsibilities

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

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

### Findings

We draw your attention to control issues identified in relation to:

- Internal audit coverage during the year;
- IT security controls in place at the shared service provider; and
- On-going reconciliations of the bank account and key financial systems.

Further details are provided within section two of this report.

### The way forward

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

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

### Acknowledgment

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



## Section 2: Audit findings

- 01. Executive summary
- 02. Audit findings**
- 03. Value for Money
- 04. Fees, non-audit services and independence
- 05. Communication of audit matters

# Audit findings

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

## Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you in June 2015.

## Audit opinion

Our proposed audit opinion is set out in Appendix B.

## Audit findings against significant risks

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

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Page 9	<p><b>1. Improper revenue recognition</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions</li> </ul>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Lewisham Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the Council has a strong counter fraud culture and ethical frameworks.</li> </ul>
	<p><b>2. Management override of controls</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of journal entry policies and procedures</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We have not been made aware of nor identified 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 judgments.</p>
	<p><b>3. Ledger upgrade</b></p> <p>The general ledger migrated to a shared service provider, along with five other London Boroughs. As this is a significant non-routine event it is our view that this represents a significant risk under ISA 315</p>	<ul style="list-style-type: none"> <li>• We reviewed the general ledger account balances pre and post conversion to ensure that they are in agreement.</li> <li>• We reviewed the controls the Council has in place to ensure the completeness and integrity of data from the service provider.</li> </ul>	<p>We confirmed through our audit procedures that account balances transferred to the shared service provider were materially complete and accurate.</p> <p>We identified a number of risks to the IT arrangements between the Council and the shared service provider. In our view these do not present a material risk to the opinion on the accounts, however we have raised these as reporting matters under the internal control section (page 17).</p>

## Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>  <b>Page 10</b>	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> <li>Walkthrough of operating expenses system, updating our understanding</li> <li>Review and test the year end creditors control account reconciliation.</li> <li>Test a sample of transactions at the year end to confirm they are accounted for in the correct period (cut-off testing)</li> <li>Review your accruals policy and confirm that it has been properly applied</li> </ul>	Our work in this area is still on-going. Based on our work to date we have not identified any material issues against the risk identified.
<b>Employee remuneration</b>	Employee remuneration accrual understated	<ul style="list-style-type: none"> <li>Walkthrough payroll system, updating our understanding</li> <li>Reconciliation of payroll to the General Ledger (for completeness)</li> <li>Undertake analytical procedures e.g. trend analysis</li> <li>Test a sample of transactions at the year end to confirm they are accounted for in the correct period (cut-off testing)</li> </ul>	We have completed our work in this area and we have not identified any material issues against the risk identified
<b>Welfare expenditure</b>	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> <li>Our work to certify your Housing and Council Tax benefits claim will give us assurance over the accuracy of your financial statements</li> <li>We reviewed the reconciliation between your financial statements and the Housing benefits claim</li> </ul>	Our work in this area is still on-going

# 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
<p><b>Property, plant and equipment (PPE).</b></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);"><b>Page 11</b></p>	<p>Revaluation measurements not correct</p>	<ul style="list-style-type: none"> <li>• We carried out a walkthrough of the system for PPE valuations</li> <li>• We substantively tested the accounting entries for PPE valuations to underlying records</li> <li>• We reviewed the reconciliation between the general ledger and fixed asset register</li> <li>• We wrote to the external valuer to establish the scope and basis of valuations work for the 2014/15 financial statements.</li> <li>• We reviewed the valuations information in your financial statements to confirm they have been accounted for correctly, in line with the Local Government Code of Accounting and accounting standard IAS16.</li> <li>• We considered the reasonableness of your valuations information by reference to valuation trend data provided by the auditor's expert.</li> </ul>	<p>Our work in this area is substantially complete.</p> <p>Our work to date has highlighted a number of classification and disclosure issues with the treatment of Property Plant and Equipment, however these do not affect the overall financial position.</p>

# Significant matters discussed with management



	Significant matter	Commentary
<p>1.</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 12</p>	<p>Accounting for schools</p>	<p>The Council carried out a review of its accounting for schools, in response to new guidance issued during the year by CIPFA. As part of this exercise the Council reviewed the accounting treatment of all maintained schools in the Borough and a result of this review the Council decided to remove four schools from its balance sheet.</p> <p>The Council provided us with insufficient evidence to support this judgement and there was also very little commentary on it within the financial statements. Following further discussion, management have agreed to provide further justification of the decision to reclassify the schools and to make additional disclosure of this in the financial statements.</p> <p>The financial statements show a significant reduction in the net book value of other land and buildings compared with the prior year. The derecognition of schools is a significant factor in this.</p> <p>Where there is a change of accounting policy which has a material effect, as in this case, accounting standard IAS8 requires a prior period adjustment so that the accounts are comparable year on year.</p> <p>We have discussed this with management who have agreed to make the relevant PPA to the treatment of schools.</p> <p>We are still completing our work on operating expenses, which includes the income and expenditure relating to schools.</p>

# Accounting policies, estimates & judgements

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




Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> <li>The Council's accounting policy is to recognise income " from the provision of services or sale of goods is recognised when it is probable that the economic benefits or service potential associated with the transaction will be received by the Council "</li> </ul>	<p>We did not identify any issues with this policy or with the application of the policy.</p> <p>However we noted that the Council's policies do not cover non exchange transactions (principally council tax and NNDR) and we asked the Council to include a separate policy on this.</p>	
Estimates and judgements  Page 13	<ul style="list-style-type: none"> <li>Key estimates and judgements are                             <ul style="list-style-type: none"> <li>accruals</li> <li>useful life of capital equipment</li> <li>pension fund valuations and settlements</li> <li>revaluations</li> <li>Impairments</li> <li>PPE valuations.</li> </ul> </li> </ul>	<p>We reviewed the Council's material accounting estimates.</p> <p>We reviewed a sample of accruals and found these to be fairly stated.</p> <p>We reviewed the valuation estimates made by the Council's valuer. The Council has engaged a new valuer this year. As a result of different valuation methodologies some valuations have significantly reduced compared with the previous year. We have selected example assets to confirm that the methods are reasonable and are still discussing this with management.</p> <p>We noted that there are two schools which were not revalued in year, so that the Council did not fully comply with the requirement to revalue all assets in a class simultaneously. However we do not consider that this would have a material impact on the accounts.</p> <p>We confirmed that pension fund valuations in the accounts are based on the actuary's report and are in line with our expectations.</p>	

**Assessment**

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

-  Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements - local authority maintained schools premises</b>	In 2014 CIPFA published its LAAP bulletin 101 on the accounting treatment of schools. After reviewing the treatment of all schools the Council decided it was appropriate to remove four schools from its balance sheet.	The Council provided limited information to justify its decision to derecognise the schools in question  Following further discussions the Council has provided further information in support of its judgement, and to document the reason for this as part of the critical judgements disclosure in the financial statements	
<b>Going concern</b>	The Directors have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	The Council has not formally documented its judgement on going concern. The Council has recently published its medium term financial strategy setting out how it plans to meet its financial challenges over the next five years. We consider it reasonable that the Council prepares its statements on a going concern basis. We have requested a statement on going concern is included in the financial statements.	
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	

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**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient



## Other communication requirements

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

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have received letters from management and from the Chair of the Audit Panel outlining the Council's arrangements to identify and minimise fraud.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no significant omissions in the financial statements over and above those mentioned elsewhere in this report</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>In our view the related parties disclosure in note 31 of the draft financial statements did not meet the requirements of the Code, in that material related party transactions should be disclosed in the financial statements. We discussed this with management, who have agreed to extend the note by disclosing those transactions they consider to be material.</li> </ul>
6.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We have requested direct confirmations of loans, cash and investment balances.</li> <li>Most responses have now been obtained however in some cases we are still chasing responses or are performing alternative audit procedures to gain our assurance.</li> </ul>
7.	<b>Annual Governance Statement</b>	<ul style="list-style-type: none"> <li>We have reviewed the Council's annual governance statement, which is published alongside the statement of accounts.</li> <li>The original annual governance statement made no mention of control issues which had arisen during the year. Following discussion management agreed to add additional context to the AGS.</li> </ul>

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# Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration, Property Plant and Equipment, welfare benefits and Operating Expenses.

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


	Assessment	Issue and risk	Recommendations
1. Page 16	●	<ul style="list-style-type: none"> <li>In our audit plan we reported that reconciliations of bank accounts and key financial systems were not taking place on a regular or timely basis. Management subsequently updated the reconciliations to the year end.</li> </ul>	Carry out and retain evidence of key financial reconciliations on a monthly basis
2.	●	<ul style="list-style-type: none"> <li>We reviewed the migration of ledger information to the new oracle R12 shared ledger. We did not identify any issues with the completeness of the data. However we noted that the Council did not retain full evidence over the migration at the time that it happened.</li> <li>There was no internal audit coverage of the data migration. During much of 2014/15 the Council was operating under interim arrangements for internal audit. However the Council has subsequently brought its coverage up to date.</li> </ul>	

## Assessment



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

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

## Internal controls (continued)

	Assessment	Issue and risk	Recommendations
<p>3.</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 17</p>		<p>As part of our audit we carried out a high level review of IT arrangements at the new ledger shared services provider.</p> <p>We identified a number of control weaknesses. Similar issues were raised by internal audit in their review of the ledger.</p> <p>We have shared the detailed findings with management. Key issues highlighted were as follows.</p> <ul style="list-style-type: none"> <li>• We identified seven accounts with default passwords</li> <li>• Excessive number of system administrators</li> <li>• Multiple users for the same person</li> <li>• Some individuals have excessive access levels</li> <li>• Weak and inconsistent password policies</li> <li>• Lack of segregation of duties</li> <li>• Incomplete logging of activity</li> <li>• Access rights that are not linked to an individual</li> <li>• Access rights are not formally reviewed for appropriateness</li> </ul>	<p>Management should review and respond to the detailed findings of our IT controls review and ensure there is adequate and timely audit coverage of IT controls at the shared service provider.</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.

## Adjusted misstatements

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

### Impact of adjusted misstatements

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

Detail		Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
Page 18	1 Incorrect classification of income relating to the Glass Mill Centre on the face on the income and expenditure statement	24,065	0	0
	2 expenditure relates to schools which have been removed from the Council's balance sheet and therefore should be treated as REFUS	0	3,582	0
<b>Overall impact</b>		<b>£24,065</b>	<b>£3,582</b>	<b>£0</b>

## Unadjusted misstatements

We did not identify any significant misstatements which the Council has declined to amend.

## Misclassifications & disclosure changes

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

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misclassification	2,016	Note 14 - Cash and cash equivalents	A misclassification within note 14 to the financial statements which does not affect the balance sheet totals
2	Misclassification	6,876	Note 19 – Revaluation reserve	A misclassification between impairments and revaluations within the revaluation reserve
3	Misclassification	5,611	Note 32 – Asset financing	Misclassification within note 32 between REFCUS and PPE additions
4	Disclosure	TBC	Accounting for schools	The de-recognition of schools is a change in accounting policy which should give rise to a prior period adjustment
7	Misclassification	Various	Note 9b Property, plant and equipment	Management identified and made 17 classification adjustments within note 9b subsequent to submitting the draft accounts.
8	Disclosure	Various		We identified a number of minor typos, arithmetic and consistency issues which management has agreed to correct
9	Misclassification	1,693	Note 29 grant revenues	Difference between the value in note 29 and the Housing and Council Tax benefits claim regarding the amount of benefits income TBC
10	Misclassification	1,310	Note 9b	Note 9b includes a line entitled 'post audit adjustments'. We agreed with management that this is not an appropriate category under the Code, and management have agreed to reclassify these entries against the relevant headings.
11	Misclassification	39,199	Note 9a	Classification adjustment within note 9a relates to HRA assets which were last valued in 2013/14 rather than 2014/15

## Section 3: Value for Money

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05. Communication of audit matters

# Value for Money

## Value for money conclusion

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

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

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

These criteria are:

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

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

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

The Council faces significant challenges in respect of its arrangements for financial strategy, governance and control. The Council has significant budget overspends at service level in 2014/15 and 2015/16. The Council will also need to identify and realise significant savings in 2016/17 and subsequent years to maintain a resilient financial position. Overall our view is that the Council is managing those risks appropriately and has adequate arrangements for securing financial resilience.

### Challenging economy, efficiency and effectiveness

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

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted adequate arrangements in place to challenge economy, efficiency and effectiveness. We noted one area of risk relating to the Council's ability to understand the impact that headcount reductions and transitioning to new roles may have on financial management.

### Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.



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

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

The table below summarises our overall rating for each of the themes reviewed. Those areas rated amber are explored in more detail in the pages which follow.

Theme	Summary findings	RAG rating
<b>Key indicators of performance</b>	The Council set a balanced budget for 2014/15 and for 2015/16. However, there was an overspend of £9.1 million on revenue budgets in 2014/15 which was mitigated by use of contingencies and reserves. While reserve levels have seen a net increase over the last two years, this is unlikely to be sustainable from 2015/16 onwards.	<b>Amber</b>
<b>Strategic financial planning</b>	The Council is also forecasting a budget overspend for 2015/16. Arrangements around strategic financial planning are generally adequate, although key financial assumptions around the demand for services require greater challenge and consideration of adverse scenarios and there is further scope to anticipate the risks associated with the financial performance of key partners.	<b>Amber</b>
<b>Financial governance</b>	In 2014/15 the Council engaged in a peer review, which commented positively on the Council's governance arrangements. The Council is developing its strategy to focus more on the development of Place and to strengthen the performance management of senior officers. This will be important in the context of securing financial resilience.	<b>Green</b>
<b>Financial control</b>	2014/15 has seen a number of significant changes including a restructuring of the finance team, migration to a new ledger and a change of internal audit provider. During this period a number of risks around financial control have been highlighted which the Council needs to address.	<b>Amber</b>
<b>Prioritising resources</b>	Arrangements around prioritising resources are generally adequate, however there is evidence that reductions in headcount and the subsequent transfer of responsibilities has contributed to a number of financial control issues. There is a risk that current arrangements do not adequately manage the risk to operational performance posed by implementing savings plans and the voluntary redundancy process.	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>	Arrangements around improving efficiency and productivity were found to be adequate and we noted that although the Council delivers some services at a higher cost to many of its peers, it has made good use of benchmarking in these areas to drive savings plans.	<b>Green</b>

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

Residual risk identified	Summary findings	RAG rating
<p><b>Key indicators of performance: Performance against budgets (Revenue Capital &amp; Savings)</b></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);"><b>Page 24</b></p>	<p>The Council has had significant issues in 2014/15 with over-spending against budgets within the services. The directorates' net general fund revenue budget was overspent by £9.1m and after applying the corporately held sum of £3.9m for 'risks and other pressures' this reduced the overspend to £5.2m. The remaining overspend has been covered by underspends elsewhere in the budget and reserves.</p> <p>Key overspending areas were</p> <ul style="list-style-type: none"> <li>• £10.2m, mainly in respect of clients with 'no recourse to public funds', including bed &amp; breakfast temporary accommodation.</li> <li>• £3.1m on budgets relating to bed and breakfast accommodation, caused by a significant increase in the number of people in this type of accommodation.</li> <li>• Net overspends were also caused by the underperformance of parking and environment income</li> </ul> <p>Overspends were partly mitigated by underspends in the Community Services (£2.3m) and Resources and Regeneration (£2.1m) directorates.</p> <p>While the Council was able to mitigate the overspends in 2014/15, this outcome adds to the recurring pressure on future years' budgets and is unlikely to be sustainable in the longer term. The outcome in terms of financial performance presents a risk to financial resilience.</p>	<p><b>Amber</b></p>

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

Residual risk identified	Summary findings	RAG rating
<p><b>Key indicators of performance:</b> <b>Reserves balances</b></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);"><b>Page 25</b></p>	<p>The Council has been able to increase its total level of useable reserves in each of the past two years (13% and 22% respectively), strengthening its ability to use reserves to manage financial shocks, including budget pressures and the risk of savings plans not being delivered. However, the total level of reserves remains low in comparison to other councils of a similar size and demographic profile.</p> <p>Within the 2014/15 Budget, the Council had to make use of £6.3m of one-off reserves and provisions in order to achieve a Balanced Budget for 2014-15. The Council again drew on £10m of reserves to set a balanced budget for 2015/16. We recognise that the use of reserve is a managed process and Earmarked reserves (excluding schools balances) actually increased by £4.6m in the year to March 2015, primarily due to £6.6m of unused new homes bonus monies received in year. The Council has not yet had to resort to a significant unplanned drawdown of reserves – the significant budget overspends reported in 2014/15 were able to be covered by a combination of in year budgeted contingencies (including the use of earmarked reserves), budget underspends and unbudgeted income within the net resource position for the year (including New Homes Bonus monies). However, if significant budget overspends continue for 2015/16 and beyond reserve levels are likely to decrease in future years.</p> <p>The Council needs to identify a further £45m of savings in the period leading up to 2017-18, and should significant shortcomings be identified in this process, the ability of the Council to use reserves to maintain financial balance beyond this point would be limited. Beyond this point, the Council is looking London wide service transformation as part of the devolution agenda to provide financial sustainability as are many of its peers.</p>	<p><b>Amber</b></p>

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

Residual risk identified	Summary findings	RAG rating
<p><b>Key indicators of performance:</b> <b>Performance against budgets (Revenue Capital &amp; Savings)</b></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 26</p>	<p><b>2015/16</b></p> <p>A forecast year end overspend of £8.6m is being reported as at the end of May 2015. At the same time last year, an overspend of £11.2m was forecast. For 2015/16 there is a sum of £3.2m held corporately for managing 'risks and other budget pressures' which emerge during the year. Although similar to the scale of the variances projected (and realised) in 2014/15, the current overspending projections are significantly greater than those in recent earlier years. The forecast overspend is partly mitigated by a projected underspend of £1.1m in the Resources &amp; Regeneration directorate.</p> <p>As at the end of May 2015, the children and young people's directorate is forecasting an overspend of £4.7m. At the same time last year, the year-end forecast was an overspend of £8.1m, with the actual year-end outturn being an overspend of £9.9m. For clients with no recourse to public funds, there is cost pressure of £1m but this is being addressed by improved management arrangements. The placement budget for looked after children is currently forecast to over spend by £1.7m. Total revenue budget savings on the placement budget of £1.5m were agreed for 2015/16 but the work to implement these savings has been delayed due to staff changes. It is expected that some savings will be generated, but only toward the end of the financial year, with the full year effect likely to come through in 2016/17. Children leaving care is currently forecast to overspend by £1m due to levels of demand above what had been anticipated. As at the end of May 2015, the community services directorate is forecasting an overspend of £2.0m. At the same time last year, the year-end forecast was an overspend of £1.1m, with the actual year-end outturn being an underspend of £2.3m. The forecasts include the drawdown of £0.6m from earmarked reserves which had been created at the end of 2014/15 from underspends in that year. The adult services division is forecast to overspend by £1.9m. This projection assumes achievement later in the year of revenue budget savings of £1m in addition to savings already achieved and includes use of non-recurrent funding totalling £1.3m. At the end of the last financial year, adult services overspent by £2m.</p> <p>There are a number of over and underspends forecast against individual services within adult social care. The key issues are due to savings not being realised with full year effect due to delays in reviewing individual care packages. The impact of delayed achievement has been partially offset in 2015/16 by use of non-recurrent funding received from health of £1.25m. The underlying overspend, excluding this one-off support, is £3.1m. As at the end of May 2015, the customer services directorate is forecasting an overspend of £3m. At the same time last year, the year-end forecast was an overspend of £2.2m, with the actual year-end outturn being an overspend of £3.6m. Within this, the strategic housing service is projecting an overspend of £2.4m relating solely to nightly paid temporary accommodation, more commonly referred to as bed and breakfast. The Council has plans in place to manage this cost pressure by addressing the charging of excessive rents by providers and by reviewing the supply of places.</p>	<p><b>Amber</b></p>

Residual risk identified	Summary findings	RAG rating
<p><b>Strategic financial planning: Focus of the MTFP</b></p>	<p>The Chancellor has asked unprotected central government departments to look at scenarios for a 25% and a 40% reduction. Lewisham has modelled the impact this would have if applied to their own grant funding. It has used London Councils benchmarking to look at a range of funding deficit options for Lewisham that range from £25m to £150m up to 2020. The Council has modelled the Medium Term Financial Strategy (MTFS) at the upper mid-range giving a revised projected deficit of £80m. However, it will not be able to confirm this until the announcement in December. Therefore the Council is continuing to focus on the £45m projected deficit remaining from the current MTFS. The upper mid range scenario would require a further £35m of savings to be found, in addition to the £45m currently being developed. This would be likely to require significant financial benefits to be derived from London wide reconfiguration of services under the devolution agenda. This creates a significant degree of uncertainty over the longer term financial position.</p>	<p><b>Amber</b></p>
<p><b>Strategic financial planning: Adequacy of planning assumptions</b></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 27</p>	<p>In 2014/15 budget assumptions around Non-recourse to public funds, the cost of children's social care packages and the cost of and demand for temporary accommodation did not anticipate the full cost of and demands for these services. The cost of care packages in adult's social care has increased above the levels assumed in the budget. One source of overspend was the failure of one of the key providers who became insolvent. The Council believe this could not reasonably be anticipated and occurred relatively suddenly. The Care Quality Commission (CQC) rated the Ranyard Care Home in Lewisham as inadequate in 2014 and despite progress being made the provider was unable to attract enough residents back to remain solvent. This meant that in July the Council had to incur costs to relocate its residents and manage the backlog of capacity this created.</p> <p><b>The Council should consider the extent to which the organisation identifies and monitors the financial position of its key strategic providers, including accounting for the potential impact of adverse CQC inspections, to ensure that potential financial failure can be anticipated and mitigated to minimise the impact on the Council's financial plans.</b></p> <p>Lewisham is leading on a joint borough piece of work to tackle the issue of the rising cost of social care cases for foreign nationals with no-recourse to public funds, and some funds have now been received to facilitate this. The pilot work done so far has helped to slow the acceptance of new claimants and this in turn has freed up time to go back and re-evaluate previous claims. The result has been that during 2015/16 the inflow of new cases is no longer growing and is gradually coming down. At Lewisham the problem is now being better managed and the 2015/16 budget has been flexed to ensure that additional funds are available to deal with demand. Better management of temporary accommodation placements has also helped ease the problem.</p> <p>For clients with no recourse to public funds, the Council identified a cost pressure of £1m for 2015/16. There were 236 clients with no recourse to public funds against a peak of 286 in June 2014 indicating that the new arrangements have been successful in managing the level of exposure. The estimated cost to the end of year 2015/16 was £4.6m. The pilot team has been working with the Home Office to obtain additional financial resources granted for cases the council is supporting (102 cases have so far been granted the required change of status). The full year impact, once all of these cases have been transitioned is estimated at £2.5m per annum. It is anticipated that it takes an average of four to five months to ensure that a comprehensive resettlement process is completed. Once the full year impact of this is seen in 2016/17, it is expected that spend will fall back within the current budgeted level of £3.6m.</p>	<p><b>Amber</b></p>

Residual risk identified	Summary findings	RAG rating
<b>Financial Control:</b> <b>Finance department resourcing</b>	<p>The finance team was reduced following a review in 2012/13 and benchmarking carried out by the Council shows that the team is below the average in terms of capacity compared to other London Councils. While the team has sufficient capacity to deal with the day to day operations – there is a risk that there is limited spare capacity for one off projects or significant absences. The experience with implementing the new Oracle system highlighted this problem putting pressure on financial control and contributing to adverse findings on a number of core financial control systems reviewed by internal audit.</p> <p><b>The Council should consider whether the finance team has adequate capacity including to support project work alongside routine processes, and ensure that identified financial control weaknesses are quickly and effectively mitigated.</b></p>	<b>Amber</b>
<b>Financial Control:</b> <b>Budget setting &amp; monitoring - revenue &amp; capital</b>	<p>As noted previously, significant overspends against budget have arisen in some services, in both 2014/15 and 2015/16. This is partly due to uncertainties within the related key financial assumptions, linked to the demand for services. In addition, there have been issues with the way that the benefits of savings plans have been phased into the budget (explored below). In both cases budget holders should ensure that the budget is based on robust financial assumptions and the finance team should support them in this. This in turn should enable budget holders to be effectively held to account for delivering significant overspends.</p> <p>We note that the internal audit review of budgetary control was rated satisfactory for 2014/15. Directorate Expenditure Panels (DEPs) have been in operation throughout 2014/15, with the Corporate Expenditure Panel (CEP) becoming operational in October 2014. This ensures regular corporate oversight of the Council's financial spending position and effective mitigating action. Subject to a review by the Chief Executive and the Executive Director for Resources and Regeneration, the CEP is expected to remain in operation until the need for this level of scrutiny has subsided.</p>	<b>Amber</b>

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Residual risk identified	Summary findings	RAG rating
<p><b>Financial Control: Savings plans setting &amp; monitoring</b></p>	<p>It is common practice for councils to identify a funding gap over the life of the Medium term financial strategy, and to allocate a savings requirement to each year. It is also common practice to develop specific savings schemes in detail in the year preceding, that from which the saving needs to be stripped out of the budget. This enables costs to be stripped out of the budget from day one of the financial year in question. While it is acceptable to develop detailed schemes one year at a time, it is expected that the organisation will have established a broad strategy for savings reduction over the life of the MTFs enabling it to set in train longer term transformational projects. Lewisham has consistently met this criteria. However, there has been an issue in 2014/15 with the phasing of benefits.</p> <p>The full year effect of some savings schemes expected to be delivered by 1st April 2015 were stripped from the budget from the start of the new year 2015/16. However, a number of schemes had not been fully delivered by this point so the full year effect of the saving was not realised from the start of 2015/16 as had been assumed in the budget. This is principally a timing issue meaning that some residual unbudgeted costs are having to be incurred in the first part of the year. The Council has recognised that this was a weakness in the budget setting process and plans to prevent this from happening in the planning for the 2016/17 budget, by ensuring that there is greater clarity over the phasing of savings between budget holders and the corporate finance team.</p> <p>In adult and children's social care, although there are some demographic pressures, the continuing budget overspends are largely as a result of delayed achievement of savings proposals. Savings totalling £7.5m were agreed for adult social care for 2015/16 and these are in addition to the revenue budget savings of £6.8m agreed for 2014/15. In most cases, the savings schemes are being implemented, but the full year impact will take some months to come through because it requires a review of individual care packages which is not yet complete.</p> <p><b>Ensure the phasing of approved savings plans is realistic and accurately reflected in budgets</b></p> <p>The Council is continuing with its current stretch target to make £45m of savings over the next two years to 2017/18. However, this has proved difficult as the options to change services at the scale and in the timeframes available that also bring service users and staff along the journey is very challenging, given the efficiency savings already delivered since 2010. Under the current savings programme £26m of the £45m gap remaining has been matched to defined projects and presented to the Mayor for approval in September 2015, comprising £12m for 2016/17 and £14m for 2017/18. Up to £5m of new homes bonus money has also been secured that could be deployed to help close the gap (£10m over 2 years). The Council has brought forward the approval of savings plans to be stripped out of the 2016/17 budget from November (as last year) to September to enable the ground-work to start earlier and provide an earlier planning horizon. Further work is required to develop savings to cover the remaining financial gap.</p>	<p><b>Amber</b></p>

Residual risk identified	Summary findings	RAG rating
<p><b>Financial Control:</b> <b>Key financial accounting systems</b></p>	<p>The Head of Internal Audit opinion for 2015/16 is unqualified. However, there had been a significant increase in the number of reported weaknesses in the core financial systems. The Oracle finance system implementation had been problematic, contributing to the number of financial control issues being reported.</p> <p>We note that the risk associated with the transitional internal audit arrangements which meant there was limited coverage for much of the year, has now been mitigated. However, the completion of the work has raised concerns about a number of core financial systems linked to the Oracle IT implementation and the change in banking arrangements. We note that 6 out of 16 reviews of core financial systems were given limited assurance. While none of the findings are in themselves material to VfM, the prevalence of financial control issues presents a risk that could affect the Council's ability to effectively manage its finances in future, if not effectively addressed.</p>	<p><b>Amber</b></p>
<p><b>Financial Control:</b> <b>Adequacy of Internal audit arrangements</b></p>	<p>We noted that the Council had limited internal audit coverage in place for a significant part of 2014/15, due to issues with the transfer to a new external supplier. This resulted in some significant delays to the production of internal audit reports and their availability of timely reporting to those charged with governance during the year. The Council has been able to successfully introduce a new supplier and has now cleared the backlog of work.</p> <p>Internal Audit's work has highlighted a number of control issues that could have been identified and rectified sooner, had adequate internal audit arrangements been in place. We are satisfied that the issue has now been addressed and should not recur in 2015/16 providing that the new arrangements embed effectively.</p> <p>As in previous years the Head of Corporate Resources signs the Head of Internal Audit opinion and oversees internal audit activity, in addition to holding extensive management responsibilities. The Council has mitigating arrangements in place to maintain the independence and objectivity of internal audit, but should continue to keep the arrangements under review for assurance that they remain appropriate.</p>	<p><b>Amber</b></p>

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Residual risk identified	Summary findings	RAG rating
<p><b>Prioritising Resources: Understanding impact and outcome of decisions</b></p>	<p>There is no directly attributable correlation between the level of voluntary redundancies and the difficulties the Council experiences in delivering savings plans and budget in 2014/15 and 2015/16, or in the difficulties with core financial controls. However, it is likely that reductions in headcount in the services and in finance has affected the Council's level of spare capacity to deliver project based transformation of services (including savings plans) on the current large scale, alongside business as usual. There has also been some knowledge loss and weaknesses in the handover of responsibilities that have been identified as key cause of some of the financial control weaknesses identified by internal audit.</p> <p>The Council has identified that the lack of a formal service planning exercise for 2015/16 has weakened its ability to identify and monitor operational risks, including the impact of staff reductions. Changes to service representatives in the Risk Management Working Party (RMWP) has further weakened the process.</p> <p><b>The impact that staff reductions and other savings schemes have on operational capacity needs to be carefully monitored, with flexible project support resources made available for deployment on a short term basis to those areas that are having acute difficulty with capacity.</b></p>	<p><b>Amber</b></p>
<p><b>Improving Efficiency &amp; Productivity: Understanding costs</b></p>	<p>VfM benchmarking against nearest neighbours indicates that Lewisham's corporate services are below average cost, but are above average for some services - including social care – however, this must be considered alongside the fact that Lewisham have comparatively high levels of deprivation particularly when compared to London as a whole.</p> <p>The council is aware of its comparative cost profiles and uses these in its transformational planning. Social care is a key area where the council is working to reduce the average cost of the service and the current benchmarking reflects their current position in progressing this transformation.</p>	<p><b>Amber</b></p>

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

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- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non-audit services and independence**
- 05. Communication of audit matters

# Fees, non-audit services and independence

We confirm below our final fees charged for the audit. We have yet to complete our work on the Housing benefits claim certification and the fee quoted is the scale fee notified by Public Sector Audit Appointments.

The Council has requested that we carry out the certification of grant claims for Teachers pension, housing capital receipts and decent homes. We will undertake this work in October / November

## Fees

	Per Audit plan £	Actual fees £
Council audit	255,044	255,044
Grant certification on behalf of Audit Commission	39,980	TBC
<b>Total audit fees</b>	<b>295,024</b>	<b>TBC</b>

## 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 Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

## Fees for other services

Service	Fees £
<b>Audit related services</b>	TBC
Teachers Pension, housing pooling claim and Decent homes funding	
<b>Non audit related services</b>	
Review of PFI models	10,000

## Section 5: Communication of audit matters

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01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

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

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

**Respective responsibilities**

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

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

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

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

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

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Appendices

## Appendix A: Action plan

<b>Rec No.</b>	<b>Recommendation</b>	<b>Priority</b>	<b>Management response</b>	<b>Implementation date &amp; responsibility</b>
	Review and improve arrangements for capital accounting, to minimise errors in this area	Medium		
	Carry out and retain evidence of key financial reconciliations on a monthly basis	Medium		
	Management should review and respond to the detailed findings of our IT controls review and ensure adequate internal audit coverage at the shared service provider.	Medium		
<b>Page 37</b>	Consider the extent to which the Council identifies and monitors the financial position of its key strategic providers	Medium		
	Consider whether the finance team has adequate capacity including to support project work alongside routine processes, and ensure that identified financial control weaknesses are quickly and effectively mitigated	Medium		
	Ensure the phasing of approved savings plans is realistic and accurately reflected in budgets	Medium		
	Monitor the impact of service changes and staff reductions, possibly including flexible project support resources for deployment on a short term basis to those areas that are having acute difficulty with capacity.	Medium		

**Priority**  
**High, Medium or Low**

## Appendix B: Audit opinion

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

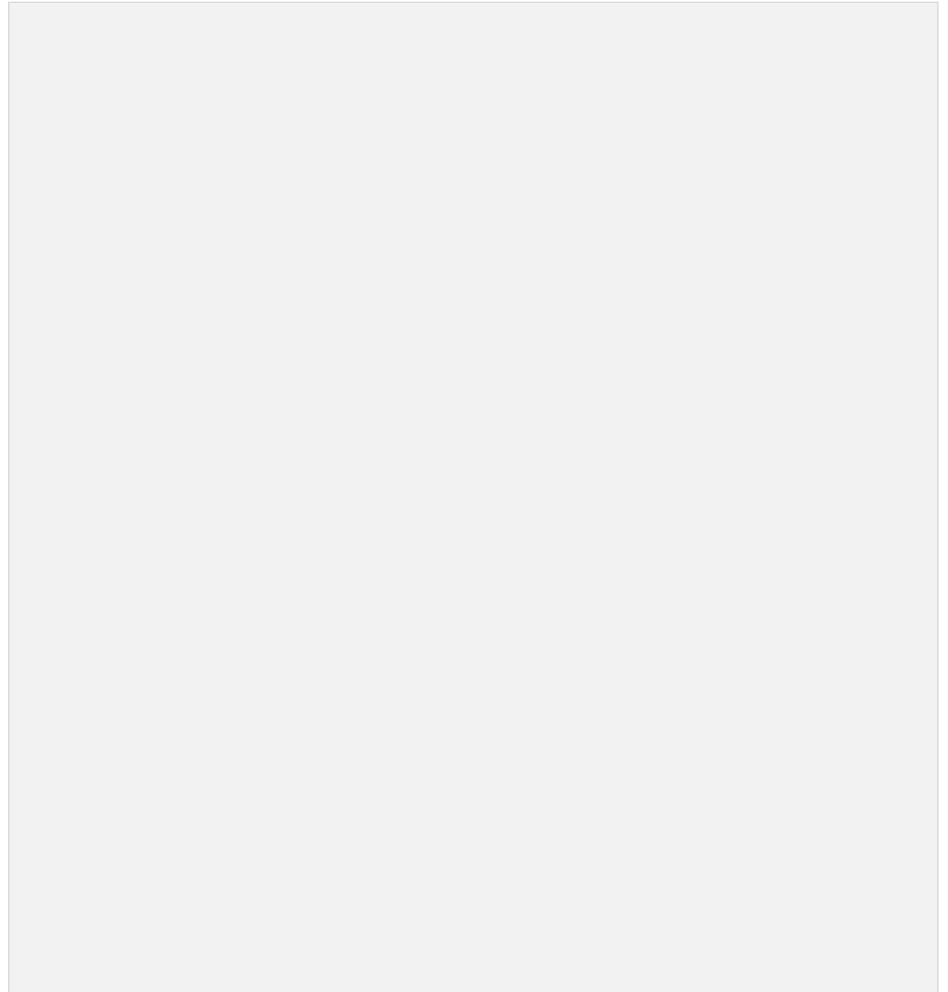
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<b>AUDIT PANEL</b>			
<b>Report Title</b>	<b>2014/15 FINAL ACCOUNTS – LBL’s RESPONSES TO GRANT THORNTON’S EXTERNAL AUDIT REPORTS</b>		
<b>Key Decision</b>	No	<b>Item No.</b>	4
<b>Ward</b>	ALL		
<b>Contributors</b>	EXECUTIVE DIRECTOR FOR RESOURCES AND REGENERATION		
<b>Class</b>		<b>Date:</b>	17 September 2015

### **Reasons for Lateness and Urgency**

This report was not available for the original dispatch date because the report by Grant Thornton on their findings during the audit of the main accounts had not been agreed with the Executive Director for Resources and Regeneration by that date. The report is urgent and cannot wait until the next meeting of the Audit Panel on 8 December 2015 because the Council has a statutory requirement to approve and publish its audited Statement of Accounts by 30 September each year and as part of the approval process the Audit Panel are required to report their comments to Council.

Where a report is received less than 5 clear days before the date of the meeting at which the matter is being considered, then under the Local Government Act 1972 Section 100(b)(4) the Chair of the Committee can take the matter as a matter of urgency if he is satisfied that there are special circumstances requiring it to be treated as a matter of urgency. These special circumstances have to be specified in the minutes of the meeting.

### **1 PURPOSE**

1.1 The purpose of this report is to respond to the external auditor’s Audit Findings Reports on the 2014/15 audit of the Council’s Main Accounts and Value for Money conclusion, and the 2014/15 Pension Fund Accounts. These are attached to the previous item on this agenda, and contain:

*“...the key matters and audit findings arising from the 2014/15 audit of the financial statements...whether the accounts present a true and fair view of the financial position and have been properly prepared.....and whether you have put in place proper arrangements to secure value for money in your use of resources.”*

1.2 The reports set out any issues arising from the audits that, in the opinion of the external auditor, are of sufficient significance to warrant informing and discussing with Members.

### **2 EXECUTIVE SUMMARY**

2.1 The Council has a statutory requirement to approve and publish its audited Statement of Accounts by 30 September each year. The pre-audit 2014/15 Accounts were considered and noted by the Audit Panel on 18 June 2015.

Since then Grant Thornton have been carrying out their external audit, and the final audited 2014/15 Accounts will be submitted to Council for approval on 24 September 2015.

### **3 RECOMMENDATIONS**

- 3.1 The Audit Panel are recommended to note the reports from Grant Thornton and this covering officer report, to ask questions as appropriate and to agree the comments that they wish to be relayed to Council.

### **4 POLICY CONTEXT**

- 4.1 Completing the external audit of the council's accounts and receiving the external auditor's report thereon contributes directly to the council's tenth corporate priority:
- **Inspiring efficiency, effectiveness and equity:** ensuring efficiency and equity in the delivery of excellent services to meet the needs of the community.

### **5 AUDIT OF ACCOUNTS**

- 5.1 Since the pre-audit Accounts were completed at the end of June 2015, they have been subject to extensive external audit by Grant Thornton and a number of changes have been agreed. At the time this report was dispatched, the audits were substantially complete and Grant Thornton report that subject to the satisfactory completion of their outstanding work they anticipate providing unqualified opinions on the financial statements and that they propose to give an unqualified value for money conclusion. Grant Thornton will give a verbal update on progress at the meeting and, along with senior council officers, will answer any questions as required.
- 5.2 The external auditor requests that Members:
- Note the adjustments to the financial statements in the reports
  - Approve the letters of representation on behalf of the Council
  - Agree the response to the proposed action plan (Appendix A).
- 5.3 Under the council's constitution these matters are for the Council to determine. At full Council on 24 September 2015, Members will be invited to consider any comments from this meeting and recommended to note the Audit Findings reports and approve the audited Statement of Accounts.

### **6 AUDIT FINDINGS**

- 6.1 Grant Thornton have reported that the draft 2014/15 financial statements were of good quality and have confirmed that the working papers provided support the entries in the accounts. Overall the reports indicate a reasonable system of financial control and the robustness of financial information throughout the organisation.
- 6.2 They have raised a few matters for Members to consider and it is important to note that these mainly relate to presentational or additional disclosures and ensure that the Council complies with the technical accounting regulations.

6.3 A number of misstatements and classification errors were identified and amendments to the Accounts agreed with the auditors. None of these affect the reported financial positions shown in the accounts and they do not affect the charge to the Council Tax or Housing Rents for the year.

6.4 The main areas to note from the Main Accounts audit report are as follows;

- The key issues are outlined on page 5, with the most significant one being the accounting treatment of the derecognition of schools (see page 12). Officers have agreed to make a Prior Period Adjustment in the accounts.
- The detailed reconciliation of payroll and bank accounts was satisfactory and no errors were found, however these should be undertaken on a monthly basis (page 16). This has now been implemented for 2015/16.
- A review of the Council's IT controls is outlined on page 17, and recommendations have been made in a detailed report to officers.
- Two misclassifications which affect the Comprehensive Income and Expenditure Statement and Balance Sheet are outlined on page 18. These have been agreed by officers and amendments have been made.
- A number of other misclassifications and disclosure changes which affect the notes to the accounts but not the main statements are outlined on page 20. These have all been agreed by officers and amendments have been made.
- A number of these errors relate to capital accounting and the valuation process, albeit fewer than last year, and Grant Thornton have recommended that arrangements need to be improved in this area. Officers have already taken some action and will review other areas as appropriate.
- The Value for Money conclusion is summarised on pages 22 and 23, with the detail being set out on pages 24 to 31.
- The Action Plan (Appendix A on page 37) contains a number of recommendations which have all been agreed with Grant Thornton.

6.5 The major areas from the Pension Fund accounts audit report are as follows;

- The key issues are set out on page 6 with only a few misclassifications and disclosure changes being identified. These are outlined on page 16 and have all been agreed by officers and amendments made.
- No recommendations have been made in respect of the audit of the Pension Fund accounts.

## **7 ANNUAL GOVERNANCE STATEMENT**

7.1 This document has been slightly updated from that considered at the Audit Panel on 18 June 2015 to reflect the comments of the external auditors. It will be submitted to Council on 24 September 2015 for approval.

## **8 FINANCIAL IMPLICATIONS**

- 8.1 There are no direct financial implications resulting from this report.
- 8.2 The cost of the external audit of the main accounts for 2014/15 was £255,000, with an estimated £40,000 for the certification of grant claims. The Pension Fund external audit cost was £21,000.

## **9 LEGAL IMPLICATIONS**

- 9.1 Regulation 8 of the Accounts and Audit (England) Regulations 2011 requires authorities to publish its Statement of Accounts after the external audit is concluded no later than 30 September. The approval of the audited Statement of Accounts by Council on 24 September 2015 will satisfy this statutory requirement.
- 9.2 It is the role of the Audit Panel to receive, review and where appropriate advise and make recommendations to the Council in relation to the external auditor's opinion and report to Members, and to monitor management action in response to issues raised by external audit.

## **10 EQUALITIES IMPLICATIONS**

- 10.1 There are no equalities implications in this report.

## **11 CONSULTATION**

- 11.1 Sections 15 and 16 of the Audit Commission Act 1998 give electors the right to question the auditor or object to the Accounts. The Accounts are required to be available for public inspection for 20 working days prior to the conclusion of the audit and an advertisement placed in the local press to publicise this fact. This public inspection period ended on the 20 August 2015, which was also the day electors were able to question the auditor. It is also a requirement that notice of the conclusion of the audit is advertised in the local press.

## **12 ENVIRONMENTAL IMPLICATIONS**

- 12.1 There are no environmental implications in this report.

## **13 CRIME AND DISORDER IMPLICATIONS**

- 13.1 There are no crime and disorder implications arising from this report.

## **14 BACKGROUND PAPERS**

None

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