



AGENDA AUDIT PANEL

Date: TUESDAY, 26 MARCH 2019 at 7.00 pm

**Committee Room 4
Civic Suite
Lewisham Town Hall
London SE6 4RU**

**Enquiries to: Olga Cole
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COUNCILLORS

Councillor Alan Hall
Councillor Mark Ingleby
Councillor Louise Krupski
Councillor Paul Maslin
Councillor Joan Millbank
Councillor James Rathbone

Independent Members

Carole Murray
Ian Pleace
Stephen Warren

Members are summoned to attend this meeting

This is an open meeting and all items in the open agenda can be recorded and/or filmed

**Janet Senior
Acting Chief Executive
Lewisham Town Hall
Catford
London SE6 4RU
Date: 18 March 2019**



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.

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Agenda Item 1

AUDIT PANEL		
Report Title	MINUTES	
Key Decision		Item No. 1
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 27 March 2019

Recommendation

It is recommended that the Minutes of the meeting of the Audit Panel, which was open to the press and public, held on 11 December 2018 be confirmed and signed.

MINUTES OF THE AUDIT PANEL

Tuesday, 11 December 2018 at 7.00 pm

PRESENT: Councillors Alan Hall, Mark Ingleby, Paul Maslin, James Rathbone, Carole Murray, and Ian Pleace and Stephen Warren

Apologies for absence were received from Councillor Louise Krupski and Councillor Joan Millbank

27. Minutes

Mr Pleace reiterated that Oracle Cloud should be a standing item on the agenda. He said this was important as the system was still in a risky phase, and Panel Members needed regular updates as to how things were progressing. The Head of Financial Services said a report would be coming to the next Panel Meeting, and going forward a regular update would be provided.

Action>>>>> Head of Financial Services

Panel Members also asked whether they would receive an update on how officers would be addressing Grant Thornton's recommendation about a savings strategy. It was noted that this was part of the response on the budget report due in March.

Action>>>>> Chief Financial Officer

RESOLVED that the minutes of the meeting held on 20 September 2018 be agreed as a correct record subject to minutes 23 first line of the last paragraph to be amended to "It was noted that an action plan that included management's response and assurance to address issues was yet to be completed".

28. Declarations of Interests

Councillor Ingleby declared a non-pecuniary personal interest in item 4 as a Board Member of Lewisham Homes.

29. External Audit Letter 2017/18 - Withdrawn

This item was deferred to the next meeting as the External Audit Letter was yet to be finalised. The Chair tabled an email from the External Auditors explaining the situation.

30. Catford Regeneration Partnership Ltd - 2017/18 Internal Audit Review Update

The SGM Capital Programmes introduced the report, and informed Panel Members that the Catford Regeneration Partnership Limited (CRPL) received an overall limited assurance. It was noted that although this rating was negative, it

was better than no-assurance. Panel Members noted that serious control issues were raised in the recommendations.

The Audit Panel noted specific areas that were identified for improvement. The Chair asked who was on the Programme Board, and what their responsibilities were. It was noted that officers were on the Programme Board and they were responsible for the overall Catford Regeneration, whilst CRPL was only set up for development of the Catford Shopping Centre.

The Chair said he was concerned that there was no documented financial regulations for CRPL, and was told that the company had inherited those of the Council. It was noted that although there were no written procedures, they had now been done. The Chair asked for these to be circulated to Panel Members.

Action >>>>> Head of Financial Services

Panel Members were informed that the recommendation on Directorship had been brought to light by the Overview and Scrutiny Business Panel, and agreed by Council some time ago. The Head of Law said unfortunately there had not been a Constitution Working Party (CWP) meeting that year to action Council's recommendation. She said the CWP only met for the first time after the Council's decision two weeks ago but the agenda was tight, and they were looking at a fundamental part of the constitution. The Chair said the CWP could have met earlier, but did not.

The Head of Law said the Council was currently having a democracy review, and as there had not been any further consideration of the constitution since the last administration it was likely that the whole constitution would be reviewed. The Chair said he was not convinced this would be addressed, as there had not been any mention of previous referrals on this issue. The Head of Law responded that it would be on the agenda of the next CWP meeting. The Head of Law added that she had previously circulated the rationale for the 2 Directors, but she was happy to do a report for the next CWP meeting.

Action >>>>> Head of Law

The Chair commented that he was very concerned about this issue as a senior officer could be the one making a very important decision, if a third person is not appointed. He said conflicts of interest should be avoided. The Chair said the Panel had suggested that a Memorandum of Understanding would be useful for the Partnership, and it was yet to be done. He asked if there was a mechanism to charge for officers time, and was told the Council charges CRPL for officers time.

The Chair asked whether a risk analysis had been done on the debt of the company. It was noted that the Company's current asset base was valued at approximately £15m with a liability, mainly in the form of loans from LBL, of approximately £12m. The Head of Financial Services said he was aware that there was a risk around income, but the number of properties would bring proper income stream. Stephen Warren asked whether officers had done a scenario analysis, especially if there was a no deal Brexit. The Chief Financial Officer said they were looking at long term investments, whereas Brexit was short-term.

Ian Pleace asked officers to send Panel members the Company's accounts. He stated that the company was a separate entity and operated in a smaller volume than the Council as a whole. He said if officers were just relying on Council's regulations they would be missing some nuances. The Head of Financial Services said the company operates differently. Mr Pleace said it was not appropriate for the Council's financial regulations to be adopted. The Head of Financial Services said they have done one for the company.

Action >>>>> Head of Financial Services

The Chair said he has some concerns and would like an independent investigation done on the activities of the company. Councillor Ingleby suggested that the Public Accounts Select Committee look into the operation of the company. The Head of Law said that this investigation was beyond the specific Terms of Reference of the Audit Panel.

Councillor Rathbone said he firmly agreed with the Vice Chair, Councillor Ingleby that this matter should be referred to the Public Accounts Select Committee, to save Panel Members a lot of time discussing an item which was beyond the remit of the Audit Panel. It was agreed that the Audit Panel would recommend that the Public Accounts Select Committee look into the operation of the Catford Regeneration Partnership Limited.

RESOLVED that

- i. the report be noted.
- ii. the Public Accounts Select Committee be requested to look into the operation of the Catford Regeneration Partnership Limited.

31. Constitutional Review

The Head of Law introduced the report. She highlighted the Audit Panel's Terms of Reference. The Head of Law informed Panel Members that there was a Democracy Review underway and it was currently out for consultation. She said following the consultation proposals there might be another amendment to the constitution.

The Chair said he had requested this item because he thought it would be useful for Panel Members to be able to discuss their Terms of Reference. He said he was the Chair of the Constitutional Working Party when the Audit Panel was established and it was drawn in accordance with CIPFA guidance. The Chair said it would be good to see if the Terms of Reference were still functional as they had not changed since the Audit Panel was established.

The Head of Law said there was going to be a Democracy Review and the constitution will be looked at. She said it would be good if Panel Members await the outcome of the review, and if Panel Members have a view about their Terms of Reference they could respond to the Democracy Review Consultation. The Chair said as members of the Audit Panel they should be able to look at their own Terms of Reference.

The Head of Law stated that the outcome of the Democracy Review would be submitted to Council in February, which was not long now. She said the consultation was open to the Audit Panel and all Committees to make recommendations to Council but not to decide their own Terms of Reference. The Chair said that Panel Members could look at their Terms of Reference and see if they need to change anything.

Mr Warren commented that it would be helpful for Panel Members to be able to see the audit procedure rules referred to in the constitution, and the most up to date guidance relevant to this panel that would help Panel Members with their deliberations. Councillor Rathbone stated that this might be a bit premature, and that until the contents of the Democracy Review report is out it was unhelpful for Panel Members to have discussions on their Terms of Reference. He said there might be new structures and systems included in the recommendations following the consultation.

The Head of Law informed Panel Members that the Review was in 2 stages, firstly to get an agreement on the overall shape of the Council, and then to draft rules and the constitution to govern the proposed structure. Mr Warren asked if a formal request would be needed to input into the consultation, and was told by the Head of Law that the consultation was already out and open to the public via the Lewisham website.

The Chair said it was good practice to review the Panel's Terms of Reference, to determine what had changed, and also to check whether the financial regulations reflect the current practice. Mr Warren said looking at the existing constitution Panel Members could say they had discharged a, b, & c of their responsibilities with the help of officers and the audit procedures. He said any thoughts on the specifications of Panel Members existing responsibilities could be put forward through the Democracy Review consultation.

RESOLVED that the report be noted.

32. Internal Audit Update

The Chair asked whether there had been follow ups on the corporate audits that had limited assurance, as Panel Members needed assurance they had been addressed. The Audit Manager stated that officers had followed up on the recommendations, and most of them were either implemented or were in progress. She said officers hoped to bring school recommendations back in- house, depending on availability of resources. The Audit Manager said the actions tracking system was not user friendly but officers hoped to put a new process in place soon. The Chair asked how soon, and was told no later than the new financial year.

Carole Murray said officers were a bit behind with the audit, and asked whether they would be using contractors to complete the work, and, if so, is the budget available to do this. The Chief Financial Officer said that resources had been made available as the work need to be completed by June. The Audit Manager said officers want to start afresh to ensure they are on time next year. Ms Murray

asked if they were still short staffed, and was told a new structure was in place to support the service.

Panel Members asked whether the ICO was notified about the 11 individuals in receipt of social services direct payment, whose names were published. The Head of Law said officers have a duty to report all breaches, and the Chief Financial Officer responded that officers should have reported the breach to the ICO, but he would check to ensure it had been done.

Action >>>>> Chief Financial Officer

Councillor Ingleby asked if there had been any update on Adult Social Care and Health Visiting as they both had limited assurance. The Audit Manager said officers were reporting on the recommendations, and at the end of the year a comprehensive report would be done for the Panel.

The Panel noted the whistle blowing policy, tabled by the Chair had been reviewed by the Standards Committee and was up to date.

RESOLVED that the report be noted.

Meeting ended: 8:40pm

Chair.....

Constitution Working Party			
Report Title	Catford Regeneration Partnership Limited		
Key Decision	No	Item No.	
Ward			
Contributors	Head of Law		
Class	Open	Date 20th March 2019	

1. Summary:

- 1.1 The Catford Regeneration Partnership Limited (CRPL) is a wholly owned company of Lewisham Council. The company was originally created in January 2010 to purchase leasehold interests in and around the Catford Centre in order to manage and regenerate the properties to improve the economic, social and environmental wellbeing of the people of the London Borough of Lewisham (LBL).
- 1.2 In January 2018, CRPL was the subject of an internal audit for the 2017/2018 financial year. The report highlighted areas for further action and improvement relating to its structure and governance. It was noted that there were only two directors of that company and recommended that officers should assist the Constitution Working Party, if required, to review the governance arrangements of CRPL. It also recommended that the quorum for Board meetings should be defined and that the frequency of meetings should accord with the requirement in the Articles of Association for them to be held monthly, or the requirement for monthly meetings should be amended in the Articles.

2. Purpose:

- 2.1 The purpose of this report is consider the structure and governance of the CRPL and to make recommendations to the Mayor and Cabinet for any changes to ensure best practice.

3. Recommendation:

It is recommended that the Constitution Working Party note the contents of this report and recommend whether any additional directors should be appointed to CRPL and, if so, to recommend a number and refer the matter for decision to Mayor and Cabinet.

4. Background:

- 4.1 CRPL is a wholly owned company of Lewisham Council. The company was originally created in January 2010 to purchase leasehold interests in and around the Catford Centre in order to manage and regenerate the properties to improve the economic, social and environmental wellbeing of the people of the London Borough of Lewisham.
- 4.2 The Company's Articles of Association appear at Appendix 1. Article 11 states that, unless otherwise determined by ordinary resolution, the number of directors is not subject to any maximum and the minimum number is one. The appointment of directors is the responsibility of the London Borough of Lewisham as the sole shareholder. The company's articles were

drafted in this way to allow Lewisham the maximum flexibility in the appointment to directorships.

- 4.3 At its inception, 2 directors were appointed, both of them Council officers. Initially one was a senior finance officer and one a senior regeneration officer. However, to avoid any perception of conflict of interest for the regeneration officer, it has become the Council's practice not to appoint a senior regeneration officer. Currently, the directors are the Head of Public Services and Head of Financial Services. The Council is the sole shareholder of CRPL.
- 4.4 Many key decisions in relation to the company are classified as reserved matters, and must be approved by the Council as sole shareholder. The complete list of shareholder reserved matters are listed in the Articles of Association at paragraph 25 and now appear at Appendix 1. These reserved matters ensure that the Council retains control over the direction of the Company and that the company operates strictly within the approved business plans.
- 4.5 In January 2018, the Company was subject to an internal audit for the 2017/2018 financial year. It suggested a number of areas of improvement. The first of these suggested that the current number of directors be increased to include a non-executive member. It highlighted that full Council had referred this matter to the Council's Constitution Working Party for consideration. Although this recommendation does not relate to a council constitutional change, the matter is being referred in accordance with the Council's wishes.

5. Options

Reduce the number of directors

- 5.1 It is not proposed that the number of directors be reduced. It is not unusual for companies to have a single director, but such an action is more usual in small enterprises, and would leave the company without directors in the event of the single director resigning and would require a Council shareholder meeting to appoint a replacement.

Keep 2 directors as now

When, with external legal advice, CRPL was established, the Council decided that 2 directors would be sufficient. This is compliant with the Articles of Association which provide for there to be at least one director with no maximum number specified. It is not unusual for companies to have only two directors. There is a restraint on the activities of directors in the Articles of Association as set out in Appendix 1 at Article 25, so the discretion available to the directors is significantly curtailed. Currently the company effectively acts as managing agent for the properties in the Catford Centre in accordance with the business plan agreed by the Council.

- 5.2 An advantage of having a smaller number of directors is that it is simple and makes co-ordination of meetings and decision making straight forward. Legal advice has been, and remains, that in the event of the company functions changing in the light of development of the Town Centre Masterplan, an enlargement of the Board by the Council would be required to more closely reflect the activities of the company.

- 5.3 One concern which has been expressed is that if a director leaves the Council, then one director remains serving in that capacity unless and until another is appointed. Though that is legally possible, and not uncommon, concerns have been expressed that in such circumstances there would be a concentration of decision making powers in the hands of a single director until the vacancy was filled.

Increase the number of directors

- 5.4 It would be possible to increase the number of directors without changing the Articles of Association. This would avoid the perceived difficulties arising from having only 2 directors and would accord with the expressed wishes of full Council. Care would need to be taken to avoid the size of the board of directors becoming unwieldy though the appointment of additional directors can broaden the skills available at board level. However as the directors' powers are restrained in accordance with Article 25 in Appendix 1, the discretion available to them would still be restricted.
- 5.5 If the Council is of the view that the company should have a larger number of directors as a minimum, it will still from time to time need to decide whether to appoint a replacement if an existing director ceases to act in that capacity, and will need to review the composition of the board as and when the development activities of the company expand.

6 Director's mandate

Directors owe a fiduciary duty to act in the best interest of the company. A Director's Mandate has also been given to each director including reference to their indemnity, setting out their duties as a director. The Mandate includes a requirement to respect their position as Council appointee and not to act in contravention of a properly given Council instruction. Whether or not the Council decides to increase the number of directors, they will all be subject to the Mandate.

7. Implementing the Audit recommendations

- 7.1 If the Council seeks to appoint additional directors, it does not need to change the Articles of Association to do so. It would simply need a decision of Mayor and Cabinet to appoint another director. Appointments to CRPL are a function delegated to the Mayor and Cabinet. If there were a decision to change the Articles in any way, this would be a decision for the London Borough of Lewisham as the sole shareholder of CRPL, so would be effected by a special meeting of the company, but by regulation, this too is a function for Mayor and Cabinet.
- 7.2 It is noted that the 2018 Internal Audit suggested that the Articles should be explicit about the quorum for a meeting of the directors. In fact this is already explicit at Article 6 and so no action is necessary, though there is no impediment to changing this, subject to the appropriate process as set out in 7.1.
- 7.3 It is understood that the frequency of meetings now accords with the requirements in the Articles of Association and so no further action is required.

8. Financial Implications

- 8.1 There are no financial arising from this report implications.

9. Legal Implications

- 9.1 Any decision to change the number of directors must go to the Mayor and Cabinet. There is no constitutional change required. The matter has only been referred to CWP as the internal Audit Report and the full Council asked that it should be referred there for recommendation. The establishment of the CRPL was initially considered at full Council in 2010 as it entailed a

decision to use significant prudential borrowing that was not previously envisaged in the Council's budget. Appointments to CRPL are an executive function, under Part III of the Council's Constitution.

- 9.2 Under the Local Authorities (Indemnities for Members and Officers) Order 2004 (Statutory Instrument 3082) local authorities are empowered to indemnify Members and officers in a wide range of circumstances and any additional appointment would be subject to the existing Director's Mandate and Indemnity.
- 9.3 The Equality Act 2010 (the Act) introduced a public sector equality duty (the equality duty or the duty). It covers the following protected characteristics: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

In summary, the Council must, in the exercise of its functions, have due regard to the need to:

- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- advance equality of opportunity between people who share a protected characteristic and those who do not.
- foster good relations between people who share a protected characteristic and those who do not.

It is not an absolute requirement to eliminate unlawful discrimination, harassment, victimisation or other prohibited conduct, or to promote equality of opportunity or foster good relations between persons who share a protected characteristic and those who do not. It is a duty to have due regard to the need to achieve the goals listed in the paragraph above.

The weight to be attached to the duty will be dependent on the nature of the decision and the circumstances in which it is made. This is a matter for the Mayor, bearing in mind the issues of relevance and proportionality. The Mayor must understand the impact or likely impact of the decision on those with protected characteristics who are potentially affected by the decision. The extent of the duty will necessarily vary from case to case and due regard is such regard as is appropriate in all the circumstances.

The Equality and Human Rights Commission has issued Technical Guidance on the Public Sector Equality Duty and statutory guidance entitled "Equality Act 2010 Services, Public Functions & Associations Statutory Code of Practice". The Council must have regard to the statutory code in so far as it relates to the duty and attention is drawn to Chapter 11 which deals particularly with the equality duty. The Technical Guidance also covers what public authorities should do to meet the duty. This includes steps that are legally required, as well as recommended actions. The guidance does not have statutory force but nonetheless regard should be had to it, as failure to do so without compelling reason would be of evidential value. The statutory code and the technical guidance can be found at:

<https://www.equalityhumanrights.com/en/advice-and-guidance/equality-act-codes-practice>

<https://www.equalityhumanrights.com/en/advice-and-guidance/equality-act-technical-guidance>

The Equality and Human Rights Commission (EHRC) has previously issued five guides for public authorities in England giving advice on the equality duty:

- [The essential guide to the public sector equality duty](#)
- [Meeting the equality duty in policy and decision-making](#)
- [Engagement and the equality duty: A guide for public authorities](#)
- [Objectives and the equality duty. A guide for public authorities](#)
- [Equality Information and the Equality Duty: A Guide for Public Authorities](#)

The essential guide provides an overview of the equality duty requirements including the general equality duty, the specific duties and who they apply to. It covers what public authorities should do to meet the duty including steps that are legally required, as well as recommended actions. The other four documents provide more detailed guidance on key areas and advice on good practice. Further information and resources are available at:

<https://www.equalityhumanrights.com/en/advice-and-guidance/public-sector-equality-duty-guidance#h1>

dated 27 January 2010

Catford Regeneration Partnership Limited

Articles of Association

adopted by special resolution on 27 January 2010

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Private company limited by shares

Articles of Association

of

Catford Regeneration Partnership Limited

Model Articles

- 1** The model articles of association for private companies limited by shares contained in Schedule 1 to the Companies (Model Articles) Regulations 2008, as amended prior to the date of adoption of these Articles (the **Model Articles**), shall apply to the Company save in so far as they are excluded or varied hereby and such Model Articles (save as so excluded or varied) together with the following articles shall be the articles of association of the Company. References to these articles shall be to the following articles as amended from time to time together with such Model Articles as apply to the Company.

Objects clause

- 2** The Company's objects are unrestricted and include but are not limited to:
- 2.1** carry on a business with a view to improving the economic, social and environmental well being of the area and residents of Catford and wider London Borough of Lewisham; and
- 2.2** carry out the management and regeneration of the Catford Centre and adjacent land in the London Borough of Lewisham.

Unanimous decisions

- 3** A decision of the directors which takes the form of a resolution in writing may consist of several copies each signed by one or more eligible directors. Article 8 of the Model Articles shall be modified accordingly.

Calling a directors' meeting

- 4** A director may waive the requirement that notice of a meeting of the directors or of a committee of the directors be given to him at any time before or after the date on which the meeting is held by notifying the Company to that effect. Where a director gives such notice to the Company after the meeting has been held, that does not affect the validity of the meeting or of any business conducted at it. Article 9(4) of the Model Articles shall be modified accordingly.

- 5 If all the directors participating in a meeting are not in the same place, the meeting shall be deemed to take place where the largest group of those participating is assembled or, if there is no such group, where the chairman of the meeting is. Article 10(3) of the Model Articles shall not apply to the Company.

Quorum for directors' meetings

- 6 The quorum for the transaction of business of the directors shall be two unless there is a sole director, in which event, the sole director shall constitute a quorum. A person who holds office only as an alternate director shall, if his appointor is not present, be counted in the quorum. Article 11(2) of the Model Articles shall be modified accordingly.

- 7 If the total number of directors for the time being is less than the quorum required, the directors must not take any decision other than a decision:

7.1 to appoint such number of further directors as are required to make up the quorum required; or

7.2 to call a general meeting so as to enable the shareholders to appoint further directors. Article 11(3) of the Model Articles shall not apply to the Company.

Authorisation of directors' conflicts of interest

- 8 Notwithstanding section 175(4)(b) of the Companies Act 2006, as amended, consolidated or re-enacted from time to time (the 2006 Act), the directors shall not have the power to authorise any matter which would or might otherwise constitute or give rise to a breach by a director of the duty to avoid conflicts of interest set out in that section of the 2006 Act. Any such matter shall require the prior written approval of the members. Any reference in these articles to a conflict of interest includes a conflict of interest and duty and a conflict of duties.

- 9 If a director receives or has received any information otherwise than by virtue of his position as a director of the Company and in respect of which he owes a duty of confidentiality to another person, the director is under no obligation to:

9.1 disclose any such information to the Company, the directors or any other director or employee of the Company; or

9.2 use or apply any such information in connection with the performance of his duties as a director;

provided that to the extent that such duty of confidentiality arises out of a situation or relationship which would or might otherwise constitute or give rise to a breach by the director of the duty to avoid conflicts of interest set out in section 175 of the 2006 Act, this article shall apply only if such situation or relationship has been authorised by the members under article 8.

- 10 A director shall not, save as otherwise agreed by him, be accountable to the Company for any benefit which he (or a person connected with him) derives from any matter

authorised by the members under article 8 and any contract, transaction or arrangement relating thereto shall not be liable to be avoided on the grounds of any such benefit.

Appointment and removal of directors

11 Unless otherwise determined by ordinary resolution, the number of directors is not subject to any maximum and the minimum number is one.

12 Notwithstanding any other provision of these articles, the holder or holders of a majority in nominal value of the issued ordinary shares in the capital of the Company may at any time and from time to time:

12.1 appoint any person to be a director (provided that any such appointment does not cause the number of directors to exceed a number fixed by or in accordance with these articles as the maximum number of directors); or

12.2 remove any director from office.

Every such appointment or removal shall be effected by notice in writing to the Company and shall take effect immediately (or on such later date, if any, specified in the notice). Any such notice of appointment or removal may consist of several documents in similar form, each signed by or on behalf of one or more holders.

13 In any case where, as a result of bankruptcy, the company has no shareholders and no directors, the trustee in bankruptcy or other transmittee(s) of the last shareholder to have a bankruptcy order made against him has the right, by notice in writing, to appoint a natural person (including himself) who is willing to act and is permitted to do so to be a director.

Termination of a director's appointment

14 Notwithstanding any other provision of these articles, a person ceases to be a director as soon as he has for more than six consecutive months been absent without permission of the directors from meetings of directors held during that period and the directors resolve that his office be vacated.

Appointment and removal of alternate directors

15 Any director (the appointor) may appoint as an alternate any other director, or any other natural person to:

15.1 exercise that director's powers; and

15.2 carry out that director's responsibilities

in relation to the taking of decisions by the directors in the absence of the alternate's appointor. Any appointment or removal of an alternate must be effected by notice in writing to the Company signed by the appointor, or in any other manner approved by the directors. The notice must identify the proposed alternate and, in the case of a

notice of appointment, contain a statement signed by the proposed alternate that the proposed alternate is willing to act as the alternate of the director giving the notice.

Rights and responsibilities of alternate directors

16 An alternate director has the same rights, in relation to any directors' meeting or directors' written resolution, as the alternate's appointor. Alternate directors are deemed for all purposes to be directors, are liable for their own acts and omissions, are subject to the same restrictions as their appointors, and are not deemed to be agents of or for their appointors. A person who is an alternate director but not a director may be counted as participating for the purposes of determining whether a quorum is participating (but only if that person's appointor is not participating), and may sign a written resolution (but only if it is not signed or to be signed by that person's appointor). No alternate may be counted as more than one director for such purposes.

17 An alternate director is not entitled to receive any remuneration from the Company for serving as an alternate director except such part of the alternate's appointor's remuneration as the appointor may direct by notice in writing made to the Company.

Termination of alternate directorship

18 An alternate director's appointment as an alternate terminates:

18.1 when the alternate's appointor revokes the appointment by notice to the Company in writing specifying when it is to terminate;

18.2 on the occurrence in relation to the alternate of any event which, if it occurred in relation to the alternate's appointor, would result in the terminate of the appointor's appointment as a director;

18.3 on the death of the alternate's appointor; or

18.4 when the alternate's appointor's appointment as a director terminates, except that an alternate's appointment as an alternate does not terminate when the appointor retires by rotation at a general meeting and is then re-appointed as a director at the same general meeting.

Business Plans

19 No more than five months before nor less than two months before the start of each financial year the board of directors shall circulate a draft Business Plan for the next financial year to the members.

20 The draft Business Plan shall not take effect unless and until approved by the members in accordance with article 25.

21 The directors shall take account of the approved Business Plan when exercising their functions in the management of the Company.

Budgets

- 22 No more than five months before nor less than two months before the start of each financial year the board of directors shall circulate a draft Budget for the next financial year to the members.
- 23 The draft Budget shall not take effect unless and until approved by the members in accordance with article 25.
- 24 The directors shall take account of the approved Budget when exercising their powers in the management of the Company.

Shareholder reserved matters

- 25 The following matters shall require the prior written consent of the members:
- 25.1 the approval of each Business Plan;
- 25.2 the approval of each Budget and in any financial year changes over £20,000 in any one amendment to the Budget and changes to the Budget exceeding £100,000 in aggregate in any financial year;
- 25.3 the declaration and/or payment of any dividends by the Company save where such declaration and distribution is made in accordance with the Company's dividend policy;
- 25.4 the approval of and any change to the Company's dividend policy;
- 25.5 the increase in any indebtedness of the Company other than in accordance with the prevailing Budget;
- 25.6 the commencement by the Company of any new business not being ancillary to or in connection with the Business or making any change to the nature of the Business;
- 25.7 the Company participating in any activity which is detrimental to and/or incompatible with the Business;
- 25.8 the making of any political or charitable donation;
- 25.9 the making of any acquisition or disposal by the Company other than in accordance with the then current Business Plan and Budget;
- 25.10 writing off a bad debt exceeding £25,000 provided that if debts of that person or organisation have been written off by the Company in the previous three years in an aggregate amount of £50,000 or more, the decision to write off any further bad debts for that person or organisation shall also be a reserved matter;
- 25.11 the making of any application for external funding;

- 25.12 the repurchase or cancellation by the Company of any shares, or the reduction of the amount (if any) standing to the credit of its share premium account or capital redemption reserve (if any) or any other reserve of the Company;
- 25.13 a change of name of the Company or location of its registered office;
- 25.14 any issue of new shares in the Company;
- 25.15 the devolution or transfer of all or part of the management of the Company or its business to persons who are not directors of the Company and, if approved, the terms of such devolution;
- 25.16 without limiting the generality of article 25.15, the appointment of any Chief Executive Officer or person holding a similar role and the terms of such appointment;
- 25.17 the appointment or removal of any director of the Company;
- 25.18 the engagement of (and terms of engagement of) any individual person as a consultant (but excluding for such purposes any firm/professional advisers) or employee;
- 25.19 the engagement of (and terms of engagement of) any company, partnership, individual person or other entity for the provision of services to the Company where the services provided are not contemplated in the then current Business Plan and Budget and/or where the value of the services is above the Official Journal of the European Union limit for services and/or where the services have not been tendered in accordance with the Company's Contract Lettings Procedure;
- 25.20 any change to the terms of employment/engagement and/or remuneration of a person referred to in articles 25.18 and 25.19;
- 25.21 the letting of any contract for the provision of supplies to the Company where the supplies provided are not contemplated in the then current Business Plan and Budget and/or where the value of the contract is above the Official Journal of the European Union limit for supplies and/or where the contract has not been tendered in accordance with the Company's Contract Lettings Procedure;
- 25.22 the letting of any contract for the provision of works to the Company where the works provided are not contemplated in the then current Business Plan and Budget and/or where the value of the contract is above £200,000 and/or where the contract has been not tendered in accordance with the Company's Contract Lettings Procedure;
- 25.23 the instigation of any court proceedings where the directors have not taken appropriate legal advice or where such proceedings would be against that legal advice;
- 25.24 the authorisation of the levying of distress against the occupants of land or property in arrears where the directors have not taken appropriate legal advice or where such actions would be against that legal advice;

- 25.25 the making of any application for planning permission;
- 25.26 the implementation of any regeneration initiative other than in accordance with the then current Business Plan;
- 25.27 the commencement of any winding-up or dissolution of or the appointment of any liquidator, administrator or administrative receiver of the Company or any of its assets unless it shall have become insolvent.

Financial information

- 26 The members shall be entitled to have access to and to examine (and, if required, audit at their own cost) the separate books, records, accounts and tax records to be kept by the Company and to be supplied with all information in such form as they may reasonably require to keep them properly informed about the financial and business affairs of the Company and to be promptly notified of any significant event (including without limitation any litigation or arbitration) the outcome of which will or is likely to affect the Company or its business, finances, assets or affairs.
- 27 The members shall be entitled to require the Company, and the Company shall as soon as possible comply with such a request, to provide any documents, information and correspondence necessary to enable the members to comply with filling, elections, returns or any other requirements of HM Revenue and Customs or of any other revenue authority or tax authority.
- 28 The Company will prepare and deliver at its cost to the members:
 - 28.1 within fourteen days of the end of each calendar month, a financial statement and unaudited management accounts for the Company made up to and as at the end of the calendar month and cumulative management accounts for the current accounting period up to and including that month including a rolling cash flow forecast for a period of twelve months from the end of each month and details of the Company's capital expenditure and work in progress at such date and an explanation of any difference between the actual revenue and expenditure of the Company against the previous month's forecast.
 - 28.2 a report from the board of directors on the financial position and affairs of the Company within fourteen days after the end of each calendar quarter, and
 - 28.3 annual audited accounts of the Company to be prepared in accordance with GAAP and certified by the Auditors within two months of the end of the financial year to which they relate.

Company secretary

- 29 The directors may appoint a company secretary for such term, at such remuneration and upon such conditions as they think fit. Any company secretary may be removed or replaced by the directors.

Nil- or partly-paid shares permitted

- 30 Article 21(1) of the Model Articles shall not apply to the Company. If the Company at any time has nil or partly-paid shares in issue, articles 52 to 62 (inclusive) of the model articles of association for public companies contained in Schedule 3 to the Companies (Model Articles) Regulations 2008, as amended prior to the date of adoption of these articles, shall apply to the Company and form part of these articles as if the text of such provisions was set out in full in these articles.

Share certificates

- 31 Every share certificate must specify the amount paid up on the shares to which it relates. Article 24(2)(c) of the Model Articles shall not apply to the Company.

Share transfers

- 32 The instrument of transfer of any share taken on formation of the Company by a subscriber to the company's memorandum of association need not be executed by or on behalf of the transferee even where the share is not fully paid.

Calculation of dividends

- 33 Except as otherwise provided by these articles or the rights attached to shares, all dividends must be:

33.1 declared and paid according to the amounts paid up on the shares on which the dividend is paid; and

33.2 apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

If any share is issued on terms providing that it ranks for dividend as from a particular date, that share ranks for dividend accordingly. For the purposes of calculating dividends, no account is to be taken of any amount which has been paid up on a share in advance of the due date for payment of that amount. Article 30 of the Model Articles shall be modified accordingly.

Appropriation of capitalised sums

- 34 A capitalised sum which was appropriated from profits available for distribution may be applied in or towards paying up any amounts unpaid on existing shares held by the persons entitled.

Proceedings at general meetings

- 35 If a general meeting is adjourned, then notice of the time and place to which it is adjourned shall be given to all the members of the Company. Article 41(5) of the Model Articles shall be modified accordingly.

Poll votes

- 36 A poll may be demanded by any member (present in person or by proxy) having the right to attend and vote at the meeting or by a duly authorised representative of a corporation. Article 44(2)(c) of the Model Articles shall be modified accordingly.
- 37 A demand for a poll may, before the poll is taken, be withdrawn. A demand so withdrawn shall not invalidate the result of a vote on a show of hands declared before the demand was made. Article 44(3) of the Model Articles shall not apply to the Company.

Proxies and corporate representatives

- 38 The failure of any proxy or corporate representative to vote in accordance with any instructions given by the member by whom such proxy or corporate representative is appointed shall not invalidate the result of any vote in which the proxy or corporate representative has participated and the Company and the directors shall be under no duty to enquire as to the instructions given to any such proxy or corporate representative.

Written resolutions

- 39 A proposed written resolution of the members of the Company (or of a class of members) shall lapse if it is not passed before the end of the period of six months beginning with the circulation date of such resolution (as defined in section 290 of the 2006 Act).

Means of communication to be used

- 40 Any notice, document or other information shall be deemed served on or delivered to the intended recipient:
- 40.1 if properly addressed and sent by prepaid United Kingdom first class post to an address in the United Kingdom, 48 hours after it was posted (or five working days after posting either to an address outside the United Kingdom or from outside the United Kingdom to an address within the United Kingdom, if (in each case) sent by reputable international overnight courier addressed to the intended recipient, provided that delivery in at least five working days was guaranteed at the time of sending and the sending party receives a confirmation of delivery from the courier service provider);
- 40.2 if properly addressed and delivered by hand, when it was given or left at the appropriate address;
- 40.3 if properly addressed and sent or supplied by electronic means, one hour after the document or information was sent or supplied; and
- 40.4 if sent or supplied by means of a website, when the material is first made available on the website or (if later) when the recipient receives (or is deemed to have received) notice of the fact that the material is available on the website.

For the purposes of this article, no account shall be taken of any part of a day that is not a working day.

- 41 In proving that any notice, document or other information was properly addressed, it shall be sufficient to show that the notice, document or other information was delivered to an address permitted for the purpose by the 2006 Act.

Indemnity

- 42 The Company may indemnify any relevant officer out of the assets of the Company from and against any loss, liability or expense incurred by him or them in relation to the Company (including any liability incurred in connection with the activities of the Company or an associated company in its capacity as a trustee of an occupational pension scheme (as defined in section 235(6) of the 2006 Act)) provided that this article shall have effect, and any indemnity provided by or pursuant to it shall apply, only to the extent permitted by, and subject to the restrictions of, the 2006 Act. This article does not allow for or provide (to any extent) an indemnity which is more extensive than as permitted by the 2006 Act and any such indemnity is limited accordingly. This article is also without prejudice to any indemnity to which any person may otherwise be entitled. Article 52 of the Model Articles shall not apply to the Company.

- 43 To the extent permitted by, and subject to the restrictions in, the 2006 Act and without prejudice to any indemnity to which he may otherwise be entitled, the board shall have the power to provide funds to meet any expenditure incurred or to be incurred by any relevant officer in defending any criminal or civil (including regulatory) proceedings, or in connection with an application under the 2006 Act, or to enable him to avoid incurring such expenditure.

- 44 Without prejudice to the provisions of article 53 of the Model Articles, the directors may exercise all the powers of the Company to purchase and maintain insurance for the benefit of any person who is a relevant officer or an employee or former employee of the Company or any associated company or who is or was a trustee of a retirement benefits scheme or another trust in which a relevant officer or an employee or former employee is or has been interested, indemnifying him against liability for negligence, default, breach of duty or breach of trust or any other liability which may lawfully be insured against by the Company.

- 45 In these articles:

- 45.1 companies are associated if one is a subsidiary of the other or both are subsidiaries of the same body corporate;

- 45.2 relevant officer means any current or former director, alternate director, secretary or other officer of the Company or an associated company (including any company which is a trustee of an occupational pension scheme (as defined in section 235(6) of the 2006 Act)), other than any person (whether an officer or not) engaged by the Company (or associated company) as an auditor, to the extent he acts as an auditor;

- 45.3 **Budget** means the financial projections and forecasts, including anticipated expenditure, of the Company for each financial year;
- 45.4 **Business** means the objects as set out in article 2;
- 45.5 **Business Plan** means the business plan of the Company for each financial year.

AUDIT PANEL		
Report Title	DECLARATIONS OF INTEREST	
Key Decision		Item No. 2
Ward		
Contributors	Chief Executive	
Class	Part 1	Date: 26 March 2019

Members are asked to declare any personal interest they have in any item on the agenda.

1 Personal interests

There are three types of personal interest referred to in the Council's Member Code of Conduct :-

- (1) Disclosable pecuniary interests
- (2) Other registerable interests
- (3) Non-registerable interests

2 Disclosable pecuniary interests are defined by regulation as:-

- (a) Employment, trade, profession or vocation of a relevant person* for profit or gain
- (b) Sponsorship –payment or provision of any other financial benefit (other than by the Council) within the 12 months prior to giving notice for inclusion in the register in respect of expenses incurred by you in carrying out duties as a member or towards your election expenses (including payment or financial benefit from a Trade Union).
- (c) Undischarged contracts between a relevant person* (or a firm in which they are a partner or a body corporate in which they are a director, or in the securities of which they have a beneficial interest) and the Council for goods, services or works.
- (d) Beneficial interests in land in the borough.
- (e) Licence to occupy land in the borough for one month or more.

- (f) Corporate tenancies – any tenancy, where to the member’s knowledge, the Council is landlord and the tenant is a firm in which the relevant person* is a partner, a body corporate in which they are a director, or in the securities of which they have a beneficial interest.
- (g) Beneficial interest in securities of a body where:-
- (a) that body to the member’s knowledge has a place of business or land in the borough; and
 - (b) either
 - (i) the total nominal value of the securities exceeds £25,000 or 1/100 of the total issued share capital of that body; or
 - (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person* has a beneficial interest exceeds 1/100 of the total issued share capital of that class.

*A relevant person is the member, their spouse or civil partner, or a person with whom they live as spouse or civil partner.

(3) Other registerable interests

The Lewisham Member Code of Conduct requires members also to register the following interests:-

- (a) Membership or position of control or management in a body to which you were appointed or nominated by the Council
- (b) Any body exercising functions of a public nature or directed to charitable purposes, or whose principal purposes include the influence of public opinion or policy, including any political party
- (c) Any person from whom you have received a gift or hospitality with an estimated value of at least £25

(4) Non registerable interests

Occasions may arise when a matter under consideration would or would be likely to affect the wellbeing of a member, their family, friend or close associate more than it would affect the wellbeing of those in the local area generally, but which is not required to be registered in the Register of Members’ Interests (for example a matter concerning the closure of a school at which a Member’s child attends).

(5) Declaration and Impact of interest on member’s participation

- (a) Where a member has any registerable interest in a matter and they are present at a meeting at which that matter is to be discussed, they must declare the nature of the interest at the earliest opportunity and in any event before the matter is considered. The declaration will be recorded in the minutes of the meeting. If the matter is a disclosable pecuniary interest the member must take no part in consideration of the matter and withdraw from the room before it is considered. They must not seek improperly to influence the decision in any way. **Failure to declare such an interest which has not already been entered in the Register of Members' Interests, or participation where such an interest exists, is liable to prosecution and on conviction carries a fine of up to £5000**
- (b) Where a member has a registerable interest which falls short of a disclosable pecuniary interest they must still declare the nature of the interest to the meeting at the earliest opportunity and in any event before the matter is considered, but they may stay in the room, participate in consideration of the matter and vote on it unless paragraph (c) below applies.
- (c) Where a member has a registerable interest which falls short of a disclosable pecuniary interest, the member must consider whether a reasonable member of the public in possession of the facts would think that their interest is so significant that it would be likely to impair the member's judgement of the public interest. If so, the member must withdraw and take no part in consideration of the matter nor seek to influence the outcome improperly.
- (d) If a non-registerable interest arises which affects the wellbeing of a member, their family, friend or close associate more than it would affect those in the local area generally, then the provisions relating to the declarations of interest and withdrawal apply as if it were a registerable interest.
- (e) Decisions relating to declarations of interests are for the member's personal judgement, though in cases of doubt they may wish to seek the advice of the Monitoring Officer.

(6) Sensitive information

There are special provisions relating to sensitive interests. These are interests the disclosure of which would be likely to expose the member to risk of violence or intimidation where the Monitoring Officer has agreed that such interest need not be registered. Members with such an interest are referred to the Code and advised to seek advice from the Monitoring Officer in advance.

(7) Exempt categories

There are exemptions to these provisions allowing members to participate in decisions notwithstanding interests that would otherwise prevent them doing so. These include:-

- (a) Housing – holding a tenancy or lease with the Council unless the matter relates to your particular tenancy or lease; (subject to arrears exception)
- (b) School meals, school transport and travelling expenses; if you are a parent or guardian of a child in full time education, or a school governor unless the matter relates particularly to the school your child attends or of which you are a governor;
- (c) Statutory sick pay; if you are in receipt
- (d) Allowances, payment or indemnity for members
- (e) Ceremonial honours for members
- (f) Setting Council Tax or precept (subject to arrears exception)

AUDIT PANEL			
REPORT TITLE	Oracle Cloud Update		
KEY DECISION	No	Item No.	3
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources		
CLASS	Part 1	Date	26 March 2019

1. SUMMARY AND PURPOSE

- 1.1. The attached presentation provides an update to members of the Audit Panel on the Oracle Cloud implementation for finance, procurement, payroll and human resources.

2. RECOMMENDATION

- 2.1. The Audit Panel is asked to note the contents of the presentation, with particular regards to the current Risks, Assumptions, Issues and Dependencies (RAID) log.

3. BACKGROUND

- 3.1. The London Borough of Lewisham has moved from the OneOracle partnership and is in the progress of implementing Oracle Cloud for HR, Finance, Procurement and Payroll. While some of the requirement has been driven by this exit, other opportunities to align HR and Payroll have been included. The aim is to deliver cloud self-service for people, pay, finance and procurement. These services will be available to staff, schools, pensioners, and suppliers. The cloud platform for these business functions will provide the requisite performance, functionality and quality to align with the corporate objectives of a 21st century Digital Council.
- 3.2. As a reminder to members of the Audit Panel, the functions for finance and procurement went live in May 2018 and the functions for HR, payroll and employee self-service are expected to go live from May 2019 onwards.

4. IMPLICATIONS

- 4.1. There are no financial, legal, crime and disorder, equalities or environmental implications directly arising from this report or the attached presentation.

5. FURTHER INFORMATION

- 5.1. For further information on this report please contact:
Selwyn Thompson, Head of Financial Services, on 020 8314 6932 or
Bryn Hopkins, Oracle Cloud Programme Manager at
bryn.hopkins@lewisham.gov.uk

Lewisham Borough Council Oracle Programme

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Programme Up-date

March 2019

Agenda



- Summary
- Governance
- Key Milestone Dates
- Key activates
- Device Management Approach
- Go Live Risks

Summary



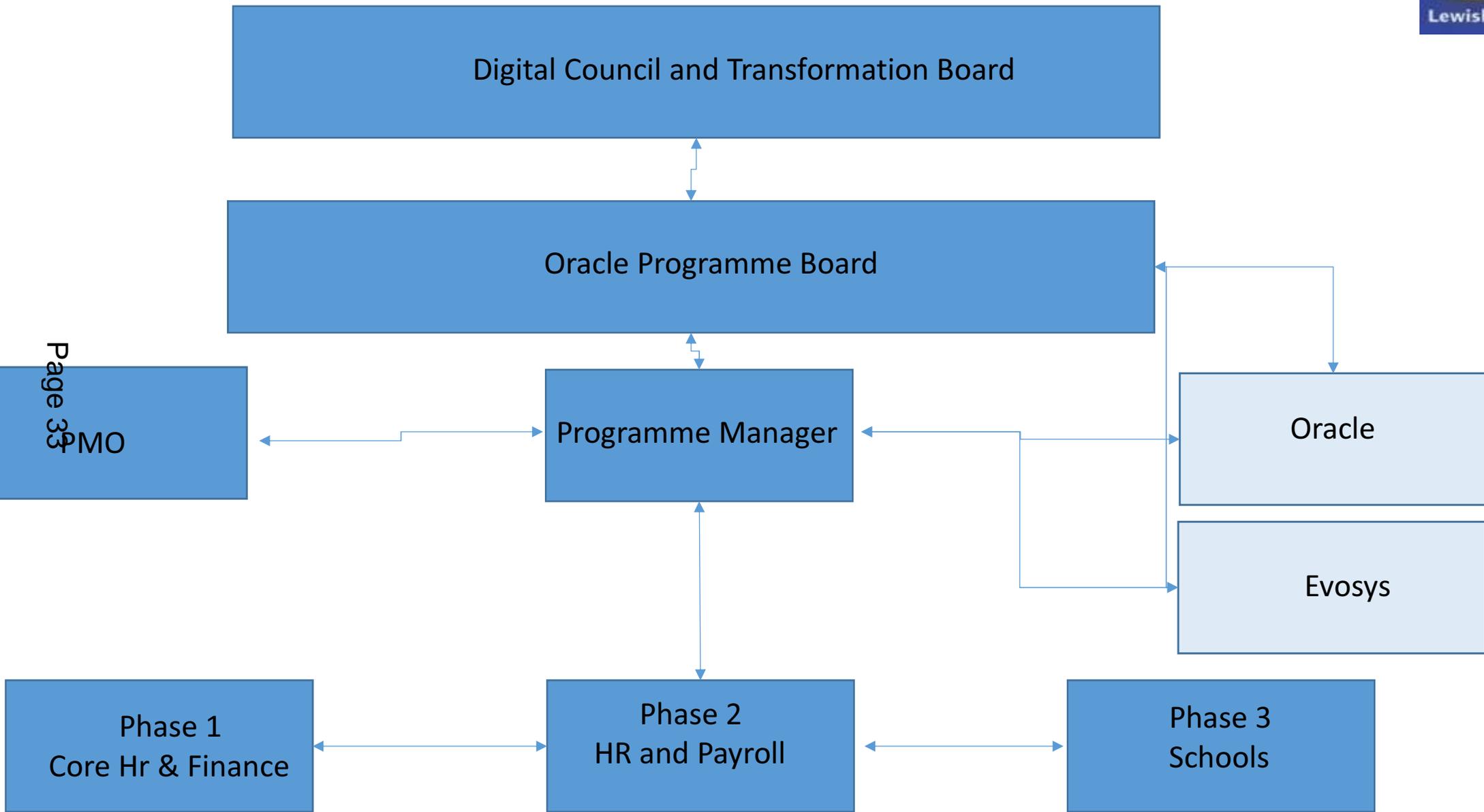
The London Borough of Lewisham has embarked on a journey to up-grade it's legacy back-office services and move to Oracle Cloud, incorporating Finance, HR, Payroll and Self Service for Managers and Employees. The first phase of the programme went live in May 2018 with HR Core, Finance and Procurement modules. The second phase of the Programme to implement HR Absence, Payroll and Self Service within the organisation is well under way and is on target to go live in May 2019.

The programme has had some risks and issues to contend with including dual key entry on two systems for the last ten months which has impacted on programme resources. However, progress continues to be made.

The Programme has now moved into the final stages of phase two with Payroll Parallel Runs, Service transition into Support and Business Change, including the necessary training to align the organisation to new ways of working in the Cloud.

As part of new ways of working Employees will be able to access their personal data via any device in the same way one would access on-line banking.

Governance Model

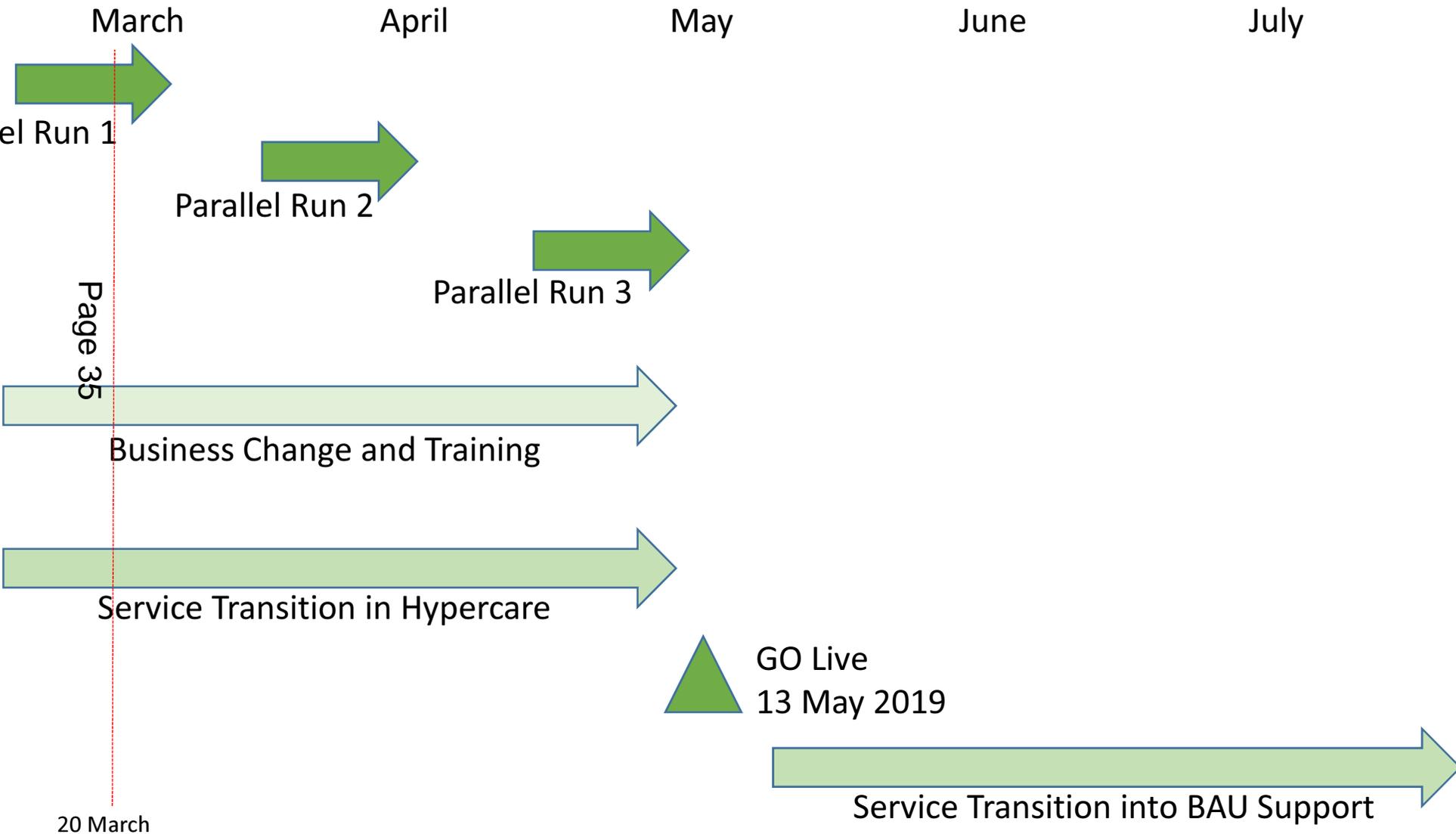


Key Milestone Dates

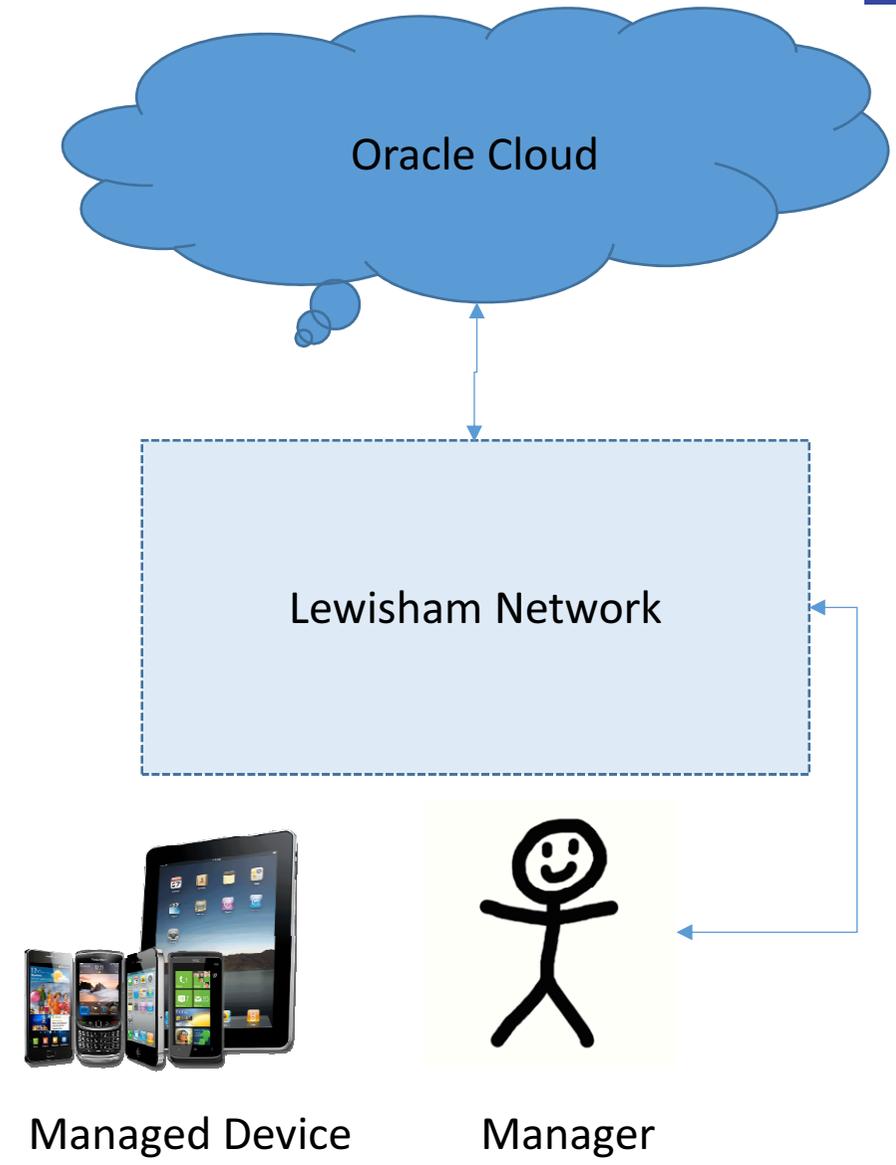
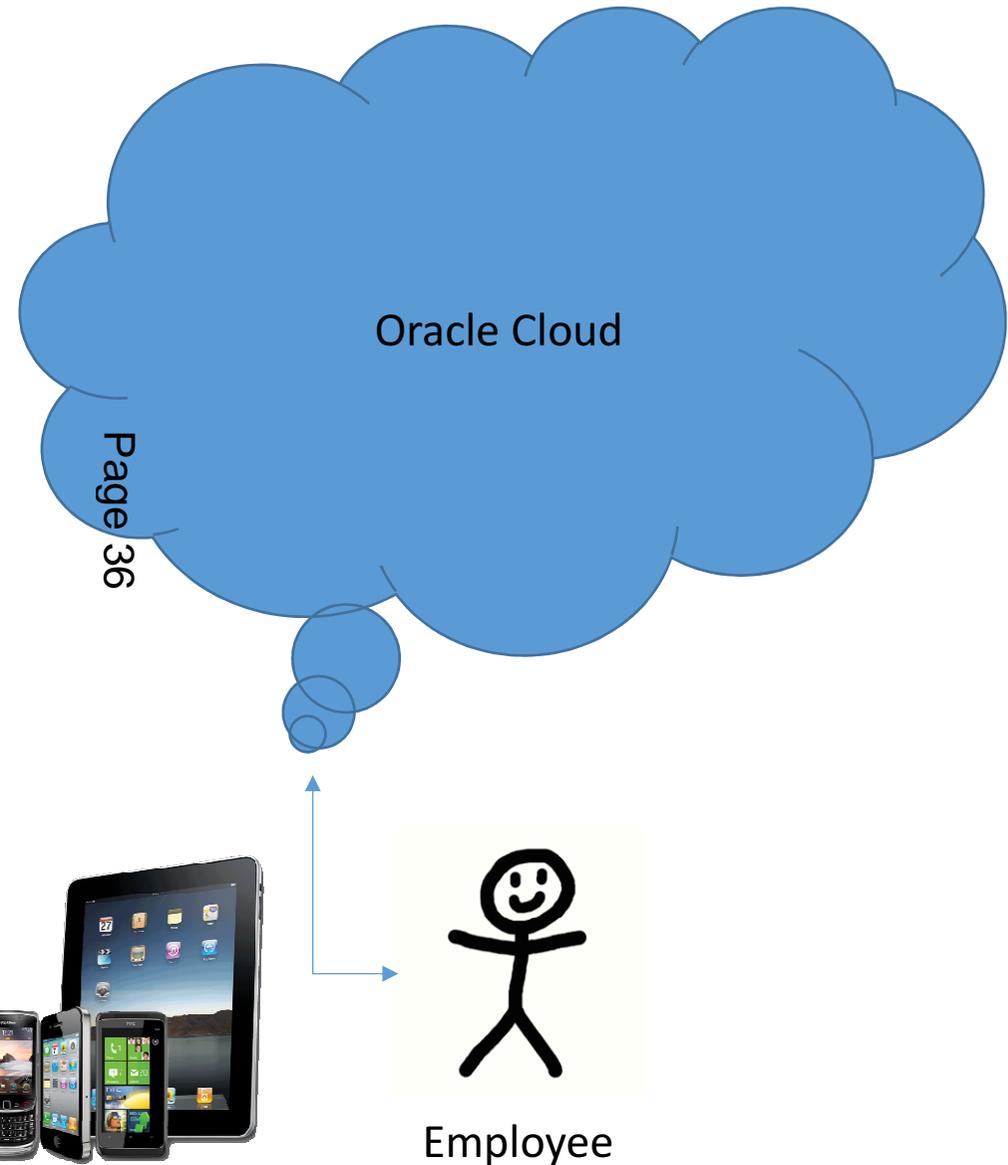


Milestone	Target Date	Status
Service Transition - sign off agreed support model	March 2019	Green
Programme Audit - completion	April 2019	Green
Business Change - start User Training	April 2019	Green
Business Change - completion	May 2019	Green
Service Transition - ready Hypercare Support	May 2019	Green
Parallel Runs – complete and ready for go live	May 2019	Green
Go Live	13 May 2019	Green

Key Activities



Proposed Device Management Approach



Go Live Risks - Absence, Payroll and Self Service



Area	Scenario	Current Risk	Description of risk	Like lihood	Impact	Policy and Process
Technical	Employee and Managers access to Self Service on any device	Managers will have visibility of employees data on any device	New access policy for Managers	n/a	n/a	New Location based access Control to be introduced
Data security	Lewisham staff given the wrong role	Lewisham user receives wrong role in the system and can see sensitive data (and carry out transactions) unrelated to their role	As now roles and data access are authorised by the data owner. There is no auto provisioning of roles for any employees so the risk remains the same	n/a	n/a	
Data Security	Third parties accessing the system e.g. schools	The same data loss risks as for Lewisham employees, however the third party owns the risk not us		n/a	n/a	
Data Security	Data at rest in Oracle Fusion	Data at rest is compromised - either digitally or physically	System complies with the government's 'Cloud Security Principles' and best practices. Encryption is optional and is not an essential requirement.	n/a	n/a	Oracle Owned

Agenda Item 4

AUDIT PANEL			
Report Title	Update on 2018/19 Closing of Accounts and External Audits		
Key Decision	No	Item No.	4
Ward	ALL		
Contributors	Executive Director for Resources and Regeneration		
Class		Date:	26th March 2019

1. SUMMARY AND PURPOSE

1.1. This report provides an update to members of the Audit Panel on the preparations for the 2018/19 closing of accounts and statutory external audit.

2. RECOMMENDATION

2.1. The Audit Panel is asked to note the contents of the report.

3. 2018/19 EXTERNAL AUDIT

3.1. Grant Thornton began as the Council's external auditors on 1st November 2012. Senior management and senior accountants in the Financial Services Division have met regularly with senior representatives of Grant Thornton since the completion of the 2017/18 accounts external audit. This will ensure that the next external audit is as smooth as possible.

3.2. Grant Thornton continue to progress with their interim audit. This was started in January 2019 and is expected to be completed by April 2019. The progress to date is indicated in their progress report attached.

3.3. Grant Thornton will begin their substantive work auditing the Council's annual accounts in June 2019. Further information is shown in their audit plan attached.

4. 2018/19 CLOSING OF ACCOUNTS

4.1. The 2018/19 Closing of Accounts timetable, guidance notes and reporting deadlines have again been reviewed and updated.

5. 2018/19 STATEMENT OF ACCOUNTS

5.1. The Statement of Accounts is prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting, as agreed by the Ministry of Housing, Communities and Local Government (MHCLG). The pre-audit Statement of Accounts is required to be completed and submitted for external audit by no later than 31st May 2019. The audited Statement of Accounts is required to be completed and approved by full Council on 17th July 2019.

6. IMPLICATIONS

6.1. There are no financial, legal, crime and disorder, equalities or environmental implications directly arising from this report.

7. CONCLUSION

7.1. The report confirms that plans and procedures are in place to enable a timely and accurate audited Statement of Accounts to be produced at year-end.

8. FURTHER INFORMATION

For further information on this report please contact:

Selwyn Thompson, Head of Financial Services, on 020 8314 6932

Paul Calnan, Acting Group Finance Manager – Accounting, on 020 8314 6167

External Audit Plan

Year ending 31 March 2019

London Borough of Lewisham and London Borough of Lewisham Pension Fund
December 2018

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority and Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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Introduction

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Purpose

This document provides an overview of the planned scope and timing of the statutory audits of the London Borough of Lewisham ('You') and Lewisham Pension Fund "the Fund" for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Authority and the Fund. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audits

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Council, Group and Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Panel); and
- Your Value for Money arrangements in place for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Panel of your responsibilities.

Our audit approach is based on a thorough understanding of the your business and is risk based.

Headlines

Group Accounts	You are required to prepare group financial statements that consolidate the financial information of Lewisham Homes Limited and Catford Regeneration Partnership Limited.
Significant risks	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as follows:</p> <p>London Borough of Lewisham</p> <ul style="list-style-type: none">• management override of controls• valuation of property, plant and equipment being materially misstated• valuation of pension fund net liability being materially misstated• the implementation of the new general ledger resulting in material misstatements across the accounts <p>Lewisham Pension Fund</p> <ul style="list-style-type: none">• management override of controls• the valuation of Level 3 investments being materially misstatement• the implementation of the new general ledger resulting in material misstatements across the accounts <p>We will communicate significant findings in these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.</p>
Materiality - Authority	We have determined planning materiality to be £16.5m (PY £16.5m) for the group and £16.2m (PY £16.2m) for the Authority, which equates to 1.75% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £820k (PY £820k).
Materiality – Pension Fund	We have determined materiality at the planning stage of our audit to be £13m (PY £13m) for the Fund, which equates to 1% of your net assets for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £650k (PY £650k).
Value for Money arrangements (Authority Only)	<p>Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:</p> <ul style="list-style-type: none">• Budget Management• Savings plans and medium term financial planning• Transformation governance• Brexit
Audit logistics	<p>Our interim visit will take place in January and February 2019 and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report.</p> <p>Our fee for the audit will be £148,789 (PY: £193,233) for your audit and £16,170 (PY: £21,000) for the Fund, subject to you delivering a good set of financial statements and comprehensive and accurate supporting working papers, and responding to audit queries promptly.</p>
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Key matters impacting our audit

Key business risks

The wider economy and your financial position

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. You have set a balanced budget for 2018/19 which includes a £5.0m reserve transfer from the New Homes Bonus reserve to the General Fund for the third consecutive year and a further £3.6m one-off use of reserves. You have increased your share of council tax by 3.99% to provide an extra £10.2m, and identified planned further savings of £4.86m. The current forecast for 2018/19 is an overspend of £11.4m (at July 2018), of which £1.3m relates to previously agreed but as yet undelivered cuts. The Children and Young people directorate is responsible for the majority of the overspend with the key drivers being cost of placements for looked after children and staffing spend. To put your finances on a sustainable footing, the Medium Term Financial Strategy identifies the need for £30m of ongoing cuts in the two years to 2020/21 - £17m in 2019/20 and £13m in 2020/21. This is on top of the need to address the persistent in-year overspend in Directorate budgets.

Implementation of Oracle Cloud

During the year you have migrated your financial ledger from Oracle to Oracle Cloud, with Human Resources and payroll functions expected to migrate in April 2019. The move to the new financial ledger creates several risks including ensuring the quality of existing data on Oracle is verified and then transferred accurately and completely to Oracle Cloud. You also need to ensure that staff are properly trained on the new system and you continue to pay suppliers in accordance with agreed terms and conditions.

Changes in senior management and Members

The local elections in May 2018 resulted in changes to Members. The revised Cabinet includes six Members that are new to this role. Your Chief Executive has recently departed after only 7 months in post and you currently have interim arrangements in place. You are looking to provide a period of stability for the Council following a difficult 12 months.

Transformation

You are revamping your transformation governance arrangements following the identification of some significant weaknesses therein. Transformation is considered critical to your long term financial sustainability, and is required to help offset the significant risks presented by the savings requirements in the MTFS. Your plans are ambitious and complex and require robust arrangements. You are working to implement stronger arrangements to support the scale of transformation change envisaged and provide continuing improvements to tax payers.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of your group and will review related disclosures in the financial statements.
- We will consider your arrangements for supporting your ambitious transformation programme.
- We will follow up the previous year recommendations in our VfM work.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.
- We will invite members of your finance team to our local government final accounts workshops, to discuss financial reporting issues at an early stage and facilitate cross-council discussion in respect of key issues impacting the financial statements.

- You will see changes in the terminology we use in our reports that will align more closely with the ISAs
- We will ensure that our resources and testing are best directed to address your risks in an effective way.

- We identified a significant audit risk relating to the data migration to the new ledger. Our IT auditors will review the process over the data migration and ensure the data transfer is complete and accurate.
- We will continue to engage with Members and Senior Officers to assess how you are performing in addressing your challenges.

Key matters impacting our audit of the Fund

External Factors		Internal Factors	
<p>SI 493/2018 – LGPS (Amendment) Regulations 2018</p> <p>Introduces a new provision for employers to receive credit for any surplus assets in a fund upon ceasing to be a Scheme employer. This could potentially lead to material impacts on funding arrangements and the need for updated Funding Strategy Statements.</p> <p>Guaranteed Minimum Pension (GMP)</p> <ul style="list-style-type: none"> Pension funds are continuing to work through the GMP reconciliation process. In January 2018 the government extended its “interim solution” for indexation and equalisation for public service pension schemes until April 2021. Currently the view is that the October 2018 High Court ruling in respect of GMP equalisation is therefore not likely to have an impact upon the LGPS. 	<p>Changes to the CIPFA 2018/19 Accounting Code</p> <p>The most significant changes relate to the adoption of IFRS 9 Financial Instruments. In practice, IFRS 9 is anticipated to have limited impact for pension funds as most assets and liabilities held are already classed as fair value through profit and loss.</p> <p>The Pensions Regulator (tPR)</p> <p>tPRs Corporate Plan Corporate for 2018-2021 includes three new Key Performance Indicators (KPIs) directly related to public service pension schemes and TPR has chosen the LGPS as a cohort for proactive engagement throughout 2018 and 2019.</p>	<p>New audit methodology</p> <p>We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation and more easily incorporate our knowledge of the Pension Fund into our risk assessment and testing approach.</p>	<p>Implementation of Oracle Cloud</p> <p>As explained on page 5 the move to Oracle Cloud represents a significant risk and this risk will equally apply to the Pension Fund.</p> <p>Pooling</p> <p>The Fund remains committed to pooling its assets with the London Collective Investment Vehicle (LCIV) where suitable mandates become available. However, to date none of the funds launched by the LCIV have been funds that the Fund is invested in or planning to invest in. The Fund is implementing the manifesto commitment to move away from fossil fuel investments and is seeking investment opportunities in renewable energy within the infrastructure asset class or at the LCIV, for both steady income and the avoidance of stranded assets.</p>
Our response			
<ul style="list-style-type: none"> We will continue to monitor the position in respect of GMP equalisation and reconciliation. For pension funds the immediate impact is expected to be largely administrative rather than financial. 	<ul style="list-style-type: none"> We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops. As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code. We will keep under review any interaction the Fund has with tPR and tailor our audit approach where necessary. 	<ul style="list-style-type: none"> You will see changes in the terminology we use in our reports that will align more closely with the ISAs. We will be testing more of your controls over contributions and pensions payable. We will ensure that our resources and testing are best directed to address your risks in an effective way. 	<ul style="list-style-type: none"> We identified a significant audit risk relating to the data migration to the new ledger. See page 5. Our IT auditors will review the process over the data migration and ensure the data transfer is complete and accurate – refer to the audit plan risk table for help in completing this section Whilst we do not consider the transfer of assets to the pool as a significant risk we will tailor our approach to gain assurance in respect of the completeness and accuracy of the transactions should you take up any of the future mandates utilised by CIV.

Audit approach

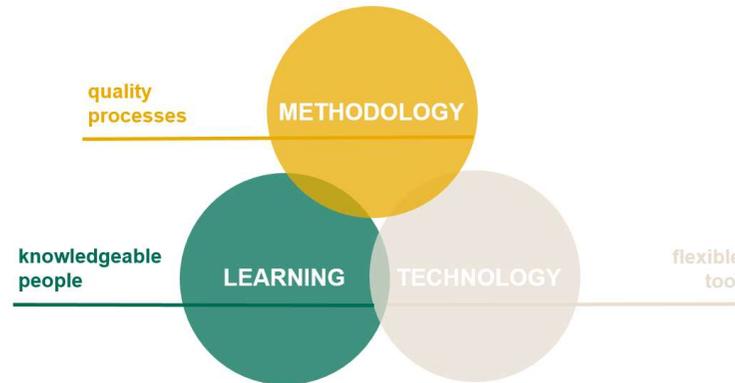
Use of audit, data interrogation and analytics software

LEAP



Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft



Info



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



REQUEST & SHARE

- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring



ASSESS & SCOPE

- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment



VERIFY & REVIEW

- Automate sampling requests
- Download automated work papers



INTERROGATE & EVALUATE

- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs



FOCUS & ASSURE

- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance



INSIGHTS

- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

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IDEA



- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

Appian



Business process management

- Clear timeline for account review:
 - disclosure dealing
 - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as your group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The group audit does not include the Pension Fund.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
London Borough of Lewisham	Yes		<ul style="list-style-type: none"> Management override of controls Valuation of property, plant and equipment Valuation of pension fund net liability Implementation of new general ledger 	Full scope UK statutory audit performed by Grant Thornton UK LLP
Lewisham Homes Limited	No		<ul style="list-style-type: none"> Management override of controls Valuation of property, plant and equipment 	Audit or one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements.
Catford Regeneration Partnership Limited	No		None	Analytical review performed by Grant Thornton UK LLP.

Key changes within the group:

- There have been no significant changes within the group

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The risk that revenue includes fraudulent transactions	Council and Fund	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of your and the Fund's revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including yourselves, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for you.</p>
Management over-ride of controls	Council and Fund	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The group and Fund face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for you and the Fund, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals ; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

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Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Council	<p>You revalue your land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£2.6 billion) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2019.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuations were carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into your asset register and financial statements; and • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
Valuation of the pension fund net liability	Council	<p>Your pension fund net liability, as reflected in your balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£640 million in your balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of your pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that your pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out your pension fund valuation; • assess the accuracy and completeness of the information provided by you to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 Investments	Fund	<p>By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£30 million) and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2019.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes for valuing Level 3 investments; • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met; • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2019 with reference to known movements in the intervening period; and • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert.
Incomplete or inaccurate financial information transferred to the new general ledger	Council and Fund	<p>In May 2018, you implemented a new cloud based general ledger system for the 2018/19 financial year. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system.</p> <p>We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • review your arrangements and controls over the transfer of data from the old system to the new system, and the controls over the completeness and accuracy of data transferred • map the closing balances from the 2017/18 general ledger to the opening balance position in the new ledger for 2018/19 to assess accuracy and completeness of the financial information, undertaking sample testing as appropriate; and • complete an information technology (IT) environment review to document, evaluate and test the IT controls operating within the new general ledger system.

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We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 2 Investments	Fund	<p>While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.</p> <p>We therefore identified the valuation of the Fund's Level 2 investments as an other risk</p>	<p>We will:</p> <ul style="list-style-type: none"> gain an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls; assess the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; agree the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and seek explanations for variances; request year-end confirmations from investment managers and custodian; where necessary, test a sample of unit values used to value level 2 investments to externally quoted information sources, or where not quoted, to unit values provided by the investment manager's own independent custodian. We may consider the use of our specialist valuation team; and for direct property investments agree values in total to valuer's report and undertake steps to gain reliance on the valuer as an expert.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other matters

Other work

The Fund is administered by you, and the Fund's financial statements form part of your financial statements.

Therefore, in addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities in respect of you and the Fund, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with your financial statements and the Fund on which we give an opinion, and consistent with our knowledge of you.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about yours or Fund's 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
 - issue of a report in the public interest or written recommendations you or Fund under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of your audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the group or the Fund's 's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Matter	Description	Planned audit response
1	<p>Calculation and determination</p> <p>We have determined planning materiality (financial statement materiality determined at the planning stage of the audit) based on professional judgment in the context of our knowledge of you and the Fund, including consideration of factors such as stakeholder expectations, financial stability and reporting requirements for the financial statements.</p> <p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> – estimate the tolerable level of misstatement in the financial statements – assist in establishing the scope of our audit engagement and audit tests – calculate sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements 	<ul style="list-style-type: none"> • We have determined financial statement materiality based on a proportion of the gross expenditure of the group and you for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £16.5m (PY £16.5m) for the group and £16.2m (PY £16.2m) for the Authority, which equates to 1.75% of your prior year gross expenditure on cost of services. • For the Fund, we have determined financial statement materiality based on a proportion of the Fund’s net assets. In the prior year we used the same benchmark. Our materiality at the planning stage is £13m (PY £13m) which equates to 1% of your actual net assets for the year ended 31 March 2018.
2	<p>Other factors</p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements. We design our procedures to detect errors in specific accounts at a lower level of precision which we deem to be relevant to stakeholders.</p>	<ul style="list-style-type: none"> • We have not identified any balances where we will apply lower materiality levels. We will undertake testing on senior officers remuneration which is below the materiality levels as these are considered sensitive disclosures.
3	<p>Reassessment of materiality</p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<ul style="list-style-type: none"> • We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of materiality
4	<p>Matters we will report to the Audit Panel</p> <p>Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Panel any unadjusted misstatements of lesser amounts, other than those which are ‘clearly trivial’, to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>	<ul style="list-style-type: none"> • In the context of the group and you, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £820k (PY £820k). • In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £650 (PY £650k). • If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Panel to assist it in fulfilling its governance responsibilities.

Value for Money arrangements

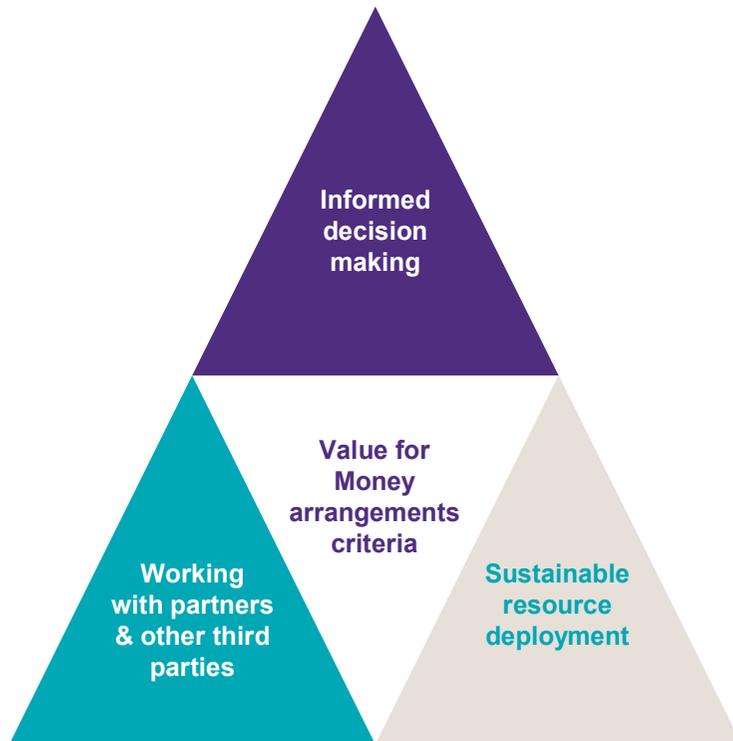
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, excluding Pension Funds, auditors are required to give a conclusion on whether you have proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:



Significant VFM risks – page 1 of 2

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



Budget Management

You are currently projecting a £11.4m overspend on the 2018/19 budget. This anticipated overspend is significant and should the position worsen then this will increase the pressure into 2019/20.

In response to this risk we will:

- Assess your understanding of, and responses to, the pressures and causal factors contributing to the 2018/19 overspend.
- Consider whether you have adequate arrangements to manage those pressures and to secure a sustainable financial position.
- Review your plans to respond to pressures within the Children and Young People Directorate
- Consider your approach towards the use of reserves.



Savings and medium term financial planning

You have set a balanced budget for 2018/19 which includes a £5.0m reserve transfer from the New Homes Bonus reserve to the General Fund for the third consecutive year, and a further £3.6m one-off use of reserves. You have increased your share of council tax by 3.99% to provide an extra £10.2m of income, and identified planned further savings of £4.86m. To put your finances on a sustainable footing, the Medium Term Financial Strategy identifies the need for £30m of ongoing cuts in the two years to 2020/21 - £17m in 2019/20 and £13m in 2020/21. This is on top of the need to address the persistent in-year overspend in Directorate budgets.

In response to this risk we will:

- Consider your arrangements to identify and deliver savings and efficiencies to support a sustainable medium term financial position.
- Consider the feasibility of planned savings and the assessed risk of achievement
- Review the arrangements for identifying and monitoring risk, and taking appropriate action in the event of non-realisation of planned savings
- Assess how well the MTFs reflects planned timescales for the delivery of savings from your transformation programme, and how well aligned the MTFs is with the planned financial benefits anticipated by the transformation programme.

Value for Money arrangements continued

Significant VFM risks – page 2 of 2

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



Transformation

You are currently re-engineering your governance arrangements to strengthen programme governance across your transformation schemes. This followed the identification of significant weaknesses in the previous arrangements, which you have acted to address. You are also reviewing and assessing the progress and potential benefits realisation across all current transformational schemes.

In response to this risk we will:

- Review your overarching programme management arrangements
- Assess the extent to which planned transformation outcomes are reflected within the MTFS
- Follow up the recommendations raised within our prior year value for money work.

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Brexit

With the UK due to leave the European Union on 29 March 2019, there will be national and local implications resulting from Brexit that will impact on you, which you will need to plan for.

In response to this risk we will:

- Review your arrangements and plans to mitigate any risks on Brexit. Our review will focus on areas such as workforce planning, supply chain analysis and impacts on finances including investment and borrowing as well as any potential impact on the valuation of your assets.

Audit logistics, team & fees



Paul Grady, Engagement Lead

Paul will be the main point of contact for the Chief Executive, statutory officers and Members. Paul will share his wealth of knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Senior Management and the Audit Panel. Paul will ensure our audit is tailored specifically to you and is delivered efficiently. Paul will review all reports and the team's work focussing his time on the key risk areas to your audit.

Paul Jacklin, Senior Audit Manager

Paul will work with the senior members of the finance and executive teams, ensuring early delivery of testing and agreement of accounting issues on a timely basis. Paul will attend Audit Panel meetings, undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable to all. Paul will work with Internal Audit to secure efficiencies and avoid duplication, providing assurance for your Annual Governance Statement.

Andy Ayre, Audit Manager

Andy will support Paul in his work to ensure the early delivery of audit testing and lead on a number of complex accounting issues. He will oversee the implementation of Grant Thornton's new audit methodology and perform reviews of the team's work.

Lakshmi Forster, Audit Incharge

Lakshmi will lead the onsite team and will be the day to day contact for the audit. Lakshmi will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Lakshmi will undertake the more technical aspects of the audit, and coach the junior members of the team.

Audit fees

The planned audit fees are £148,789 (PY: £193,233) for the financial statements audit of the group, and £16,170 (PY: £21,000) for the financial statements audit of the Fund, completed under the Code, which are inline with the scale fees published by PSAA. In setting your fee, we have assumed that the scope of the audits, do not significantly change.

Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, you must ensure that:

- All audit queries in our interim and final work are responded to in a timely manner and all required samples provided to enable completion of the interim audit prior to the March Audit Panel.
- The draft accounts are provided to us by 31 May and are fully accurate with minimal errors. Supporting schedules to all figures in the accounts and other working papers are provided to us by 31 May and in accordance with the agreed upon information request list. This must include all notes, the narrative report and AGS.
- The agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples. All supporting schedules are clearly presented and agree to figures in the accounts.
- Key management and accounting staff identified in our information request list are available throughout the duration of our audit visits to help us locate information and to provide explanations.
- All audit queries are resolved promptly and fully and within agreed timescales.

If any of the above requirements are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters. 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 Standard and we as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority and the Fund. The following other services were identified.

Service	£	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work for 2017/18 was £3,500 in comparison to the total fee for the audit of £148,789 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers' Pension return	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work for 2017/18 was £6,500 in comparison to the total fee for the audit of £148,789 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefits claim	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work for 2017/18 was £30,370 in comparison to the total fee for the audit of £148,789 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
Place Analytics subscription for 3 years from 2016/17	26,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this for 3 year period from 2016/17 was £26,000 in comparison to the total fee for the audit of £148,789 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Panel. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.



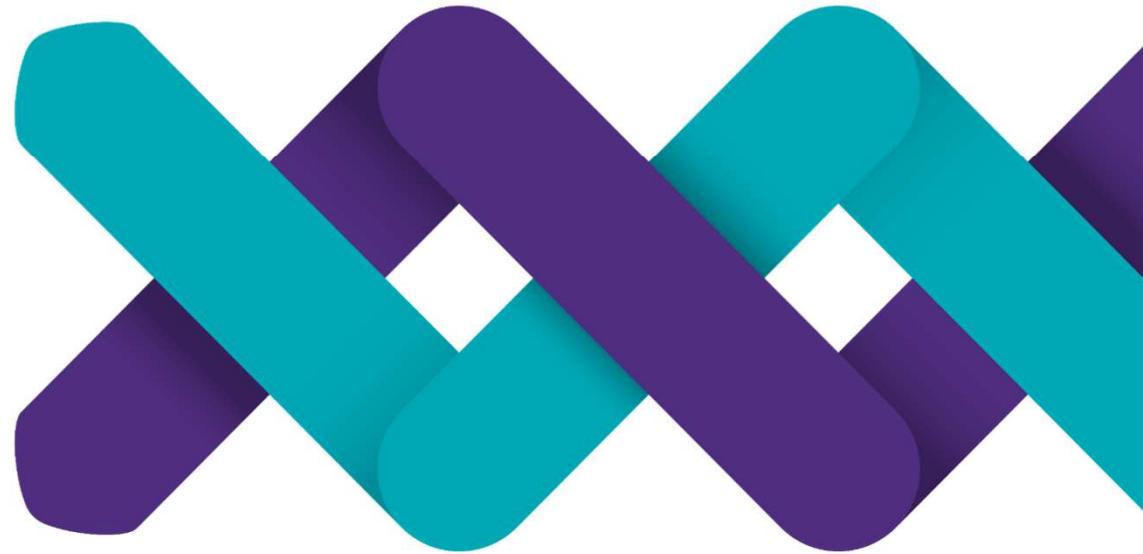
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Audit Progress Report and Sector Update

London Borough of Lewisham
Year ending 31 March 2019
Page 59
March 2019



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Introduction



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This paper provides the Audit Panel with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit Panel can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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Progress at 13 March 2019

2017/18 Audit

Financial statements

We have completed our audit of the Council's 2017/18 financial statements. Our unqualified audit opinion was issued on the 28 September 2018.

We have also issued our assurance statement on your Whole of Government Accounts return, in October 2018, following the issuing of the financial statements opinion.

We have held a feedback session with your key finance officers to discuss the 2017/18 audit. Both teams are implementing plans to ensure that the audit process is more efficient in 2018/19 which will enable the July 2019 deadline to be achieved.

Pension fund annual report opinion

We issued our opinion on your pension fund annual report when it was ready for review, at the end of November 2018.

Value for money

We have finalised our Value for Money work. The final element of this work was our review on the Council's governance arrangements on the transformational programmes. Our final Value for Money Report is a separate item on the agenda.

Annual Audit Letter

We have finalised our Annual Audit Letter which is a separate item on the agenda.

Objections 2016/17 and certificate 2016/17 and 2017/18

We have received information from management to enable further consideration of the 2016/17 objections. We are reviewing this information and considering the objection determination.

Once the objection has been determined we will be in a position to issue the certificate officially closing the audits for 2016/17 and 2017/18.

2018/19 Audit

Financial statements

We have completed our planning processes for the 2018/19 audit. In line with our planned audit deliverables, we have included our audit plan summarising our approach to the key risks on the audit. This is a separate item on the agenda.

We have conducted our early substantive testing of key account balances in February 2019. Whilst we were able to complete some of our planned activities, there remains a significant portion of work either incomplete or not yet started. A work plan tracker can be found on pages 5 to 7 which sets out achievement against planned activity.

The quantum of work outstanding from our early testing visit increases the pressure on the June/July audit period and the likelihood of the opinion deadline not being met.

We have discussed the matter with the Acting Group Finance Manager – Core Accounting and the Head of Financial Service and agreed additional work must now be completed in April order to complete work outstanding from our early testing visit to get the audit back on track.

Other areas

Certification of claims and returns

We finalised our work on the Council's Housing Benefit Claim by the 30 November deadline. The claim was subject to qualification with similar issues identified to previous years. The number of errors is not out of line with other large local authorities. The administration of claims has become more challenging over the last few years with the rise in zero hour contracts, part time working and gig economy meaning that claimants income and circumstances tends to vary more frequently which impacts on the assessment process. So we have tended to see errors rise across Councils in the last few years. The value of the extrapolated errors in the 2017/18 qualification letter was lower than last year.

We have also completed our work on the Teachers' Pensions return. The main issues identified were that one pay slip from a non SLA school was not provided to us and the Council was unable to provide evidence to support refunds included within the return.

We are currently finalising our work on the Council's Pooling of Capital Receipts Return we are awaiting further information from the Council to finalise our work.

Meetings

We have held meetings and conversations with the Chief Executive, Executive Director for Resources and Regeneration, the Executive Director for Customer Services, the Monitoring Officer and Chair of the Audit Panel. We met with Finance Officers in January 2019 as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments, and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Members of your finance team attended our Chief Accountant workshops which will cover the key accounting developments impacting on the Council's 2018-19 financial statements.

Insights

We have shared regular updates in respect of Brexit with your management team. We have also shared more in-depth updates in respect of key sectors issues affecting Local Government.

Early testing audit work plan tracker 13 March 2018

The table below sets out the progress achieved against the key areas of the interim audit. We have planned to conduct a further interim visit during the first week in April. Should we be unable to recover the position in this week, the outstanding work will need to be completed as part of the final accounts audit. This significantly increases the risk of not being able to complete the audit work in time to meet the statutory deadline.

Planned activity	Progress	Issues and actions	RAG
Substantive testing of payroll data: starters and leavers testing (months 1 to 9)	In progress	We have two queries outstanding in relation to starters. We cannot complete our testing until management has responded to these queries which were raised on 11/2/2019.	Amber
Substantive analytical review of payroll (months 1 to 9)	Not started	The R60 payroll system reports for Gross Pay, Tax, National Insurance and Employee and Employer Pension Contributions were received on 12/3/2019. We are still awaiting full time equivalent reports. The requests were raised on 10/1/2019.	Red
Non Lewisham schools	Not Started	We have not been provided with any expenditure reports supporting Lewisham schools that are not on the Council's payroll system. The request was raised on 11/2/2019.	Red
Substantive sample testing of operating expenditure and other income (months 1 to 2)	Not started	We have not been able to sample test any income and expenditure balances that are residing on the Council's archived ledger system for the first two months of the financial year as the Council are unable to provide us transaction listings to select our sample. We have agreed to return in April 2019 to undertake this testing. The request was raised on 10/1/2019.	Red
Substantive sample testing of other revenues (months 1 to 9)	In progress	We have selected 14 items for testing on 13/2/2019, and received responses for these items on 8/3/2019. We have now completed this testing.	Green
Substantive testing of significant annual grants	Complete	None	Green
Testing of housing benefit payments (months 1 to 10)	Complete	None	Green
Substantive testing of operating expenditure (months 1 to 9)	In progress	We have selected 51 items for testing. There are 5 items outstanding. The request was raised on 13/2/2019.	Amber

Early testing audit work plan tracker

Planned activity	Progress	Issues and actions	RAG
Fixed Assets and disposals testing	Not started	We planned to undertake testing on fixed assets additions and disposals, but the Council were unable to provide us with listings until the year end. The Council should review their processes to enable us to test these balances earlier in future years.	Red
Single persons Council Tax discount	Not Started	We are awaiting a report of single person discount cases to undertake our sample testing. Request raised 28/2/2019.	Red
Council Tax Reduction Scheme	Complete	None	Green
Documentation and walkthrough of the Council's key financial systems	Complete	None	Green

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Early testing audit work plan tracker Pension Fund

Planned activity	Progress	Issues and actions	RAG
Review of Pension Fund contributions received from Scheduled and Admitted bodies (months 1 to 9)	Complete	None	Green
Substantive testing of contributions from the Council's payroll system	Not started	We requested a month-by-month payroll report that details employee and employer pension contributions to enable us to select our samples for testing. Initially requested as part of payroll testing 1/2/2019. We received the report on 12/3/2019 and have now agreed to undertake the testing in April.	Red
Pension Fund Lump Sum testing (months 1 to 9)	Complete	None	Green
Pension fund Starters and leavers (months 1 to 9)	In progress	We were able to test starters and leavers covering months one to six, but due to a back log of work and systems problems with I connect the Council has not provided us with data for us to be able to select and test starters and leavers for the period October to December 2018. In addition, we are awaiting documentation to support 4 leavers outstanding from 6/2/2019.	Amber
Obtain all information on Pension Fund Investment managers, custodian and bank accounts and write to these prior to 31 March 2019	Complete	None	Green

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Audit Deliverables 2017/18

2017/18 Deliverables	Planned Date	Status
<p>Whole of Government Accounts return and assurance statement</p> <p>Issuing of our assurance statement on your Whole of Government Accounts return, provided to us and finalised following completion of your financial statements audit.</p>	November 2018	Complete
<p>Teachers' Pension return</p> <p>Issuing of audit report on your Teacher' Pension return.</p>	November 2018	Complete
<p>Housing benefits certification</p> <p>Certification of your housing benefits return.</p>	November 2018	Complete
<p>Annual Certification Letter</p> <p>This letter reports any matters arising from our certification work carried out under the PSAA contract.</p>	December 2018	Complete. The report was finalised in December 2018 and is included within the March 2019 Audit Panel papers
<p>Pooling of Capital Receipts Return</p> <p>Issuing of audit report on your Pooling of Capital receipts return. We are awaiting information from the Council to reconcile the return with the general ledger and information supplied by Lewisham Homes.</p>	February 2019	In progress
<p>Value for money Conclusion</p> <p>The final Value for Money Conclusion report is included within the Audit Panel papers. We reported our Value for Money Conclusion findings in relation to budget management, savings plans and medium term financial planning to the audit Panel in July and September 2018. The work on the Council's transformation programme was delayed (in agreement with management) to enable the Council to complete their own internal investigations prior to us completing our review. The findings of our work on the transformation programme are included within the final report presented to the March 2019 Audit Panel.</p>	July 2018	Complete. The final value for money report is included within the March Audit Panel papers
<p>Annual Audit Letter</p> <p>This letter communicates the key issues arising from our work. We finalised this promptly following the completion of the Value for Money conclusion.</p>	October 2018	Complete. The Annual Audit Letter is included within the March Audit Panel papers
<p>Certificate 2016/17 and 2017/18</p> <p>These will be issued once the work on the objection to the 2016/17 accounts is completed and determined. Management recently provided responses and documentation to enable the objection to be further considered.</p>	February 2019	To be issued upon finalisation of the determination of the objection.

Audit Deliverables 2018/19

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Panel setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	January 2019	This was agreed with management in December, and is on the agenda for the March Audit Panel
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	See slides 5-7 for our interim audit findings
Audit Findings Report The Audit Findings Report will be reported to the July Audit Panel.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Whole of Government Accounts return and assurance statement This will be completed once you have provided your final WGA return and we have issued our opinion on the financial statements.	August 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due
Pension fund annual report opinion This will be issued once you have provided your pension fund annual report for review	December 2019	Not yet due
Housing benefit and other certification claims Work on these will commence once you provide them for certification and review by us.	November 2019	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	January 2020	Not yet due

Sector Update

Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Public Sector

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

MHCLG – Social Housing Green Paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:

<https://www.gov.uk/government/consultations/a-new-deal-for-social-housing>



MHCLG – Business rate pilots

The Secretary of State has invited more councils to apply for powers to retain the growth in their business rates under the new pilots. The pilots will see councils rewarded for supporting local firms and local jobs and ensure they benefit directly from the proceeds of economic growth.

From April 2019, selected pilot areas will be able to retain 75% of the growth in income raised through business rates, incentivising councils to encourage growth in business and on the high street in their areas. This will allow money to stay in communities and be spent on local priorities - including more funding to support frontline services.

This follows the success of previous waves of business rates retention pilots, launched in a wide range of areas across country in 2017 and 2018.

The current 50% business rates retention scheme is yielding strong results and in 2018 to 2019 it is estimated that local authorities will keep around £2.4 billion in business rates growth.

Findings from the new round of pilots will help the government understand how local authorities can smoothly transition into the proposed system in 2020.

Proposals will need to show how local authorities would 'pool' their business rates and work collaboratively to promote financial sustainability, growth or a combination of these.

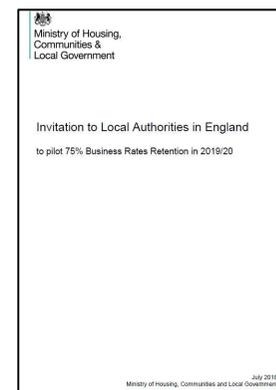
Alongside the pilots, the government will continue to work with local authorities, the Local Government Association, and others on reform options that give local authorities more control over the money they raise and are sustainable in the long term.

The invitation is addressed to all authorities in England, excluding those with ongoing business rates retention pilots in devolution areas and London. Due to affordability constraints, it may be necessary to assess applications against selection criteria, which will include:

- Proposed pooling arrangements operate across a functional economic area
- Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these
- Proposal sets out robust governance arrangements for strategic decision-making around management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements

Any proposals will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The Section 151 officer of each authority will need to sign off the proposal before submission.

Proposal for new pilots must be received the MHCLG by midnight on Tuesday 25th September 2018.



Institute of Fiscal Studies: Impact of ‘Fair Funding Review’

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government’s ‘Fair Funding Review’ is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils’ differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

Accounting for councils’ spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG’s funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of ‘spending needs’ and ‘needs indicators’, and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils’ revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report <https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.



Public Sector Audit Appointments – Report on the results of auditors’ work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors’ work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors’ local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

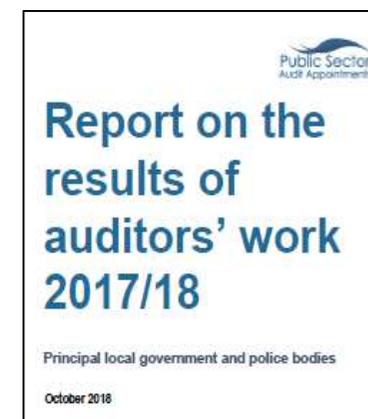
The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts.

The report is available on the PSAA website:

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>



National Audit Office – The health and social care interface

The NAO has published its latest ‘think piece on the barriers that prevent health and social care services working together effectively, examples of joint working in a ‘whole system’ sense and the move towards services centred on the needs of the individual. The report aims to inform the ongoing debate about the future of health and social care in England. It anticipates the upcoming green paper on the future funding of adult social care, and the planned 2019 Spending Review, which will set out the funding needs of both local government and the NHS.

The report discusses 16 challenges to improved joint working. It also highlights some of the work being carried out nationally and locally to overcome these challenges and the progress that has been made. The NAO draw out the risks presented by inherent differences between the health and social care systems and how national and local bodies are managing these.

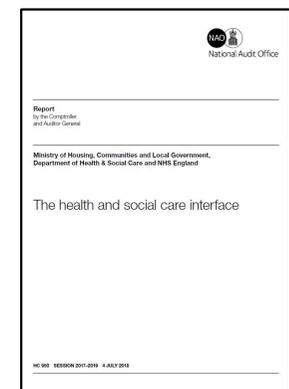
Financial challenges – include financial pressures, future funding uncertainties, focus on short-term funding issues in the acute sector, the accountability of individual organisations to balance the books, and differing eligibility criteria for access to health and social care services.

Culture and structure – include organisational boundaries impacting on service management and regulation, poor understanding between the NHS and local government of their respective decision-making frameworks, complex governance arrangements hindering decision-making, problems with local leadership holding back improvements or de-stabilising joint working, a lack of co-terminus geographic areas over which health and local government services are planned and delivered, problems with sharing data across health and social care, and difficulties developing person-centred care.

Strategic issues – include differences in national influence and status contributing to social care not being as well represented as the NHS, strategic misalignment of organisations across local systems inhibiting joint local planning, and central government’s unrealistic expectations of the pace at which the required change in working practices can progress..

This ‘think piece’ draws on the NAO’s past work and draws on recent research and reviews by other organisations, most notably the Care Quality Commission’s review of health and social care systems in 20 local authority areas, which it carried out between August 2017 and May 2018. The NAO note that there is a lot of good work being done nationally and locally to overcome the barriers to joint working, but often this is not happening at the scale and pace needed.

The report is available to download from the NAO’s website at:
<https://www.nao.org.uk/report/the-health-and-social-care-interface/>



National Audit Office – Local auditor reporting in England 2018

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the Comptroller & Auditor General (C&AG) took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) the NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

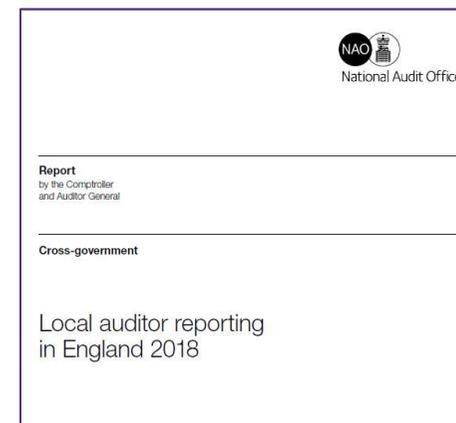
Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18.

The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>



A Caring Society – bringing together innovative thinking, people and practice

The Adult Social Care sector is at a crossroads. We have yet to find a sustainable system of care that is truly fit for purpose and for people. Our Caring Society programme takes a step back and creates a space to think, explore new ideas and draw on the most powerful and fresh influences we can find, as well as accelerate the innovative social care work already taking place.

We are bringing together a community of influencers, academics, investors, private care providers, charities and social housing providers and individuals who are committed to shaping the future of adult social care.

At the heart of the community are adult social care directors and this programme aims to provide them with space to think about, and design, a care system that meets the needs of the 21st Century, taking into account ethics, technology, governance and funding.

We are doing this by:

- hosting a 'scoping sprint' to determine the specific themes we should focus on
- running three sprints focused on the themes affecting the future of care provision
- publishing a series of articles drawing on opinion, innovative best practices and research to stimulate fresh thinking.

Our aim is to reach a consensus, that transcends party politics, about what future care should be for the good of society and for the individual. This will be presented to directors of adult social care in Spring 2019, to decide how to take forward the resulting recommendations and policy changes.

Scoping Sprint

This took place in October. Following opening remarks by Hilary Cottam (social entrepreneur and author of Radical Help) and Cllr Georgia Gould (Leader of Camden Council), the subsequent discussion brought many perspectives but there was a strong agreement about the need to do things differently that would create and support a caring society. Grant Thornton will now take forward further discussions around three particular themes:

1. Ethics and philosophy: What is meant by care? Should the state love?
2. Care in a place: Where should the power lie? How are local power relationships different in a local place?
3. Promoting and upscaling effective programmes and innovation

Sprint 1 – What do we really mean by 'care'?

This will take place on 4 December. Julia Unwin, Chair of the Civil Societies Futures Project, former CEO of the Joseph Rowntree Association and author on kindness will provide her insight to spark the debate on what we really mean by 'care'

Find out more and get involved

- To read the sprint write-ups and opinion pieces visit: grantthornton.co.uk/acaringsociety
- Join the conversation at #acaringsociety

Care Homes for the Elderly – Where are we now?

It is a pivotal moment for the UK care homes market. In the next few months the government is to reveal the contents of its much-vaunted plans for the long-term funding of care for older people.

Our latest Grant Thornton report draws together the most recent and relevant research, including our own sizeable market knowledge and expertise, to determine where the sector is now and understand where it is heading in the future. We have spoken to investors, providers and market consultants to showcase the diversity and innovation that care homes can offer.

Flourishing communities are not a 'nice to have' but an essential part of our purpose of shaping a vibrant economy. Growth simply cannot happen sustainably if business is disconnected from society. That is why social care needs a positive growth framing. Far from being a burden, the sector employs more people than the NHS, is a crucible for technological innovation, and is a vital connector in community life. We need to think about social care as an asset and invest and nurture it accordingly.

There are opportunities to further invest to create innovative solutions that deliver improved tailored care packages to meet the needs of our ageing population.

The report considers a number of aspects in the social care agenda

- market structure, sustainability, quality and evolution
- future funding changes and the political agenda
- the investment, capital and financing landscape
- new funds and methods of finance
- future outlook.

The decline in the number of public-sector focused care home beds is a trend that looks set to continue in the medium-term. However, it cannot continue indefinitely as Grant Thornton's research points to a significant rise in demand for elderly care beds over the coming decade and beyond.

A strategic approach will also be needed to recruit and retain the large number of workers needed to care for the ageing population in the future. Efforts have already begun through education programmes such as Skills for Care's 'Care Ambassadors' to promote social care as an attractive profession. But with the number of nurses falling across the NHS as well, the Government will need to address the current crisis.

But the most important conversation that needs to be had is with the public around what kind of care services they would like to have and, crucially, how much they would be prepared to pay for them. Most solutions for sustainable funding for social care point towards increased taxation, which will generate significant political and public debate. With Brexit dominating the political agenda, and the government holding a precarious position in Parliament, shorter-term funding interventions by government over the medium-term look more likely than a root-and-branch reform of the current system. The sector, however, needs to know what choices politicians, and society as a whole, are prepared to make in order to plan for the future.

Copies of our report can be requested on our website



In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies). These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

Choosing the right company model

The most common company models adopted by councils are:

Wholly
owned

Joint
Ventures

Social
Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment
 - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could be more mergers and insolvencies.
- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in today's austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.



[Download the report here](#)

National Audit Office – Local authority governance

The report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (Ministry of Housing, Communities and Local Government) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network

Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. Governance arrangements have to be effective in a riskier, more time-pressured and less well-resourced context. For instance, authorities need to:

- maintain tight budgetary control and scrutiny to ensure overall financial sustainability at a time when potentially contentious savings decisions have to be taken and resources for corporate support are more limited; and
- ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability is clear when entering into shared service or outsourced arrangements in order to deliver savings.

Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. Local authorities have seen a real-terms reduction in spending power (government grant and council tax) of 28.6% between 2010-11 and 2017-18. Demand in key service areas has also increased, including a 15.1% increase in the number of looked after children from 2010-11 to 2017-18. These pressures create risks to authorities' core objectives of remaining financially sustainable and meeting statutory service obligations. Furthermore, to mitigate these fundamental risks, many authorities have pursued strategies such as large-scale transformations or commercial investments that in themselves carry a risk of failure or under-performance.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-authority-governance-2/>



CIPFA – Financial Resilience Index plans revised

The Chartered Institute of Public Finance and Accountancy (CIPFA) has refined its plans for a financial resilience index for councils and is poised to rate bodies on a “suite of indicators” following a consultation with the sector.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector’s views, CIPFA invited all interested parties to respond to questions it put forward in the consultation by the 24 August.

CIPFA has also responded to concerns about the initial choice of indicators, updating the selection and will offer authorities an advanced viewing of results.

Plans for a financial resilience index were put forward by CIPFA in the summer. It is being designed to offer the sector some external guidance on their financial position.

CIPFA hailed the “unprecedented level of interest” in the consultation.

Responses were received from 189 parties, including individual local authorities, umbrella groups and auditors. Some respondents called for a more “forward-looking” assessment and raised fears over the possibility of “naming and shaming” councils.

CIPFA chief executive Rob Whiteman said with local government facing “unprecedented financial challenges” and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest.

“Following the feedback we have received, we have modified and strengthened the tool so it will be even more helpful for local authorities with deteriorating financial positions,” he said.

“The tool will sit alongside CIPFA’s planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances.”

CIPFA is now planning to introduce a “reserves depletion time” category as one of the indicators. This shows the length of time a council’s reserves will last if they deplete their reserves at the same rate as over the past three years.

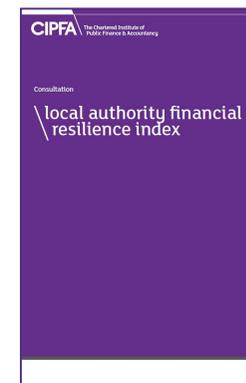
The consultation response document said this new category showed that “generally most councils have either not depleted their reserves or their depletion has been low”.

“The tool will not now provide, as originally envisaged, a composite weighted index but within the suite of indicators it will include a red, amber, green (RAG) alert of specific proximity to insufficient reserve given recent trajectories,” it said.

It also highlighted the broad support from the sector for the creation of the index. “There was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern,” it said.

“Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication.”

As such, CIPFA plans to provide resilience measurements first to the local authorities and their auditors via the section 151 officer rather than publishing openly.



ICAEW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICAEW) has published a paper on the 'expectation gap' in the external audit of public bodies.

Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

What's the problem?

- **Short-term solvency vs. Longer-term value:**
 - LG & NHS: Facing financial pressures, oversight & governance pressures
- **Limited usefulness of auditors reports:** 'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'
- **Other powers and duties:** implementing public interest reports in addition to VFM
- **Restricted role of questions and objections:** Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.
- **Audit qualification not always acted on by those charged with governance:** 'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'
- **Audit committees not consistently effective:** Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.
- **Decreased audit fees:** firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.
- **Impact of audit independence rules:** new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role
- **Other stakeholders expectations not aligned with audit standards**

- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

Future financial viability of local public bodies

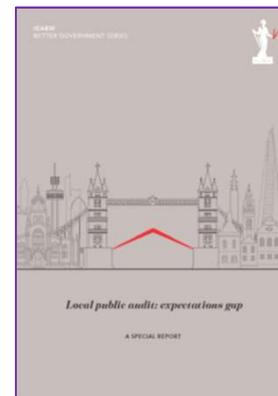
Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

The ICAEW puts forward two solutions:

Solution a) If CFO's want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



Brexit Room - Increasing readiness and resilience within your locality

Local authorities have always navigated uncertainty and faced challenges on behalf of communities and this role has never been more important than now. Whilst the outcome of Brexit remains uncertain at a national level, it is essential for councils to set a path to ensure the continued delivery of vital services and the best possible outcomes for their local communities and economies.

Whatever happens over the coming weeks and months, it is important that councils identify key Brexit scenarios and use these to frame robust local contingency plans.

From our conversations with the sector we know that local authorities are at different stages in their preparation for this big change.

Here's a brief summary of the issues that we are seeing:

Organisations

- Engaging non-EEA nationals within the workforce to ensure they understand their residency rights and are not receiving incorrect information from other sources
- Loss of access to key EU databases on policing and trading standards and changes to data sharing arrangements
- Uncertainty around continuation of EU funding beyond 2020 and the implementation of the UK Shared Prosperity Fund.

Services and suppliers

- Engaging with key suppliers to assess their risk profiles and resilience
- Dealing with the immediate strain on key services such as social care and trading standards
- Potential disruption to live procurement activities and uncertainty around the national procurement rulebook post OJEU.

Place

- Considering scenarios for economic shock, the associated social impact in the short, medium and long-term and the potential impact on local authority financial resilience
- Potential impacts on major local employers, key infrastructure investment programmes and transport improvements
- Civil contingencies and providing reassurance and support to residents and businesses.

Our approach

The Brexit Room is a flexible and interactive half-day workshop designed to sharpen your thinking on the impact Brexit could have on:

Your organisation – including considerations on workforce, funding, and changes to legislation

Your services and suppliers – ensuring that critical services are protected and building resilience within supply chains

Your place – using our proprietary Place Analytics tools we will help you to understand potential impacts on your local communities and economy and develop a place-based response, working with partners where appropriate.

We can work with you to identify key risks and opportunities in each of these areas whilst building consensus on the priority actions to be taken forward. You will receive a concise and focused write-up of the discussion and action plan to help shape the next stages of your work on Brexit.

For more information, follow the link below:

<https://www.grantthornton.co.uk/insights/brexit-local-leadership-on-the-front-line/>

Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<https://www.grantthornton.co.uk/en/insights/a-caring-society/>

<https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/>

<https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/>

National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

<https://www.nao.org.uk/report/local-authority-governance-2/>

Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

Public Sector Audit Appointments

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

Agenda Item 5

AUDIT PANEL			
Report Title	Certification of Work for LBL for Year Ended 31 March 2018		
Key Decision	No	Item No.	5
Ward	ALL		
Contributors	Executive Director for Resources and Regeneration		
Class		Date:	26th March 2019

1. SUMMARY AND PURPOSE

1.1. This report provides an update on the certification work for the London Borough of Lewisham for year ended 31st March 2018.

2. RECOMMENDATION

2.1. The Audit Panel is asked to note the contents of the report.

3. CERTIFICATION WORK

3.1. The external auditors are required by the Public Sector Audit Appointments Limited (PSAA) to certify certain claims and returns submitted by Lewisham Council. This certification typically takes place six to nine months after the claim period and represents a final, but important part of the process to confirm the Council's entitlement to funding.

4. IMPLICATIONS

4.1. There are no significant financial, legal, crime and disorder, equalities or environmental implications directly arising from this report.

5. FURTHER INFORMATION

For further information on this report please contact:
Selwyn Thompson, Head of Financial Services, on 020 8314 6932
Paul Calnan, Acting Group Finance Manager – Accounting, on 020 8314 6167

David Austin
Head of Corporate Resources
London Borough of Lewisham
Laurence House
Catford
London SE6 4RU

8 January 2019

Dear David

Certification work for the London Borough of Lewisham for the year ended 31 March 2018

We are required to certify the Housing Benefit subsidy claim submitted by the London Borough of Lewisham ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) took on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

We have certified the Housing Benefit subsidy claim for the financial year 2017/18 relating to subsidy claimed of £217.3 million. Further details are set out in Appendix A.

We identified a number of issues from our certification work, which we wish to highlight for your attention. The errors were consistent with issues we have found in previous years. The key recurring themes in the errors are:

- Incorrect inputting of claimant income, from income, tax credits or other sources. These errors have led to both underpayments and overpayments to claimants.
- Misclassifications within the subsidy claim not leading to under or over payments to claimants.

As a result of the errors identified, the claim was amended and qualified, and we reported our findings to the DWP. The DWP may require the Council to undertake further work or provide assurances on the errors we have identified.

The indicative fee for 2017/18 for the Council was based on the final 2015/16 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2017/18 was £30,370. This is set out in more detail in Appendix B.

Yours sincerely

Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2017/18

Claim or return	Value of amended claim	Amended?	Amendment value	Qualified?	Comments
Housing benefits subsidy claim	£217,326,582	Yes	£1,513	Yes	See below.

Findings from certification of housing benefits subsidy claim

Errors were identified on the claim, which were consistent with those reported in the previous year. Overall the financial impact of these errors was small in the context of the overall claim.

Non Housing Revenue Account (HRA) Rent Rebates

The following errors were identified from our testing of Non HRA Rent Rebates:

- We identified 6 cases (out of 50 tested) where Non HRA rent rebates were either under or overpaid due to errors in the calculation and input of earnings.
- We identified 2 cases (out of 52 tested) where Non HRA rent rebates were either under or overpaid due to incorrect input of tax credits.
- We identified 3 cases (out of 45 tested) where the Council incorrectly applied the Local Housing Allowance threshold leading to misclassifications in the subsidy claim.
- We identified 1 case (out of 46 tested) where the Council had incorrectly classified expenditure between Short Term Leased and Self Contained Licensed Accommodation.

Housing Revenue Account (HRA) Rent Rebates

The following errors were identified from our testing of HRA Rent Rebates:

- We identified 10 cases (out of 44 tested) where HRA rent rebates were either under or overpaid due to errors in the calculation and input of earnings.
- We identified 2 cases (out of 46 tested) where the overpayment had been incorrectly classified as an eligible overpayment when it should have been classified as a Local Authority Error overpayment.

Rent Allowances

The following errors were identified from our testing of Rent Allowances:

- We identified 4 cases (out of 44 tested) where Rent Allowances were either under or overpaid due to incorrect input of tax credits.
- We identified 9 cases (out of 46 tested) where Rent Allowances were either under or overpaid due to errors in the calculation and input of earnings.
- We identified 5 cases (out of 40 tested) where Rent Allowances were either under or overpaid due to the Council failing to apply the revised Assessed Income amount from the correct start date.

Other Issues

The Council has a policy of disposing of records after six years. From our initial testing we identified two longstanding claimants where the original calculation of benefit award was no longer held at the Council. The DWP is aware of this issue as we have reported this matter in previous qualification letters. We reported it again in 2017/18.

Recommended actions for officers

We recommend that the Council, as part of its internal quality assurance process, increase its focus or level of testing in respect of the areas where we identified errors from our testing.

Appendix B: Fees for 2017/18 certification work

Claim or return	2015/16 fee (£)	2017/18 indicative fee (£)	2017/18 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	£30,370	£30,370	£30,370	£Nil	N/A

Agenda Item 6

AUDIT PANEL		
Report Title	Value for Money report and opinion	
Key Decision	No	Item No. 6
Ward	ALL	
Contributors	Acting Chief Finance Officer	
Class	Part 1	Date: 26 March 2019

1. Purpose of the report

- 1.1. This report presents the Audit Panel with the external auditor's, Grant Thornton, annual Value for Money (VFM) final report and opinion. It also presents Officers update on the work in hand to respond to the recommendations made in the VFM report.

2. Recommendations

- 2.1. It is recommended that the Audit Panel note the:
 - Appended VFM report and opinion;
 - Officers response to the auditor's VFM recommendations; and
 - Pending audit certificate, subject to the auditors completing their consideration of objections related to the accounts for the year ended 31 March 2017.

3. Background

- 3.1. The annual external audit concludes with two opinions, one on the financial statements and one on the Council's arrangements for VFM. An unqualified financial statement opinion on the 2017/18 accounts was received in 2018.
- 3.2. However, while a draft unqualified opinion on the budget and savings arrangements was reported to members in 2018, the final VFM opinion was delayed to enable work by the Chief Executive and interim Chief Executive reviewing the Transformation programme to be concluded. That work has concluded enabling the auditors to issue their full VFM report and opinion.

4. VFM opinion

- 4.1. As noted above the VFM opinion, appended to this report, is a formal annual report issued by the external auditors on the Council's arrangements for VFM.
- 4.2. The auditors assess the authority's arrangements for:
 - Acting in the public interest, through demonstrating and applying the principles and values of sound governance;

- Managing risks effectively and maintaining a sound system of internal control;
 - Planning, organising and developing the workforce effectively to deliver strategic priorities; and
 - Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- 4.3. For 2017/18 the auditors reviewed the Council's arrangements in three key areas; budget, savings, and transformation. They reported to the Panel in September 2018 that there were no significant weaknesses in respect of the budget and savings arrangements but were holding open their final opinion to enable the ongoing work by officers in the area of transformation to be concluded before finalising their opinion.
- 4.4. That work now being concluded, the VFM opinion identifies the following matters in respect of the Council's transformation programme in 2017/18:
- The overall arrangements were insufficient to support a transformation programme of this scale and complexity, with many of the expected elements of effective programme management missing in the overarching governance arrangements; and
 - Assurance and oversight arrangements were insufficient to identify risks and issues in the delivery of this programme, to escalate them appropriately and to ensure action was taken to mitigate them. This meant that senior management was unable to address the deficiencies in the programme adequately.
- 4.5. Taking account of these findings the auditors have issued an 'except for' qualified VFM opinion.

5. VFM report

- 5.1. To support their opinion the auditor's issue a report setting out their findings and recommendations. The auditor's VFM report is appended to this report.
- 5.2. The recommendations made are:
- As you re-design your programme governance arrangements, consider the role of your assurance functions in providing assurance over the programme as a whole, and with 'deep dives' as appropriate. Ensure there is sufficient segregation of duties between management and oversight of the programme (a level 2 line of defence), and independent assurance provided by audit functions (a separate, level 3 line of defence).
 - Clearly annotate your overarching transformational strategy and vision so that all officers are clear on the aims and objectives and what the future service delivery entails.
 - Ensure you consider fully the required skills, resource and expertise is required, and undertake a capability and skills audit against current establishment to identify potential skills gaps and mitigate the risks arising.
 - Map interdependencies across projects.
 - Prior to relaunching any of the paused projects detailed benefits realisation assessments need to be undertaken. Business cases should include a detailed

assessment of strategic, financial and non-financial benefits to be gained and a clear implementation strategy (including required training) for realising said benefits.

- Ensure the Project Management Office is independent from day to day project activity, and plays an effective role in assuring information is accurate and supported before it is presented to the programme board.
- Ensure routine gateway reviews are undertaken at key stages of the programme and projects.
- Ensure a culture is in place which encourages “bad news”, as well as “good news” to be reported.
- The transformation project needs to be aligned to your Medium Term Financial Strategy with clear financial analysis of the expected savings that will be generated from projects.
- Implement the new governance structures that will give senior management the strategic oversight and responsibility for delivering the transformation projects. Ensure risk identification is supported with appropriate skill-set and capability within projects, and that escalation and reporting arrangements are robust and effective.
- Undertake robust post implementation reviews across all transformation projects and ensure success factors and lessons learned are spread across projects.
- There may be lessons to be learnt in the recruitment of a replacement chief executive. Members should reflect on what those lessons may be and how future recruitment can be undertaken to minimise the risk of recurrence of the experience in 2018.

Officer response to the recommendations

- 5.3. Officers have been reviewing their arrangements for managing change and transformation work through 2018/19. The developments described below are designed to improve the governance arrangements and effectiveness of reporting and monitoring of change projects and programmes. These have been discussed with the auditors and will continue to be so to ensure they address their concerns on the matters highlighted in their opinion and to inform the work on the 2018/19 accounts.
- 5.4. As noted in the VFM report, through 2018/19 a top down a review of the governance arrangements relating to change and transformation projects and programmes has been undertaken. This resulted in the disbanding of the operational transformation team, the pausing of a number of elements of the programme and planned projects, and enhanced oversight of those projects continuing.
- 5.5. The interim arrangements in place in respect of the Head of Corporate Resources role, which includes the Head of Internal Audit role, have raised the risk of perceived and potential conflict of interests in terms of assurance work. The Acting Chief Finance Officer is therefore recruiting to a separate Head of Internal Audit role which will ensure any conflicts are managed and enhance the objectivity and focus of assurance support to future change work. This will include allocating more time and resource to project assurance work, as a higher area of risk for the Council, going forward.
- 5.6. The Executive Management Team (EMT) has agreed a revised governance approach which, as well as identifying the corporate and service ownership and commitments to change work required, clearly defines the portfolio programme office requirements, roles

and responsibilities, and associated skill sets (e.g. business analysis, project manager, change manager, etc..) to ensure appropriate and consistent 'business case' to 'post implementation' arrangements are in place and adhered to for all projects.

- 5.7. The portfolio officer will also be responsible for developing a transformation strategy that: 1) horizon scans for opportunities and innovations; 2) aligns with and supports service improvement plans, which in turn align to the corporate strategy; and 3) clearly defines the independent programme and project governance approach, reporting to EMT.
- 5.8. This defined programme approach will enable improved monitoring and reporting that will help track:
 - business cases aligned to strategic priorities;
 - project interdependencies;
 - clear, consistent and timely reports;
 - full, risk based, monitoring with project milestones tracked; and
 - post-implementation reviews and benefit realisation assessments.
- 5.9. The template business case requirement will follow the Treasury's guidance to include strategic, economic, commercial, financial, and management considerations to ensure the full consideration of risks and benefits are assessed and can then be monitored through delivery once agreed.
- 5.10. For the work in progress and those projects to be re-launched these are being converted into the new approach outlined above as pilots to:
 - ensure improvements in response to the VFM findings are addressed now;
 - bring consistency across all projects monitored corporately; and
 - help develop the required reporting templates and guidance for future projects.
- 5.11. EMT have agreed to oversee the implementation and governance of the change and transformation work going forward as described above with six weekly sessions to review all work in progress, approve new work, and track delivery progress and benefits realisation. EMT will also continue to review assurance reports via the existing internal control board arrangements.
- 5.12. The interim Chief Executive has held a leadership event for the top 100 senior leaders across the Council and committed to hold similar events regularly (the next in six months) to support better communication, strengthen collaborative behaviours, and build greater trust. This will facilitate effective formal and informal working relationships and networks to enable news, good or bad, to be shared and positive actions agreed.
- 5.13. The Council will reflect on the priorities of the transformation strategy and plans of the portfolio programme in financial planning and reporting to members, in particular through the medium term financial plan to assess the impact in terms of the Council's financial resilience going forward. The next MTFs is due in June 2019.

6. Legal implications

6.1. There are no legal implications arising directly from this report.

7. Financial implications

7.1. There are no financial implications arising directly from this report. However, members will note that the proposed actions in response to the recommendations may have financial costs and these will be reported to Members in separate reports as decisions are finalised.

8. Equalities implications

8.1. No direct equalities implications have been identified, in terms of adverse impact, with respect to the Council's obligations under the Equality Act 2010

9. Crime and disorder implications

9.1. There are no crime and disorder implications arising directly from this report

10. Environmental implications

10.1. There are no specific environmental implications arising directly from this report

11. Appendices

11.1. Appended to this report are the Grant Thornton:

- VFM opinion
- VFM report

If there are any queries on this report, please contact:

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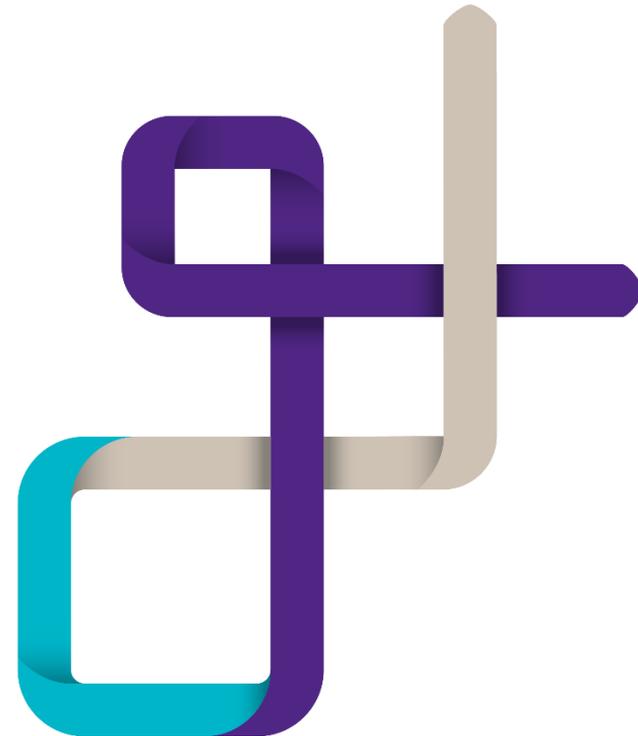
Value for money conclusion

Year ending 31 March 2018

London Borough of Lewisham Council

February 2019

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Appendices

A. Action plan

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 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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Value for Money

Background to our VFM approach

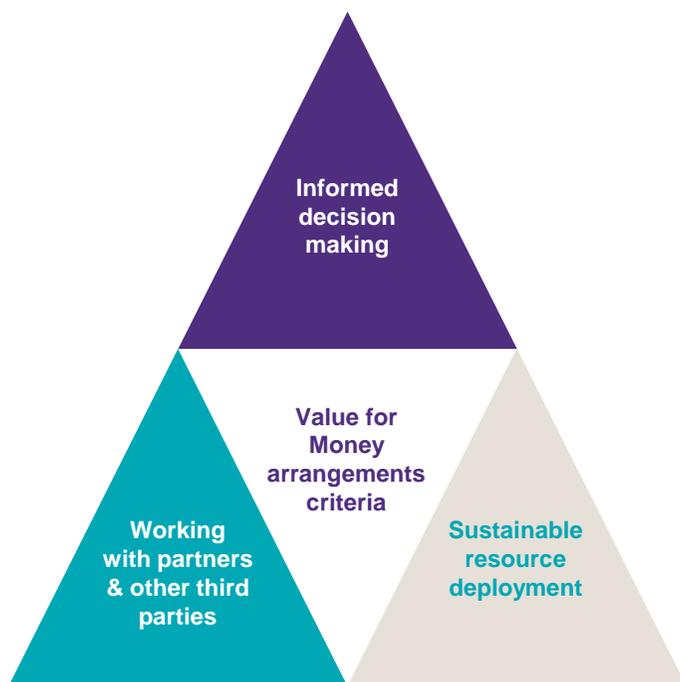
The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether you have proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:

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Risk assessment

We carried out an initial risk assessment in January and February and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated February 2018. The risks that we identified were as follows:

- budget management;
- savings plans and medium term financial planning; and
- transformation

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

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

Our work

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

We have focused our work on the significant risks that we identified in your arrangements. In arriving at our conclusion, our main considerations were:

- Your outturn position against general fund revenue budgets for 2017/18
- Whether your Medium Term Financial Strategy is based up a reasonable assumptions
- The appropriateness of arrangements in place in respect of your transformation programmes

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

Value for Money

Risks as reported in audit plan

Our audit plan for 2017/18 identified three significant risks in respect of your VFM arrangements. These were

- Budget management;
- Savings plans and medium term financial planning; and
- Transformation

The risks, in detail, are set out on the right.

Significant VFM risks

These risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.



Budget Management

You are currently projecting a £12.9m overspend on the 2017/18 budget. Should you utilise the risk and other budget pressures reserve in full this will reduce your overspend to £11.6m. This anticipated overspend is larger than the prior year overspend of £7m. Should the position worsen then this will increase the pressure into 2018/19.

In response to this risk we will:

- Update our understanding of the pressures affecting the 2017/18 budget.
- Consider whether you have adequate arrangements to manage those pressures and to secure a sustainable financial position.
- Consider your approach towards the use of reserves.



Savings plans and medium term financial planning

You have set a balanced budget for 2018/19 which includes an overall increase in the total Council Tax of 4.20%, and savings of £4.9m. In addition, the budget proposals include a transfer of £5m from the New Homes Bonus reserve to the General Fund, the use of £3.6m reserves, you have also set aside £13.4m for identified and unidentified corporate risks and pressures. Going forward you will need to identify further savings of circa £35m for 2019/20 and 2020/21. Your Medium Term Financial Strategy anticipates that post 2020 approximately £10m per year of savings will be required.

In response to this risk we will:

- Consider your arrangements to identify and deliver savings and efficiencies towards achieving a sustainable medium term financial position.
- Update our understanding of how you are working with partners in the local health economy to achieve savings.



Transformation

You are planning a significant transformation programme. This will be technology enabled and seek to drive the right cultural outcomes from, and for, people, facilitating innovation to drive transformational benefits – financial and non-financial – resulting in service improvements and better working with residents. Any transformation programme of this scale, complexity and ambition carries inherent risk.

In response to this risk we will:

- Update our understanding of overarching programme management arrangements.
- Consider whether you have adequate arrangements to manage the interdependencies, identify and realise planned benefits and ensure robust and effective programme governance.
- Assess the extent to which transformational plans and medium term financial planning is aligned, and whether assumptions in financial plans align with programme ambitions.

Value for Money

The audit plan was finalised and agreed in early 2018. Fieldwork in respect of all three risk areas was planned for spring and early summer of 2018.

We undertook the fieldwork for the first two risk areas during this period, and reported our findings to the Audit Panel in our reports in July 2018 and September 2018.

Following discussions with officers during the fieldwork stage earlier in the year, we were informed that there may be significant weaknesses in the arrangements underpinning the transformation programme. The interim CEO was concerned about the increasing costs of the programme and, pausing it whilst priorities were assessed and confirmed, embarked upon a review to assess service plans and priorities, progress with transformation work and the arrangements supporting the programme. This was reported to the Executive Management Team (EMT) in May 2018. Senior management were also alerted to governance concerns, and a specific review was undertaken by the Monitoring Officer. The new chief executive, who was appointed in March 2018 and took up his position in May 2018, subsequently initiated a number of selective service reviews / interventions across the Council, particularly focused on Children's Social Care, Transformation, Technology, and Finance. The chief executive drafted a paper containing proposals, prior to his departure, for taking Transformation forward covering governance, priorities, and timetable.

We therefore agreed with officers that we would defer our review until officers had concluded their reviews and investigations in this risk area. In our reports to the Audit Panel in July 2018 and September 2018, in respect of the Transformation risk, we said:

“You are currently undertaking an internal review of the governance arrangements over your transformation programmes. We are awaiting the conclusion of your review before completing our work in this area. Because of this we are not able to conclude against this significant risk at this stage. We will conclude our value for money conclusion once we have had an opportunity to consider the outcome of your reviews and consider the impact on our conclusion and on the other significant risks”

The reviews and investigations are now complete and we have concluded our value for money work in respect of the transformation programme risk area.

Having concluded our work in all risk areas, we have therefore also concluded our work in respect of your overall vfm arrangements.

In carrying out our work, we

- Reviewed your programme documentation, internal and external reports, investigation reports and other key documentation;
- Discussed issues and arrangements with key relevant senior officers, as well as individuals within the team; and
- Reviewed management plans for future arrangements and direction of travel.

This report sets out the findings from our work on the transformation risk. It also reproduces the findings we reported in respect of the other two significant risks, as contained in our reports to the Audit Panel in July 2018 and September 2018, so that the full value for money findings are contained in one document.

Recommendations for improvement

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

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

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

Value for Money

Overall conclusion

Areas of review

In our audit plan we stated we would review the arrangements in place in respect of the following areas:

- Budget management
- Savings plans and medium term financial planning
- Transformation

Whilst we were completing our work the new chief executive, who took up his position in May 2018, departed the Council in December 2018. We identified this as a fourth area and considered this within our work in respect of your arrangements to support value for money.

Previously reported findings

We reported previously, in our interim vfm report, in respect of the first two areas of focus:

- Budget management; and
- Savings plans and medium term financial planning

Our review did not identify any significant or material weaknesses in these arrangements. We did, however, identify areas for improvement and raised recommendations to strengthen the arrangements in place. These were reported in July 2018 and are represented in Appendix B in this report.

Findings in respect of Transformation arrangements

Our review of arrangements in respect of your transformation programme did, however, identify a number of significant weaknesses in respect of those arrangements.

The transformation programme, agreed by the Council as part of the 2017/18 budget, comprised a £10.6m plan to transform ways of working and service delivery, to be implemented through the following three sub-programmes:

- A variety of digital projects to support service change and some infrastructure works to transform ways of working and enhance service delivery, efficiency and effectiveness. This represented £4.9m of the £10.6m transformation budget;
- Oracle Cloud ERP (finance, HR and payroll), representing £3.3m; and
- Agile working, cultural change and refurbishment of Laurence House, representing £2.5m.

From our review of this transformation programme, it was clear the arrangements in place were not sufficient in two key regards, *inter alia*:

- Arrangements were insufficient to support a transformation programme of this scale and complexity, with many of the expected elements of effective programme management missing in the overarching governance arrangements; and
- Assurance and oversight arrangements were insufficient to identify risk issues, escalate appropriately and ensure action was taken to mitigate, meaning senior management was unable to respond sooner to the deficiencies in place.

In our view, these matters are evidence of weaknesses in the arrangements for:

- Demonstrating and applying the principles and values of sound governance
- Managing risks effectively and maintaining a sound system of internal control;
- Planning, organising and developing the workforce effectively to deliver strategic priorities; and
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management including where relevant, business cases supporting significant investment decisions.

Once senior management was made aware of these issues, their response was appropriate and effective.

We recognise that senior management are taking significant steps to strengthen the robustness of governance arrangements in place to support essential transformation within the Council. In our discussions with senior officers, we saw a good understanding of the issues that had been in place and the measures needed to improve and strengthen arrangements. Officers were also helpful, open and transparent in discussing the issues with us.

It is also clear that addressing these weaknesses is a priority for your senior officers. You are undertaking a review to identify future transformation needs and governance arrangements, with the aim of remedying the risks and deficiencies in the previous arrangements to support effective transformation going forward.

Value for money conclusion

Based on the work we have performed to address the significant risks set out in the audit plan, we have concluded that, except for the matters we have identified in respect of transformation governance arrangements, the Council has proper arrangements in all significant respects.

We therefore propose to issue a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources.

TRANSFORMATION – SUMMARY FINDINGS

Significant risk

As set out in the audit plan dated February 2018

Transformation

You are planning a significant transformation programme. This will be technology enabled and seek to drive the right cultural outcomes from, and for, people, facilitating innovation to drive transformational benefits – financial and non-financial – resulting in service improvements and better working with residents. Any transformation programme of this scale, complexity and ambition carries inherent risk.

In response to this risk we will:

- Update our understanding of overarching programme management arrangements.
- Consider whether you have adequate arrangements to manage the interdependencies, identify and realise planned benefits and ensure robust and effective programme governance.
- Assess the extent to which transformational plans and medium term financial planning is aligned, and whether assumptions in financial plans align with programme ambitions.

Findings and conclusion

Summary findings

- Management was aware of potential significant weaknesses in the transformation governance arrangements and were investigating. As a Council, you have confirmed and concluded that such weaknesses did exist. You have decided the transformation programme, as originally constituted, was not appropriately designed, and have decided to pause elements of the programme in its previous form whilst the overarching governance arrangements are redesigned. Various reviews have taken place and you have accepted the recommendations, and are putting action plans in place, to revamp the transformation programme and associated governance and programme management arrangements.
- The Council is to be commended for taking action to address the significant deficiencies within the programme, which were present during the past year. The Council is also to be commended for being sufficiently flexible to adopt a fulsome redesign of the programme architecture, acknowledging the mistakes of the previous arrangements and seeking to strengthen the robustness of arrangements in the future transformation programme going forward. It was clear from our discussions with senior officers that the deficiencies in the previous arrangements were understood, and there was clear vision articulated in terms of the changes that needed to be made, along with a good understanding of governance requirements going forward.
- Notwithstanding this, the arrangements in place during the year of audit were not sufficient. They did not address or support the needs of a transformation programme of this scale and complexity. Arrangements fell short due to a combination of inappropriate governance and insufficient skills and experience at the detailed level. Governance was unclear, or not operating effectively, and the skills deployed and in place within the programme and individual projects were not suitable for a programme of this size. At an operational level, individuals within the programme raising issues of concern were not always listened to. Governance concerns expressed at an operational level were not escalated upwards sufficiently. Oversight boards and committees did not always recognise the problems that were arising or, if they did, did not always fully appreciate the significance of these issues and ensure they were escalated and mitigated.
- Effective organisations have three 'lines of defence' in terms of assurance and control. Level 1 refers to the assurance to be gained from the appropriate operation of controls by having effective arrangements in place at the ground level. Level 2 refers to the assurance to be gained from the effective operation of review committees, programme boards, risk committees, and other oversight mechanisms, which either provide assurance over arrangements or escalate issues reported to it. Level 3 refers to independent assurance functions, such as internal audit, or external inspection.

continued.....

TRANSFORMATION – SUMMARY FINDINGS

Significant	Findings and conclusion
<p>Transformation</p> <p>Continuation of risk noted on the previous page</p>	<p>Summary findings – <i>continued</i></p> <ul style="list-style-type: none"> • None of the Council’s assurance mechanisms identified the significance of these problems at an early stage, meaning action was not taken as early as it could have been in response. Risk and issues at ground level were not always heeded. None of these issues were identified by any independent assurance reviews. Furthermore, action was only taken when the interim chief executive paused the programme upon becoming concerned at requests for additional funding, or when governance issues were articulated and pursued by individuals outside of the Council’s core assurance, governance and oversight mechanisms. It was only once this took place that senior management became fully aware of the potential deficiencies in place and, once aware, took action. Once senior management was made aware, their response was appropriate and effective. Had assurance and governance mechanisms and arrangements functioned more effectively, senior management would have been in a position to have identified the issues and taken action sooner. • As such, the programme continued to operate with insufficient arrangements for longer than it needed to. This may have resulted in decisions being made, and costs being incurred, unnecessarily. The Council’s view is that, whilst this may be the case, costs incurred are not ‘wasted’ costs, as they have supported the Council’s learning and development in the evolution of the programme arrangements and, the Council contends, many necessary changes were still delivered. However, the insufficient arrangements mean progress against this significant risk area has been slower than planned, consuming significant quantities of management time and preventing the Council from moving forward more quickly in developing its transformation of services for residents and taxpayers. It is also not clear whether certain decisions, which have incurred cost for the Council and taxpayers, would still have been made had the governance arrangements operated more effectively and had the potential risks and issues been articulated and considered more fully at the time investment decisions were made.

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TRANSFORMATION – DETAILED FINDINGS

Significant risk

As set out in the audit plan dated February 2018

Transformation

You are planning a significant transformation programme. This will be technology enabled and seek to drive the right cultural outcomes from, and for, people, facilitating innovation to drive transformational benefits – financial and non-financial – resulting in service improvements and better working with residents. Any transformation programme of this scale, complexity and ambition carries inherent risk.

In response to this risk we will:

- Update our understanding of overarching programme management arrangements.
- Consider whether you have adequate arrangements to manage the interdependencies, identify and realise planned benefits and ensure robust and effective programme governance.
- Assess the extent to which transformational plans and medium term financial planning is aligned, and whether assumptions in financial plans align with programme ambitions.

Findings and conclusion

Detailed findings

We set out below some of the detailed findings informing our proposed vfm conclusion.

The transformation programme, agreed by the Council as part of the 2017/18 budget, comprised a £10.6m plan to transform ways of working and service delivery, to be implemented through the following three sub-programmes:

- A variety of digital projects to support service change and some infrastructure works and transform ways of working to enhance service delivery, efficiency and effectiveness. This represented £4.9m of the £10.6m transformation budget;
- Oracle Cloud ERP (finance, HR and payroll); and
- Agile working, cultural change and refurbishment of Laurence House.

The following weaknesses, which were present in your arrangements for delivering the transformation programme, have led us to conclude that you did not have proper arrangements in place to address the risk identified in our Audit Plan.

- You did not implement an overarching strategy that clearly describes to your key stakeholders how your key transformational projects are designed, interlinked and implemented to drive future service delivery.
- The established devolved governance arrangements resulted in a lack of clarity in the roles, responsibilities, ownership and accountability throughout the programmes. A combination of inaccurate/inadequate reporting and a lack of challenge by senior management of the reporting at transformational boards resulted in problems not being identified or resolved on a timely basis.
- The benefits realisation assessment across projects was not adequate. This hindered the assessment of the success and failures of projects as they progressed.
- The pace of the implementation of schemes impacted on the ability to communicate and train staff, and ensure they were fully involved, committed and understood the aims, objectives and trajectory of projects. This led to a loss of 'hearts and minds' of staff implementing the programmes, undermining the buy-in and ownership at ground level that is necessary to implement transformation successfully and realise cash and non-cash benefits.

The transformation project needs to be closely aligned to your Medium Term Financial Strategy, as mitigating the medium term financial gap is dependent in part on the successful delivery of the transformation programme. This means slippage in the transformation programme, or parts of it, could lead to adverse financial consequences in future years.

You have undertaken an internal review of the transformation programme. You are currently implementing the lessons learnt from this review, including pausing some projects to enable a more detailed analysis to be undertaken, and remodelling the governance structures to enable senior management to own, drive and lead future programmes.

TRANSFORMATION – DETAILED FINDINGS

Significant risk

Transformation

Continuation of risk noted on the previous page.

Findings and conclusion

Transformation Governance

The transformation programme is split into four major programmes: Customer Services, Adults' Social Care; Children's' Social Care; and Digital Council. You implemented a devolved governance model, with each programme having a separate programme board and Senior Responsible Owner (SRO) that broadly mirrored the directorate structure of the Council. The reasons for this were not unreasonable: you correctly anticipated that successful transformation programmes rely on a significant degree of buy-in and ownership at ground level, and that benefits are best realised when the 'business' itself fully embraces and drives the change. The devolved governance model was designed to maximise the likelihood of this.

However, in adopting a devolved governance model, you did not establish an overarching board from your senior management team that had strategic oversight across the entire transformational programme. As a result, there was insufficient transparency and management of interdependencies across projects and inadequate monitoring, challenge and holding of the programme boards and SROs accountable for delivery.

The governance structures did not clearly articulate the roles, responsibilities, ownership and accountability of stakeholders throughout the programmes. A combination of inaccurate/inadequate reporting and a lack of challenge by senior management of the reporting at transformational boards resulted in problems not being identified or resolved on a timely basis. Particular issues occurred in the Digital Transformation programme where there were some shortfalls in skill-sets, capability and experience without sufficient oversight/support from more senior officers. Issues that experienced project managers felt needed raising to the Digital Transformational Board for discussion were in some cases excluded from papers and/or risk ratings changed to present issues and progress in a more favourable light. This resulted in insufficient focus and challenge on the key risks.

You did not fully utilise the assurance functions available to you that would have provided independent scrutiny and challenge of the governance arrangements across the projects. Transformational projects of this scale that are key to transforming service delivery and generating significant future savings traditionally have a high level of risk associated with them. We would have expected you to have deployed more of your assurance function resources such as Internal Audit to provide a robust, independent review and challenge of your arrangements, controls and processes utilised to deliver the projects. Your Head of Internal Audit was acting as a project sponsor on one of the Digital Transformation projects. Whilst this project did not represent a large proportion of the overall transformation programme, nonetheless these dual roles risk the perception of a conflict of interest and a lack of independence on any work Internal Audit could have undertaken to provide assurance in this area.

Strategy and project planning

You did not implement an overarching strategy that clearly describes to your key stakeholders how your key transformational projects are designed, interlinked and implemented to drive future service delivery. Such a strategy is essential to demonstrate the reasons for projects, how they are implemented and the expected benefits that transformation will bring all stakeholders. This is also particularly essential to realise the benefits of ownership and buy-in from implemented a devolved governance model. Such a visible strategy that is updated as projects progress/change will facilitate officers' understanding of how their work correlates with your wider strategic vision, helping you to bring hearts and minds with you and ensuring those responsible for delivering projects retain a sense of ownership and purpose within the wider vision.

TRANSFORMATION – DETAILED FINDINGS

Significant risk

Transformation

Continuation of risk noted on the previous page.

Findings and conclusion

The design of the future services including working processes and controls to support future delivery was not articulated to all key stakeholders. The core required elements of individual project plans, such as benefit realisation assessments, were not consistently completed. This resulted in challenges in assessing the progress and the success or failure of each project. You did not define clear timescales and measures of success at regular intervals to be able to successfully monitor and judge progress and to enable informed decisions to be taken as to whether to continue with the project, make changes to the approach or abandon a project altogether. For completed projects, post-implementation reviews were not completed and lessons learnt applied across other projects in a timely manner.

Project delivery

Officers have stated that project timelines were driven by the budget available and were given unrealistic timeframes, resulting in standard project methodologies not consistently being followed, rushed decisions by management and insufficient training time devoted to using new processes and technology. Roles and responsibilities of officers implementing projects were unclear. This caused a loss of morale amongst the officers who would benefit the most from the changes as they felt disconnected from the process.

You have struggled to recruit and retain officers with the specialist technical skills that some of the more complex ICT projects require. You have tried to resolve some of these capacity and capability issues by recruiting less experienced or more generalist project managers at a lower fee. However, as issues of a more technical nature have arisen you have had to appoint more experienced specialists to address these issues and progress projects.

Alignment of the Transformation programme to Medium Term Financial Strategy

The transformation programme key aims are focussed towards delivering your services more efficiently, increasing productivity and successfully shifting services online. These aims align well with those of the Medium Term Financial Strategy to support proper financial management and control of the Council's resources to secure efficiency. Due to the decision to pause elements of the transformation programme, in the most recent Medium Term Financial Plan there is no reference to the transformation programme as a means of delivering the required savings. The plan instead states that the Lewisham Future Programme approach to financial planning is being reviewed following the start of the new administration, Mayor and Chief Executive in May 2018. It will be important, once the revised programme objectives, aims and vision are fully agreed, to fully map the interdependencies such that the impact of any changes, delays or slippage to the transformation programme can be easily assessed in terms of the knock-on impact on your medium term financial plans.

Progress made by the council

The interim CEO, concerned about the increasing costs of the programme, paused it. She then embarked upon a review with the aim of assessing the progress of each project under the transformation programme umbrella and recommending whether projects should be continued, changed or abandoned altogether. A number of projects have continued to be delivered. The Oracle Cloud project has continued and is in the process of being rolled out in stages. The digital transformation project, which aims to shift transactional services online and improve the customer experience, facilitated by a new website, has continued, as has refurbishment of the Council's offices. The more problematic projects, such as those in Adult and Children's Social Care, have been paused and are being refreshed.

The devolved governance arrangements are being renewed to enable the Executive Management Team have more oversight, with the Chief Executive as SRO and accountable to the Mayor and Cabinet. The Chief Executive will be supported in the tracking of the progress of each project by the creation of a programme management office. We support the increased robustness these changes will bring, enabling senior management to maintain a closer focus over the transformation programme.

RECRUITMENT AND DEPARTURE OF THE CHIEF EXECUTIVE – MAY 2018 TO DECEMBER 2018

Significant risk

Findings and conclusion

Chief Executive

Chief executive: March 2018 to December 2018

May 2018 to December 2018.

In March 2018, as set out on your website, Members appointed a new chief executive, “following a rigorous selection process by an appointments panel consisting of Sir Steve Bullock, (former) Mayor of Lewisham, and a cross-party group of eight councillors. Organisations from across the Lewisham borough also took part in the selection process, including:

- Lewisham Hospital
- the Police
- Goldsmiths, University of London
- Phoenix Community Housing
- SE London Chamber of Commerce.”

In November 2018, Members announced they had decided to “take a new direction....with no negative reflection on [the then chief executive]”. The chief executive left the Council after only 7 months in post. Dealing with this matter unavoidably consumed additional management capacity at a senior level. This capacity, in the absence of this matter, could have been better utilised and directed towards the other significant challenges the Council faces, particularly given the significant issues with transformation governance that needed to be addressed.

Taken as a whole, and considered in the context of our review into the Council’s overall arrangements to secure value for money in the use of its resources, this was an undesirable turn of events which Members will wish to avoid in the recruitment of a replacement chief executive. There may be lessons to be learnt in respect of this matter. Members should reflect on what those lessons may be and how future recruitment can be undertaken to minimise the risk of recurrence.

BUDGET MANAGEMENT – PREVIOUSLY REPORTED IN JULY AND SEPTEMBER 2018

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

Significant risk	Findings and conclusion
<p>As set out in the audit plan dated February 2018</p> <p>Budget Management</p> <p>You are currently (at risk assessment) projecting a £12.9m overspend on the 2017/18 budget. Should you utilise the risk and other budget pressures reserve in full this will reduce your overspend to £11.6m. This anticipated overspend is larger than the prior year overspend of £7m. Should the position worsen then this will increase the pressure into 2018/19.</p> <p>In response to this risk we have:</p> <ul style="list-style-type: none"> Updated our understanding of the pressures affecting the 2017/18 budget. Considered whether you have adequate arrangements to manage those pressures and to secure a sustainable financial position. Considered your approach towards the use of reserves. 	<p>Summary findings</p> <ul style="list-style-type: none"> Your 2017/18 outturn position delivered a net £16.5m (7.1%) overspend. This resulted from a significant directorate overspend of £20.6m offset by directorate underspends of £2.8m and £1.3m contingency held corporately for risks and other budget pressures. The Children and Young People directorate overspend of £15.6m (32%) is particularly significant. You need to gain a clear understanding of the circumstances that have driven the overspend and put in place robust measures to address these, as well as consider the sufficiency of the budgets in these areas. There is no guarantee non-departmental underspends will continue, so vigilance over future positions is critical. Failure to deliver to budget could have a significant impact on your financial health. You increased Lewisham's share of council tax by 4.99% for 2017/18 but, as service pressures are expected to grow, substantial efficiency and transformation savings will continue to be required across the organisation. <p>2017/18 Financial Performance</p> <p>Like most local authorities across the country, the London Borough of Lewisham is facing a challenging financial position and uncertainty around future funding. You faced a reduction of £13.5m in the Revenue Support Grant in 2017/18 (£46.1m) compared to 2016/17 (£59.1m). You set a balanced budget for 2017/18 which relied on achieving an identified £22.2m of savings, increasing your share of council tax by 4.99% (1.99% increase plus 3.00% increase for the Social Care Precept), use of £5.0m of the New Homes Bonus for revenue purposes and release of £6.5m of corporate budget to offset risks and pressures.</p> <p>The 2017/18 £22.3m savings programme was agreed by you in the Lewisham Future Programme in September 2016. The savings which were identified as part of the budget process were deducted from the relevant service's budget. The savings programmes were not directly monitored, as monitoring was undertaken on overall budgets. In our view, this results in a lack of transparency and clarity in identifying whether the overspends are the result of under-delivery of savings plans or genuine unavoidable pressures from demand increases. Without this clarity, you may not be able to properly assess the robustness of future plans and make an informed judgement as to the deliverability of the £13.0m of additional savings in the 2018/19 budget. This also risks hampering your ability to make informed decisions in response, and your ability to properly assess performance in delivering transformational savings. We would recommend strengthening governance in this area by specifically monitoring the delivery of savings programmes and the success of the schemes involved and, importantly, where savings are not delivered as planned, identifying the causal drivers behind this. This will also enable you to determine whether overspends are due to failed savings programmes or deficiencies in the budget setting and delivery processes. It is important to understand these distinctions as the responses needed in each case may differ. We will consider this further in our subsequent review of your transformation governance arrangements.</p> <p>Your financial outturn position shows a £16.5m overspend on the directorates' net general fund revenue budget. However, this position was after applying £1.3m of a one-off corporate sum for risks and other budget pressures. The underlying service level overspend is therefore £17.8m, with the most significant overspends in Children and Young People (15.6m or 32%) and Customer Services (£5.0m or 11.7%). These were offset by underspends elsewhere, including £1.9m in the Resource and Regeneration directorate and 0.9m in the Community Services directorate. Despite the overspends, the General Fund balance at year end remained at £13.0m and Earmarked reserves increased by around £10.5m to £160.1m.</p> <p>The overspends have been regularly communicated to senior officers and members. The financial position is reported to members through the quarterly Public Accounts Select Committee meetings as at May, September, December and January, and monthly to the Executive Management Team. Until January 2018 the Council was reporting an overspend of approximately £13.0m. This was largely driven by demand led services within the Children and Young People directorate, mainly children's social care, and the environment section of the Customer Services directorate.</p>

BUDGET MANAGEMENT – PREVIOUSLY REPORTED IN JULY AND SEPTEMBER 2018**Significant risk****Findings and conclusion****Budget Management**

Continuation of risk noted on the previous page.

From May 2017, overspends in Children and Young People were forecast to be £7.0m and rose steadily to £8.6m in January 2018. That significant overspends were forecast from so early in the year indicates a weakness in the arrangements for identifying assumptions for the budget setting in this area. You should strengthen the budget setting arrangements and improve the robustness of the assumptions on which the budget is based. The overspend had increased significantly to £15.6m by the end of the year. The increase was not due to a dramatic surge in demand led services in February and March. Instead it was due to assumptions made in financial forecasting that included mitigations that had been expected to be made earlier in the year that had not come to fruition. This resulted in the additional overspend only being reported at the year end. This indicates a weakness in the arrangements around the reporting of financial information to management and members. The final overspend was due to demand throughout the year for residential care places (£3.2m), fostering (£2.0m), placements in semi-independent accommodation (£1.8m) and other placements. Furthermore, a £7.5m overspend on staffing, particularly due to agency spend to meet the increased demand, had a negative impact on the Children's Social Care budget. Also contributing to the overspend in the Children and Young People Directorate is an overspend of £1.0m on schools' transport due to the increased use of taxis for extra pupils being transported following a reduction in the number of buses in service. We recommend presenting more information around the mitigations included in the forecast outturn reports to enable closer scrutiny of these to prevent unexpected deterioration of the financial position at the end of the year.

The other significant area of overspend was £5.0m in the Customer Service directorate. The largest element of this was the £3.2m overspend in the Environment section. Most of this was attributable to the £2.1m overspend in the refuse service caused by the delay in implementing the move to fortnightly collections and introduction of the new food and garden waste service for which new vehicles were not procured in time to implement, leading to increased vehicle hire charges.

Authority	General fund reserves as at 31 March 2018	Gross service expenditure for 2017/18	Ratio of General Fund reserves to Gross service expenditure
	£000	£000	%
Lewisham	13,000	925,075	1.4%
Average (All London Boroughs)	19,672	879,996	2.7%
Neighbouring and comparable London Boroughs			
Greenwich	13,269	888,988	1.5%
Lambeth	22,851	1,301,324	1.8%
Newham	12,352	1,202,228	1.0%
Southwark	18,803	1,257,329	1.5%
Tower Hamlets	33,255	1,260,278	2.6%
Croydon	10,393	1,174,044	0.9%
Waltham Forest	14,572	863,711	1.7%

Your General Fund position has remained at £13.0m at 31 March 2018, which is the same as in 31 March 2017. This has been achieved through the use of one-off corporate resources, such as the £10.9m transfer of NHS long term creditors to Health Reserves and £6.5m surplus on Corporate Provisions.

This ratio of General Fund reserve to gross service expenditure is relatively low in comparison to other London Boroughs. It is around half that of the average of all London Boroughs, and when compared to your closest and most comparable size boroughs only Croydon and Lambeth have lower ratios. There is the risk that this level of General Fund Reserves is not sufficient to cope with the additional pressure of a significant unexpected incident.

Conclusion

There may be scope to strengthen governance and

monitoring arrangements by monitoring savings delivery, shortfalls and causal factors, in addition to the normal budgetary monitoring processes. There is also scope to strengthen budgetary monitoring processes and the assumptions used in respect of demand-led growth. This view is subject to our outstanding work on the Transformation risk which we will consider in a later report.

SAVINGS PLANS AND MEDIUM TERM FINANCIAL PLANNING – PREVIOUSLY REPORTED IN JULY AND SEPTEMBER 2018

Significant risk

Findings and conclusion

As set out in the audit plan dated February 2018

Savings and medium term financial planning

You have set a balanced budget for 2018/19 which includes an overall increase in the total Council Tax of 4.20%, and savings of £4.9m. In addition, the budget proposals include a transfer of £5m from the New Homes Bonus reserve to the General Fund, the use of £3.6m reserves. You have also set aside £13.4m for identified and unidentified corporate risks and pressures. Going forward you will need to identify further savings of circa £5m for 2019/20 and 2020/21. Your Medium Term Financial Strategy anticipates that post 2020 approximately £10m per year of savings will be required.

In response to this risk we have:

- Considered your arrangements to identify and deliver savings and efficiencies towards achieving a sustainable medium term financial position.
- Updated our understanding of how you are working with partners in the local health economy to achieve savings.

Summary findings

- For 2018/19, you have set a balanced budget, with generally robust underlying assumptions.
- You have increased your share of council tax by 3.99% but, as service pressures are expected to grow, substantial efficiency and transformation savings will continue to be required.
- Your Medium term financial strategy shows the budget has been balanced for 3 years with the use of reserves.
- You will need to make savings of around £53.6m between 2019/20 and 2022/23 – a significant requirement which highlights further the point made in the previous section about the importance of specifically monitoring savings scheme delivery and understanding shortfalls, over and above the existing budgetary monitoring processes. Savings required in 2019/20 are higher than in previous years, when lower levels of savings were not delivered.
- There are longer term pressures from demand led services that could continue to manifest in 2018/19 and beyond.
- You have £13m of general fund reserves to cushion you against the on-going financial challenges that you face over the medium term. However, these represent only 1.4% of your annual spend, and should be used to invest in future transformation, rather than propping up budgetary overspends.
- The first financial forecast for 2018/19 presented to the Public Accounts Select Committee up to May 2018 is forecasting a deficit of £14.8m, with a majority (£13.5m) again due to the Children and Young People directorate. This indicates weaknesses in the budget setting arrangements as the assumptions around the provision of children's social care appear not to have taken into account issues that led to similar overspends in 2017/18. This may indicate further improvements over the accuracy of activity assumptions are required.

2018/19 Budget Setting

You set a balanced budget for 2018/19 in February 2018. Reductions in Settlement Funding Assessment, inflation and service growth presented an overall budget gap of £8.6m to be funded from reserves. You have closed this through a £5.0m reserve transfer from the New Homes Bonus reserve to the General Fund for the third consecutive year and a further £3.6m one-off use of reserves. You have increased your share of council tax by 3.99% to provide an extra £10.2m, and identified planned savings of £4.86m.

The New Homes Bonus (NHB) paid by government is expected to decrease by between a third and a half from its 2018/19 level of £6.9m. Whilst your New Homes Bonus reserve has increased in value in recent years despite regular transfers to the General Fund, the NHB received may soon drop below the transfer levels, and in the long term the use of this sort of transfer will become unsustainable.

Schemes are reasonably well developed, and have been put in place for 2018/19. The structure enables you to focus on key streams and supports cross-cutting initiatives rather than top-slices to budgets. To maximise the impact of savings plans, project review should be incorporated more closely into the budget monitoring and outturn reports to ensure planned savings are delivering the desired effect. It is currently unclear from the budget report the extent to which overspends are being driven by purely demand led increases, against the success or failure of savings initiatives.

Medium Term Financial Strategy

Your latest Medium Term Financial Strategy (MTFS) is due to be published in July 2018. The financial outlook in the medium term remains very challenging for local government, with significant uncertainties over the economic and political environment. Beyond 2020 it is difficult to predict what the size of the challenge is as this will depend on the decisions of a future government. You have made prudent assumptions about your future funding, including the following:

- Government will phase out the Revenue Support Grant
- NNDR will be completely devolved to local government

SAVINGS PLANS AND MEDIUM TERM FINANCIAL PLANNING – PREVIOUSLY REPORTED IN JULY AND SEPTEMBER 2018**Significant risk****Findings and conclusion****Savings and medium term financial planning**

Continuation of risk noted on the previous page

- Council tax increases continue to be capped below 2 per cent, with a precept for social care
- The Collection fund will deliver a reducing surplus for the foreseeable future
- Pay and non-pay expenses will be subject to 2-3% inflationary pressures
- Pressures and risks growth of £6.5m - £7.5m for the three years of 2021/22 to cover additional expenditure associated with a growing, aging population, household growth, the impact of changes in legislation and regulations, and the impact of reducing preventative services in the early years of austerity

The July 2018 Medium Term Financial Strategy covers the four year period from 2019/20 to 2022/23. You have modelled best, worst and most likely case scenarios for this period. Comparing these saving scenarios to the ones in the July 2017 MTFS, you can see the impact the overspends in 2017/18 and the failure to meet savings targets has had in increasing the pressure over the next three year period. Under the above and other assumptions the range of estimates of future savings requirements (£m) is:

July 2017 MTFS	2018/19	2019/20	2020/21	2021/22	2022/23	Total	2019/20 to 2021/22		
Optimistic	20.77	10.31	6.99	8.73	-	46.80	26.03		
Main	21.28	10.85	10.04	9.41	-	51.58	30.3		
Pessimistic	24.85	14.63	17.19	12.74	-	69.41	44.56		
July 2018 MTFS		2019/20	2020/21	2021/22	2022/23	Total	2019/20 to 2021/22	Increase in savings required	
Optimistic	-	14.75	8.10	10.24	5.22	38.30	33.08	7.05	27%
Main	-	16.82	12.42	14.55	9.76	53.56	43.794	13.494	45%
Pessimistic	-	19.05	18.43	18.85	13.38	69.70	56.32	11.76	26%

In the July 2018 MTFS, between 2019/20 and 2021/22 the savings that are required to be found have increased by £13.5m, a 45% increase, compared to the July 2017 MTFS. This demonstrates the importance of having robust savings plans and delivering them in year rather than rolling them onto the next year when the ask may be more than can be managed.

Since 2015, your MTFS has made no allowance for inflation on non-pay expenses. This has meant that not only have you had to make savings year on year to offset losses in government funding, but that also cuts and service efficiencies have been required to absorb external inflationary cost pressures. This assumption has been removed from the July 2018 MTFS. A large element of your overspend pressures in recent years have related to 'needs led' statutory duties including supporting the most vulnerable, and sustained pressures arising from statutory duties relating to services such as waste and environmental health; the MTFS also assumes that these cost pressures will be met from your existing budgets. You have spent considerable effort seeking to mitigate these risks and it is important that you remain vigilant in how you monitor and manage these burdens.

The medium term financial plan is led by the Lewisham Futures Board, which develops savings options for the Mayor and cabinet to consider. Its focus has been on implementing the £21.3m savings for 2018/19. In a change from previous years, the current plan for 2019/20 and 2020/21 is not based around the 18 strategic work streams or themes that came from the Lewisham Future Board. The change of approach has been instigated by the new Chief Executive. It was felt the previous method had become overly complicated and lost some of the strategic value it was adding. The new method begins in July with Star Chambers overseen by the Executive Team challenging service leads on every aspect of their budgets. Detailed proposals for the cuts identified from these will be presented to members for scrutiny later in the year. Having made around £160m of reductions in expenditure in the eight years from 2010/11, the 'easy' savings and cuts have been made. Future savings will have to come from longer term projects, transforming how you provides services which requires up front investment to obtain future benefits. The effectiveness of your transformation governance is therefore essential to your future financial sustainability and achievement of challenging savings plans and budgets.

SAVINGS PLANS AND MEDIUM TERM FINANCIAL PLANNING – PREVIOUSLY REPORTED IN JULY AND SEPTEMBER 2018**Significant risk****Findings and conclusion****Savings and medium term financial planning**

Continuation of risk noted on the previous page

The first financial forecast for 2018/19 presented to the Public Accounts Select Committee up to May 2018 is forecasting a deficit of £14.8m, with a majority (£13.5m) again due to the Children and Young People directorate. This indicates weaknesses in the budget setting arrangements as the assumptions around the provision of children's social care appear not to have taken into account issues that led to similar overspends in 2017/18, given how soon the forecast overspends arise following the setting of the budget. This may indicate further improvements over the accuracy of activity assumptions are required. Containing these budget pressures will also depend on the effectiveness of your transformation governance, delivery of savings and demand management and outreach schemes, to ensure budgets can be delivered within the growth assumptions. The medium term planning shows an improving outlook which is broadly in line with your high level thinking over council tax and growth plans. However, more savings are proposed to 2019/20 than have been in place in previous years. This is a significant risk, as you have not managed to deliver the lower level of savings proposed in 2017/18. In addition, there are longer term pressures from demand led services that could continue to manifest in 2018/19 and beyond.

Reserves and financial position

Despite the financial pressures that you have faced and your investments in supporting the borough, once useable earmarked reserves are added to your £13m of general fund reserves, your overall reserves position is relatively healthy, compared to many London Boroughs. As at 31 March 2018, you had total general fund reserves and earmarked reserves excluding schools reserves of £149.9m, compared to £145.9 as at 31 March 2017 and £148.7m as at 31 March 2016.

The following table sets out a summary of your reserves position and key financial ratios as at 31 March 2018 relative to other London Boroughs as per their draft published financial statements for 2017/18:

London Borough of Lewisham - financial position: key performance measures			
Measure	London Borough of Lewisham	Average for London Boroughs	Ranking relative to other London Boroughs
Total general fund and non-schools earmarked general fund reserves as at 31 March 2018 (£m)	149,927	102,585	7 / 32
Total general fund and earmarked general fund reserves as at 31 March 2018 (£m)	173,123	112,862	7 / 32
Total usable revenue and capital reserves as at 31 March 2018 (£m)	347,452	253,530	7 / 32
Useable capital and revenue reserves as a percentage of gross service revenue expenditure	37.6%	28.9%	9 / 32
Current ratio (current assets / current liabilities)	2.00	1.50	5 / 32

This analysis highlights that as at 31 March 2018 your reserves level placed you in the top quartile of the 32 London Borough. Nevertheless, it is important that you take appropriate action to maintain your reserves position.

As it currently stands, your reserves level provides you with a measure of support in respect of the on-going financial challenges that you face over the medium term due to reductions in central government funding and forecast increases in demand for your core services. However, you only have finite reserves available and it is important that you continue to maintain appropriate budgetary control going forward. Your reserves strategy could be enhanced; at the moment it does not set an explicit minimum level of General Fund reserves with which you are comfortable. In addition, the strategy should detail the plans you have over the use of the reserves and, given their one off nature, the 'return on investment' you hope to achieve from strategic investment of these reserves over the medium term to support your transformation programme and efficiency schemes.

SAVINGS PLANS AND MEDIUM TERM FINANCIAL PLANNING – PREVIOUSLY REPORTED IN JULY AND SEPTEMBER 2018

Significant risk	Findings and conclusion
Savings and medium term financial planning Continuation of risk noted on the previous page	Conclusion The early appearance of forecast significant overspend on the revenue budget in 2018/19 in similar areas to 2017/18 suggests weaknesses in the accuracy of the assumptions in this area. Development of a more detailed Reserves Strategy would ensure one-off monies are used effectively to support the transformation needed to remain financially sustainable.

Action plan

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. 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.

	Recommendations	Response
1	As you re-design your programme governance arrangements, consider the role of your assurance functions in providing assurance over the programme as a whole, and with 'deep dives' as appropriate. Ensure there is sufficient segregation of duties between management and oversight of the programme (a level 2 line of defence), and independent assurance provided by audit functions (a separate, level 3 line of defence).	
2	Clearly annotate your overarching transformational strategy and vision so that all officers are clear on the aims and objectives and what the future service delivery entails.	
3	Ensure you consider fully the required skills, resource and expertise is required, and undertake a capability and skills audit against current establishment to identify potential skills gaps and mitigate the risks arising.	
4	Map interdependencies across projects.	
5	Prior to relaunching any of the paused projects detailed benefits realisation assessments need to be undertaken. Business cases should include a detailed assessment of strategic, financial and non-financial benefits to be gained and a clear implementation strategy (including required training) for realising said benefits.	
6	Ensure the Project Management Office is independent from day to day project activity, and plays an effective role in assuring information is accurate and supported before it is presented to the programme board.	
7	Ensure routine gateway reviews are undertaken at key stages of the programme and projects.	
8	Ensure a culture is in place which encourages "bad news", as well as "good news" to be reported.	
9	The transformation project needs to be aligned to your Medium Term Financial Strategy with clear financial analysis of the expected savings that will be generated from projects.	
10	Implement the new governance structures that will give senior management the strategic oversight and responsibility for delivering the transformation projects. Ensure risk identification is supported with appropriate skill-set and capability within projects, and that escalation and reporting arrangements are robust and effective.	
11	Undertake robust post implementation reviews across all transformation projects and ensure success factors and lessons learned are spread across projects.	
12	There may be lessons to be learnt in the recruitment of a replacement chief executive. Members should reflect on what those lessons may be and how future recruitment can be undertaken to minimise the risk of recurrence of the experience in 2018.	

Action plan previously reported in July and September 2018

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. 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.

Assessment	Issue and risk	Recommendations
1	 <p>The savings programmes were not directly monitored, as monitoring was undertaken only on overall budgets. In our view, this results in a lack of transparency and clarity in identifying whether the overspends are the result of under-delivery of savings plans or genuine unavoidable pressures from demand increases. Without this clarity, you may not be able to properly assess the robustness of future plans and make an informed judgement as to the deliverability of the £13.0m of additional savings in the 2018/19 budget. This also risks hampering your ability to make informed decisions in response, and your ability to properly assess performance in delivering transformational savings.</p>	<p>We would recommend strengthening governance in this area by specifically monitoring the delivery of savings programmes and the success of the schemes involved and, importantly, where savings are not delivered as planned, identifying and explaining the reasons behind this. This will also enable you to determine whether overspends are due to failed savings programmes or deficiencies in the budget setting and delivery processes. It is important to understand these distinctions as the responses needed in each case may differ.</p>
2	 <p>The financial forecast reports contained mitigations that were expected to be achieved in the first half of the year but were not, which reduced the forecast deficit position until the end of the year. This prevented management and members from gaining a full understanding of the levels of and reasons behind overspends.</p>	<p>We recommend presenting more information around the mitigations included in the forecast outturn reports to enable closer scrutiny of these, to enable greater monitoring in respect of unexpected deterioration of the financial position at the end of the year.</p>
3	 <p>Your reserves strategy could be enhanced; at the moment it does not set an explicit minimum level of General Fund reserves with which you are comfortable. In addition, the strategy should detail the plans you have over the use of the reserves and, given their one off nature, the 'return on investment' you hope to achieve from strategic investment of these reserves over the medium term to support your transformation programme and efficiency schemes.</p>	<p>We recommend you develop a more comprehensive reserves strategy, detailing the plans you have over the use of the reserves and the 'return on investment' you hope to achieve from strategic investment of these reserves over the medium term. This would support one-off monies being used effectively to support the transformation needed to remain financially sustainable.</p>

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Controls

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF LEWISHAM (the "Authority")

Issue of audit opinion on the financial statements

In our audit report for the year ended 31 March 2018 issued on 28 September 2018 we reported that, in our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- had been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18; and
- had been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Report on other legal and regulatory requirements - Conclusion on the Authority's Arrangements for securing economy, efficiency and effectiveness in its use of resources

Qualified Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, except for the effects of the matters described in the basis for qualified conclusion section of our report, we are satisfied that, in all significant respects, the London Borough of Lewisham put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for qualified conclusion

Our review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources identified the following matters:

- The Authority embarked upon a £10.6m transformation programme to transform ways of working and service delivery. Our review of the Authority's arrangements to support effective governance of the transformation programme identified weaknesses in the Authority's arrangements in two key aspects:
 - The overall arrangements were insufficient to support a transformation programme of this scale and complexity, with many of the expected elements of effective programme management missing in the overarching governance arrangements; and
 - assurance and oversight arrangements were insufficient to identify risks and issues in the delivery of this programme, to escalate them appropriately and to ensure action was taken to mitigate them. This meant that senior management was unable to address the deficiencies in the programme promptly.

These matters are evidence of weaknesses in proper arrangements for:

- acting in the public interest, through demonstrating and applying the principles and values of sound governance;
- managing risks effectively and maintaining a sound system of internal control;
- planning, organising and developing the workforce effectively to deliver strategic priorities; and
- understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.

Responsibilities of the Authority

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

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 ("the Act") to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

In our report dated 28 September 2018, we explained that we could not formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice until we had:

- completed our work to give our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have now completed this work
- completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2018. We have now completed this work.
- given an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. Our opinion has now been issued.

No matters have come to our attention since that date that would have a material impact on the financial statements on which we gave an unqualified opinion.

However, we cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2018 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of objections related to the year ended 31 March 2017 brought to our attention by local authority electors under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Paul Grady

Paul Grady, key audit partner

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

30 Finsbury Square
London
EC2A 1AG

6 March 2019

Agenda Item 7

AUDIT PANEL			
Report Title	Annual Audit Letter for Year Ended 31 March 2018		
Key Decision	No	Item No.	7
Ward	ALL		
Contributors	Executive Director for Resources and Regeneration		
Class		Date:	26th March 2019

1. SUMMARY AND PURPOSE

1.1. This annual audit letter provides a summary of the key findings arising from the work carried out at the London Borough of Lewisham for the year ended 31st March 2018.

2. RECOMMENDATION

2.1. The Audit Panel is asked to note the contents of the report.

3. ANNUAL AUDIT LETTER

3.1. The council was given an unqualified opinion on the council's accounts on 28th September 2018. Grant Thornton have already reported on the key issues from their audit of the council's accounts to the council's Audit Panel on 20th September 2018.

3.2. This audit letter provides a commentary on the results of the auditor's work to the council and its external stakeholders, and to highlight issues that they wish to draw to the attention of the public.

4. IMPLICATIONS

4.1. There are no financial, legal, crime and disorder, equalities or environmental implications directly arising from this report.

5. FURTHER INFORMATION

For further information on this report please contact:

Selwyn Thompson, Head of Financial Services, on 020 8314 6932

Paul Calnan, Acting Group Finance Manager – Accounting, on 020 8314 6167

Annual Audit Letter

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London Borough of Lewisham

February 2019

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Section

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Appendices

- A Reports issued and fees
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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at the London Borough of Lewisham Council ('you' or the Council) and its subsidiaries (the group) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to you and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Panel as those charged with governance in our Audit Findings Report dated September 2018 and our Value for Money report dated February 2019.

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £17,004,000, which is 1.75% of the group's gross revenue expenditure. We determined materiality for the audit of the pension fund accounts administered by the Council to be £12,746,000, which is 1% of the pension fund's net assets.
Financial Statements opinion	We gave an unqualified opinion on the Council and group's financial statements on 28 September 2018. We gave an unqualified opinion on the pension fund accounts of the London Borough of Lewisham Pension Fund on 28 September 2018.
Whole of Government Accounts (WGA)	We completed work on your consolidation return following guidance issued by the NAO. in October 2018. We issued an assurance statement which did not identify any issues for the group auditor to consider on 5 October 2018.
Value for money conclusion	<p>We completed our work on your arrangements for securing value for money in February 2019. On 6 March 2019 we gave a qualified 'except for' conclusion on your arrangements, due to matters we identified in respect of your transformation governance arrangements.</p> <p>Except for the matters identified in respect of your transformation governance arrangements, we were satisfied that you put in place proper arrangements to ensure economy, efficiency and effectiveness in your use of resources. This was reported within our Value for Money report in February 2019.</p>
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Certification of Grants	We carry out work to certify your Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim was finalised on 28 November 2018. The claim was subject to amendment and qualification. The detailed results of this work will be reported to the Audit Panel in our Annual Certification Letter.
Certificate	We are unable to certify that we have completed the audit of the accounts of the London Borough of Lewisham until we have completed our review of matters raised by a local elector in an objection to the 2016/17 financial statements.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
March 2019

Audit of the Accounts

Our audit approach

Materiality

In our audit of your financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council and group accounts to be £17,004,000, which is 1.75% of the group's gross revenue expenditure. We used this benchmark as, in our view, users of your financial statements are most interested in where you have spent your revenue in the year.

We set a lower threshold of £850,000, above which we reported errors to the Audit Panel in our Audit Findings Report.

Pension Fund Materiality

For the audit of the London Borough of Lewisham Pension Fund accounts, we determined materiality to be £12,746,000, which is 1% of the Fund's net assets. We used this benchmark as, in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a threshold of £637,000 above which we reported errors to the Audit Panel.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts and the narrative report, annual governance statement and Annual Report published alongside the Statement of Accounts to check they are consistent with our understanding of the Council/group and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Council/group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • Reviewed the accounting estimates, judgments and decisions made by management. • Reviewed the journal entry process and selection of large and unusual journal entries for testing back to supporting documentation. • Reviewed unusual significant transactions. 	<p>Our audit work did not identify any evidence of management over-ride of controls.</p>
<p>Valuation of property, plant and equipment</p> <p>The Council revalues its land and buildings on an rolling programme to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of any management experts used. • Reviewed the instructions issued to valuation experts and the scope of their work. • Discussed the basis on which the valuation was carried out with the Council's Valuer, challenging the key assumptions. • Tested revaluations made during the year to ensure they were input correctly into the asset register and financial statements. • Reviewed and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. • Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>

Audit of the Accounts continued

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. Reviewed the competence, expertise and objectivity of the actuary who carried out the pension fund valuation. Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from the actuary. 	<p>Our audit work did not identify any significant issues in relation to the risk identified</p>

Audit of the Accounts Pension Fund

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • Reviewed entity controls. • Reviewed accounting estimates, judgements and decisions made by management. • Reviewed unusual significant transactions. 	<p>Our audit work did not identify any evidence of management over-ride of controls.</p>
<p>The valuation of Level 3 investments is incorrect</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>We identified the valuation of level 3 investments as a risk requiring special audit consideration</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • Gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls. • Reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investment. • Considered the competence, expertise and objectivity of any management experts used. • Verified the investment balances to the fund manager and custodian report. • Tested the valuations by obtaining and reviewing the audited accounts, at the latest date for individual investments and agreeing these to the fund manager reports at that date. We reconciled those values to the values at 31 March 2018 with reference to known movements in the intervening period. 	<p>Our audit work did not identify any significant issues in relation to the risk identified</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council/group's financial statements on 28 September 2018.

Issues arising from the audit of the accounts

We reported the key issues from our audit to your Audit Panel on 12 July 2018 and 20 September 2018.

We did not identify any adjustments to the financial statements that impacted on your financial position. Adjustments made to the accounts were in respect of classification and presentational errors.

Annual Governance Statement and Narrative Report

We are required to review your Annual Governance Statement and Narrative Report. You published them on your website within the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by you and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on your Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which did not identify any issues for the group auditor to consider on 5 October 2018.

Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of the London Borough of Lewisham on 28 September 2018.

We also reported the key issues from our audit of the pension fund accounts to your Audit Panel on 12 July 2018. We did not identify any adjustments to the Fund's financial position.

Certificate of closure of the audit

We are unable to certify that we have completed the audit of the accounts of the London Borough of Lewisham until we have completed our review of matters raised by a local elector in an objection to the 2016/17 financial statements.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

When we were completing our work the new chief executive, who took up his position in May 2018, departed the Council in December 2018. We identified this as a fourth area and considered this within our work in respect of your arrangements to support value for money.

Overall Value for Money conclusion

Based on the work we performed to address the significant risks set out in the audit plan we concluded that, except for the matters we identified in respect of transformation governance arrangements, the Council has proper arrangements in all significant respects.

We therefore issued, on 6 March 2019, a qualified 'except for' conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risks

Additional risk identified during the audit year	How we responded to the risk	Findings and conclusions
<p>Recruitment and departure of the chief executive – May 2018 to December 2018</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 126</p>	<p>We have reviewed the arrangements followed and the reasonableness of the decisions taken</p>	<p>Chief executive: March 2018 to December 2018</p> <p>In March 2018, as set out on your website, Members appointed a new chief executive, “following a rigorous selection process by an appointments panel consisting of Sir Steve Bullock, (former) Mayor of Lewisham, and a cross-party group of eight councillors. Organisations from across the Lewisham borough also took part in the selection process, including:</p> <ul style="list-style-type: none"> • Lewisham Hospital • the Police • Goldsmiths, University of London • Phoenix Community Housing • SE London Chamber of Commerce.” <p>In November 2018, Members announced they had decided to “take a new direction....with no negative reflection on [the then chief executive]”. The chief executive left the Council after only 7 months in post. Dealing with this matter unavoidably consumed additional management capacity at a senior level. This capacity, in the absence of this matter, could have been better utilised and directed towards the other significant challenges the Council faces, particularly given the significant issues with transformation governance that needed to be addressed.</p> <p>Taken as a whole, and considered in the context of our review into the Council’s overall arrangements to secure value for money in the use of its resources, this was an undesirable turn of events which Members will wish to avoid in the recruitment of a replacement chief executive. There may be lessons to be learnt in respect of this matter. Members should reflect on what those lessons may be and how future recruitment can be undertaken to minimise the risk of recurrence.</p>

Value for Money conclusion

Key Value for Money Risks

Risk identified in our audit plan dated February 2018	How we responded to the risk	Findings and conclusions
<p>Transformation</p> <p>You are planning a significant transformation programme. This will be technology enabled and seek to drive the right cultural outcomes from, and for, people, facilitating innovation to drive transformational benefits – financial and non-financial – resulting in service improvements and better working with residents. Any transformation programme of this scale, complexity and ambition carries inherent risk.</p>	<p>We responded to this risk by:</p> <ul style="list-style-type: none"> Updating our understanding of overarching programme management arrangements. Considering whether the Council have adequate arrangements to manage the interdependencies, identifying and realising planned benefits and ensuring robust and effective programme governance. Assessing the extent to which transformational plans and medium term financial planning is aligned, and whether assumptions in financial plans align with programme ambitions. 	<ul style="list-style-type: none"> Management was aware of potential significant weaknesses in the transformation governance arrangements and were investigating. As a Council, you have confirmed and concluded that such weaknesses did exist. You have decided the transformation programme, as originally constituted, was not appropriately designed, and have decided to pause elements of the programme in its previous form whilst the overarching governance arrangements are redesigned. Various reviews have taken place and you have accepted the recommendations, and are putting action plans in place, to revamp the transformation programme and associated governance and programme management arrangements. The Council is to be commended for taking action to address the significant deficiencies within the programme, which were present during the past year. The Council is also to be commended for being sufficiently flexible to adopt a fulsome redesign of the programme architecture, acknowledging the mistakes of the previous arrangements and seeking to strengthen the robustness of arrangements in the future transformation programme going forward. It was clear from our discussions with senior officers that the deficiencies in the previous arrangements were understood, and there was clear vision articulated in terms of the changes that needed to be made, along with a good understanding of governance requirements going forward. Notwithstanding this, the arrangements in place during the year of audit were not sufficient. They did not address or support the needs of a transformation programme of this scale and complexity. Arrangements fell short due to a combination of inappropriate governance and insufficient skills and experience at the detailed level. Governance was unclear, or not operating effectively, and the skills deployed and in place within the programme and individual projects were not suitable for a programme of this size. At an operational level, individuals within the programme raising issues of concern were not always listened to. Governance concerns expressed at an operational level were not escalated upwards sufficiently. Oversight boards and committees did not always recognise the problems that were arising or, if they did, did not always fully appreciate the significance of these issues and ensure they were escalated and mitigated. Effective organisations have three ‘lines of defence’ in terms of assurance and control. Level 1 refers to the assurance to be gained from the appropriate operation of controls by having effective arrangements in place at the ground level. Level 2 refers to the assurance to be gained from the effective operation of review committees, programme boards, risk committees, and other oversight mechanisms, which either provide assurance over arrangements or escalate issues reported to it. Level 3 refers to independent assurance functions, such as internal audit, or external inspection.

Value for Money conclusion

Key Value for Money Risks

Risk identified in our audit plan dated February 2018	How we responded to the risk	Findings and conclusions
<p>Continuation of risk from the previous page.</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 128</p>	<p>Continuation of risk from the previous page.</p>	<ul style="list-style-type: none"> • None of the Council's assurance mechanisms identified the significance of these problems at an early stage, meaning action was not taken as early as it could have been in response. Risk and issues at ground level were not always heeded. None of these issues were identified by any independent assurance reviews. Furthermore, action was only taken when the interim chief executive paused the programme upon becoming concerned at requests for additional funding, or when governance issues were articulated and pursued by individuals outside of the Council's core assurance, governance and oversight mechanisms. It was only once this took place that senior management became fully aware of the potential deficiencies in place and, once aware, took action. Once senior management was made aware, their response was appropriate and effective. Had assurance and governance mechanisms and arrangements functioned more effectively, senior management would have been in a position to have identified the issues and taken action sooner. • As such, the programme continued to operate with insufficient arrangements for longer than it needed to. This may have resulted in decisions being made, and costs being incurred, unnecessarily. The Council's view is that, whilst this may be the case, costs incurred are not 'wasted' costs, as they have supported the Council's learning and development in the evolution of the programme arrangements and, the Council contends, many necessary changes were still delivered. However, the insufficient arrangements mean progress against this significant risk area has been slower than planned, consuming significant quantities of management time and preventing the Council from moving forward more quickly in developing its transformation of services for residents and taxpayers. It is also not clear whether certain decisions, which have incurred cost for the Council and taxpayers, would still have been made had the governance arrangements operated more effectively and had the potential risks and issues been articulated and considered more fully at the time investment decisions were made.

Value for Money conclusion

Key Value for Money Risks

Risk identified in our audit plan dated February 2018	How we responded to the risk	Findings and conclusions
<p>Budget Management</p> <p>You are projecting a £12.9m overspend on the 2017/18 budget. Should the Council utilise the risk and other budget pressures reserve in full this will reduce the overspend to £11.6m. This anticipated overspend is larger than the prior year overspend of £7m. Should the position worsen then this will increase the pressure into 2018/19.</p>	<p>In response to this risk we have:</p> <ul style="list-style-type: none"> Updated our understanding of the pressures affecting the 2017/18 budget. Considered whether the Council have adequate arrangements to manage those pressures and to secure a sustainable financial position. Considered your approach towards the use of reserves 	<ul style="list-style-type: none"> Your 2017/18 outturn position delivered a net £16.5m (7.1%) overspend. This resulted from a significant directorate overspend of £20.6m offset by directorate underspends of £2.8m and £1.3m contingency held corporately for risks and other budget pressures. The Children and Young People directorate overspend of £15.6m (32%) is particularly significant. The Council need to gain a clear understanding of the circumstances that have driven the overspend and put in place robust measures to address these, as well as consider the sufficiency of the budgets in these areas. There is no guarantee non-departmental underspends will continue, so vigilance over future positions is critical. Failure to deliver to budget could have a significant impact on the Council's financial health. You increased Lewisham's share of council tax by 4.99% for 2017/18 but, as service pressures are expected to grow, substantial efficiency and transformation savings will continue to be required across the organisation.
<p>Savings and Medium Term Financial Planning</p> <p>You have set a balanced budget for 2018/19 which includes an overall increase in the total Council Tax of 4.20%, and savings of £4.9m. In addition, the budget proposals include a transfer of £5m from the New Homes Bonus reserve to the General Fund, the use of £3.6m reserves. The Council have also set aside £13.4m for identified and unidentified corporate risks and pressures. Going forward the Council will need to identify further savings of circa £35m for 2019/20 and 2020/21. The Council's Medium Term Financial Strategy anticipates that post 2020 approximately £10m per year of savings will be required.</p>	<p>In response to this risk we have:</p> <ul style="list-style-type: none"> Considered your arrangements to identify and deliver savings and efficiencies towards achieving a sustainable medium term financial position. Updated our understanding of how you are working with partners in the local health economy to achieve savings. 	<ul style="list-style-type: none"> For 2018/19, you have set a balanced budget, with generally robust underlying assumptions. You have increased your share of council tax by 3.99% but, as service pressures are expected to grow, substantial efficiency and transformation savings will continue to be required. The Medium term financial strategy shows the budget has been balanced for 3 years with the use of reserves. The Council will need to make savings of around £53.6m between 2019/20 and 2022/23 – a significant requirement which highlights the importance of specifically monitoring savings scheme delivery and understanding shortfalls, over and above the existing budgetary monitoring processes. Savings required in 2019/20 are higher than in previous years, when lower levels of savings were not delivered. There are longer term pressures from demand led services that could continue to manifest in 2018/19 and beyond. You have £13m of general fund reserves to cushion against the on-going financial challenges that you face over the medium term. However, these represent only 1.4% of the annual spend, and should be used to invest in future transformation, rather than propping up budgetary overspends. The first financial forecast for 2018/19 presented to the Public Accounts Select Committee up to May 2018 is forecasting a deficit of £14.8m, with a majority (£13.5m) again due to the Children and Young People directorate. This indicates weaknesses in the budget setting arrangements as the assumptions around the provision of children's social care appear not to have taken into account issues that led to similar overspends in 2017/18. This may indicate further improvements over the accuracy of activity assumptions are required

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	February 2018
Audit Findings Report	20 September 2018
Value for Money report	February 2019
Annual Audit Letter	March 2019

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council/group audit	193,233	193,233	193,233
Audit of Pension Fund	21,000	21,000	21,000
Housing Benefit Grant Certification	30,370	30,370	41,235
Total fees	244,603	244,603	255,468

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA) Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for non-audit services

Service	Fees £
Audit related services	
- Teachers Pensions Claim	6,500
- Pooling of Capital Receipts Return	3,500
Non audit services	26,000
- Place analytics subscription. Fee is for a three year subscription from 2016-17	

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council/group. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council/group's auditor and have ensured that appropriate safeguards are put in place.

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

B. Recommendations

We identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management. 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.

	Recommendations	Response
1	As you re-design your programme governance arrangements, consider the role of your assurance functions in providing assurance over the programme as a whole, and with 'deep dives' as appropriate. Ensure there is sufficient segregation of duties between management and oversight of the programme (a level 2 line of defence), and independent assurance provided by audit functions (a separate, level 3 line of defence).	
2	Clearly annotate your overarching transformational strategy and vision so that all officers are clear on the aims and objectives and what the future service delivery entails.	
3	Ensure you consider fully the required skills, resource and expertise is required, and undertake a capability and skills audit against current establishment to identify potential skills gaps and mitigate the risks arising.	
4	Map interdependencies across projects.	
5	Prior to relaunching any of the paused projects detailed benefits realisation assessments need to be undertaken. Business cases should include a detailed assessment of strategic, financial and non-financial benefits to be gained and a clear implementation strategy (including required training) for realising said benefits.	
6	Ensure the Project Management Office is independent from day to day project activity, and plays an effective role in assuring information is accurate and supported before it is presented to the programme board.	
7	Ensure routine gateway reviews are undertaken at key stages of the programme and projects.	
8	Ensure a culture is in place which encourages "bad news", as well as "good news" to be reported.	
9	The transformation project needs to be aligned to your Medium Term Financial Strategy with clear financial analysis of the expected savings that will be generated from projects.	
10	Implement the new governance structures that will give senior management the strategic oversight and responsibility for delivering the transformation projects. Ensure risk identification is supported with appropriate skill-set and capability within projects, and that escalation and reporting arrangements are robust and effective.	
11	Undertake robust post implementation reviews across all transformation projects and ensure success factors and lessons learned are spread across projects.	
12	There may be lessons to be learnt in the recruitment of a replacement chief executive. Members should reflect on what those lessons may be and how future recruitment can be undertaken to minimise the risk of recurrence of the experience in 2018.	

B. Recommendations

	Assessment	Issue and risk	Recommendations
1	●	The savings programmes were not directly monitored, as monitoring was undertaken only on overall budgets. In our view, this results in a lack of transparency and clarity in identifying whether the overspends are the result of under-delivery of savings plans or genuine unavoidable pressures from demand increases. Without this clarity, you may not be able to properly assess the robustness of future plans and make an informed judgement as to the deliverability of the £13.0m of additional savings in the 2018/19 budget. This also risks hampering your ability to make informed decisions in response, and your ability to properly assess performance in delivering transformational savings.	We would recommend strengthening governance in this area by specifically monitoring the delivery of savings programmes and the success of the schemes involved and, importantly, where savings are not delivered as planned, identifying and explaining the reasons behind this. This will also enable you to determine whether overspends are due to failed savings programmes or deficiencies in the budget setting and delivery processes. It is important to understand these distinctions as the responses needed in each case may differ.
2	●	The financial forecast reports contained mitigations that were expected to be achieved in the first half of the year but were not, which reduced the forecast deficit position until the end of the year. This prevented management and members from gaining a full understanding of the levels of and reasons behind overspends.	We recommend presenting more information around the mitigations included in the forecast outturn reports to enable closer scrutiny of these, to enable greater monitoring in respect of unexpected deterioration of the financial position at the end of the year.
3	●	Your reserves strategy could be enhanced; at the moment it does not set an explicit minimum level of General Fund reserves with which you are comfortable. In addition, the strategy should detail the plans you have over the use of the reserves and, given their one off nature, the 'return on investment' you hope to achieve from strategic investment of these reserves over the medium term to support your transformation programme and efficiency schemes.	We recommend you develop a more comprehensive reserves strategy, detailing the plans you have over the use of the reserves and the 'return on investment' you hope to achieve from strategic investment of these reserves over the medium term. This would support one-off monies being used effectively to support the transformation needed to remain financially sustainable.

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Cole, Olga

From: Hall, Cllr Alan
Sent: 15 March 2019 23:06
To: Cole, Olga
Subject: Fwd: Ian Thomas - issues

Dear Olga

Here are my questions to Cllr DeRyk

Please include this too

Alan

Begin forwarded message:

From: <CllrAlan.Hall@lewisham.gov.uk>
Date: 6 March 2019 at 12:10:38 GMT
To: Cllr Amanda <cllramanda.deryk@lewisham.gov.uk>
Cc: Janet Senior <Janet.Senior@lewisham.gov.uk>, <Adam.Bowles@lewisham.gov.uk>, Olga Cole <Olga.Cole@lewisham.gov.uk>
Subject: Ian Thomas - issues

Dear Cllr Amanda De Ryk,

I am writing to you in my capacity as Chair of the Audit Panel to request further details of the Council's involvement in the Local Government Association and Solace deliberations on the appointment of local authority Chief Executives.

You will be aware that both organisations have cited Lewisham Council as an example of why they are considering this matter in their call for best practice guidance.

Furthermore, you are aware that the true and a full cost of Ian Thomas' departure remains a question.

You will be further aware that the Council's Auditors are taking an interest.

I would be very grateful if you could outline the Council's response for the Audit Panel meeting. The papers need to be despatched in good time.

Yours faithfully

Alan

Cllr Alan Hall

Cole, Olga

From: Hall, Cllr Alan
Sent: 15 March 2019 23:05
To: Cole, Olga
Subject: Fwd: Further to your email...

Dear Olga

Please include this response in the Audit Panel papers - as an appendix to Management Response to VFM

Thanks

Alan

Begin forwarded message:

From: "De Ryk, Cllr Amanda" <CllrAmanda.DeRyk@lewisham.gov.uk>
Date: 15 March 2019 at 11:02:02 GMT
To: "Hall, Cllr Alan" <CllrAlan.Hall@lewisham.gov.uk>
Cc: "Senior, Janet" <Janet.Senior@lewisham.gov.uk>, "Bowles, Adam" <Adam.Bowles@lewisham.gov.uk>, "Austin, David" <David.Austin@lewisham.gov.uk>
Subject: Further to your email...

Dear Alan,

Thanks for you email.

In terms of my response to your questions, I am not aware that the Council had any involvement in any SOLACE/LGA deliberations on the appointment of Chief Executives. Should the Council's Auditors raise any issue with the Council, we will respond appropriately.

Details have been supplied about the costs of recruitment and the costs of interim arrangements in previous correspondence and answers to your Council Questions. I am afraid that specific details relating to individual employees do not fall within the terms of reference of the Audit Panel.

With best wishes,

Amanda

Amanda de Ryk | Labour Councillor for Blackheath | Cabinet Member for Finance, Jobs & Skills
M: 07879 661961
Advice surgeries: 10am-11am, 2nd and 4th Saturday of each month at
Age Exchange, 11 Blackheath Village, Blackheath, SE3 9LA

Agenda Item 8

AUDIT PANEL		
Report Title	CIPFA Audit Committee Terms of Reference (toR) comparison to London Borough of Lewisham Audit Panel ToR)	
Key Decision	No	Item No. 8
Ward	ALL	
Contributors	Acting Chief Finance Officer	
Class	Part 1	Date: 26 March 2019

1. Purpose of the report

- 1.1. This report presents members of the Audit Panel with a comparison of the CIPFA Audit Committee model terms of reference (ToR) for a Local Authority (2018 edition) with the ToR of the Council's Audit Panel.

2. Recommendations

- 2.1. It is recommended that the Audit Panel note the contents of this report.

3. Background

- 3.1. At their last meeting in December 2018 the Audit Panel considered their terms of reference and asked officers to undertake a 'compare and contrast' exercise with CIPFA's recommended Audit Committee terms of reference.

4. Comparison of Audit Panel ToR

- 4.1. The tables attached to this report at Appendix 1 set out:
 - The Lewisham Audit Panel ToR as per the November 2018 Constitution;
 - The CIPFA 2018 model Local Authority Audit Committee terms of reference;
 - A cross referencing of the the Lewisham ToR to the CIPFA model; and
 - Comment on the level of alignment - Met, Partially Met or Not Met.
- 4.2. This also recognises that the Audit Panel is a Panel rather than Committee with the role of the Public Accounts Select Committee within Lewisham's Mayoral model completing some of the functions identified in the CIPFA reference model.
- 4.3. Overall the ToR cover all the expected areas, especially when considered alongside the Council's compliance with the Public Sector Internal Audit Standards (PSIAS) as set out in the Internal Audit Charter and reviewed annually by the Audit Panel.

5. Legal implications

- 5.1. There are no legal implications arising directly from this report.

6. Financial implications

6.1. There are no financial implications arising directly from this report.

7. Equalities implications

7.1. No direct equalities implications have been identified, in terms of adverse impact, with respect to the Council's obligations under the Equality Act 2010

8. Crime and disorder implications

8.1. There are no crime and disorder implications arising directly from this report

9. Environmental implications

9.1. There are no specific environmental implications arising directly from this report

10. Background papers.

10.1. There are no background papers.

If there are any queries on this report, please contact:

David Austin, Acting Chief Finance Officer, on 020 8314 9114, or email him at:
david.austin@lewisham.gov.uk

Appendix 1: Suggested CIPFA Audit Committee Terms of Reference (ToR) compared to Lewisham Audit Panel ToR

CIPFA - Governance The terms of reference (ToR) should set out the committee’s position in the governance structure of the authority.

The LB Lewisham – ToR for the Audit Panel are included in the Council’s constitution, which details how it fits into the councils’ structure. See pg 19 (13) / Article 9 Committees Pg 58 (9.3) – see below

<p>9.3 The Council will also appoint an advisory Audit Panel as set out in the first column of the table below with the composition set out in the second column and the terms of reference set out in the third column</p>		
<p>Audit Panel</p>		
	<p>Composition</p>	<p>Terms of Reference</p>
	<p>Consisting of 6 non-executive Councillors, one of whom shall serve as chair and up to 4 independent co-opted members</p>	<p>(a) To receive, review and where appropriate advise and make recommendations to the Council on the following matters:</p> <ol style="list-style-type: none"> 1. The review and approval of the Council’s Internal Audit strategy, plans and resources. 2. Internal Audit progress reports on a quarterly basis summarizing the audit reports issued and performance of the Internal Audit function. 3. The annual report of the Council’s Head of Internal Audit and Inspection Agencies 4. Reports from Internal Audit on the implementation of agreed recommendations where management have failed to undertake the necessary actions within the planned audit time frame. 5. The external auditor’s Annual Plan, relevant reports, and reports to those charged with governance. 6. External inspection reports and specific reports as agreed with the external auditor

Appendix 1: Suggested CIPFA Audit Committee Terms of Reference (ToR) compared to Lewisham Audit Panel ToR

	<ol style="list-style-type: none">7. The monitoring of the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.8. An overview of the Council's Constitution in respect of audit procedure rules, contract procedure rules, and financial regulations.9. The Council's assurance arrangements including the Statement of Internal Control [now the Annual Governance Statement].10. The Council's Annual Statement of Accounts, to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Executive.11. The external auditor's opinion and reports to members, and monitoring of management action in response to issues raised by external audit.
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Appendix 1: Suggested CIPFA Audit Committee Terms of Reference (ToR) compared to Lewisham Audit Panel ToR

No.	CIPFA's example ToR	LBL ToR – comparison	Comments
1	<p>Statement of purpose Our audit committee is a key component of [name of authority]'s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.</p>	<p>See ToR 1, 5 and 8.</p> <ul style="list-style-type: none"> • The review and approval of the Council's Internal Audit strategy, plans and resources. • The external auditor's Annual Plan, relevant reports, and reports to those charged with governance. • An overview of the Council's Constitution in respect of audit procedure rules, contract procedure rules, and financial regulations. 	Met
2	<p>The purpose of our audit committee is to provide independent assurance to the members [or identify others charged with governance in your authority] of the adequacy of the risk management framework and the internal control environment. It provides independent review of [name of authority]'s governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place</p>	<p>See ToR 2, 3, 4, 7, 9, 10, 11, and see constitution for who they provide assurance to section Article 6, 6.6 and section 13)</p> <ul style="list-style-type: none"> • Internal Audit progress reports on a quarterly basis summarizing the audit reports issued and performance of the Internal Audit function. • The annual report of the Council's Head of Internal Audit and Inspection Agencies • Reports from Internal Audit on the implementation of agreed recommendations where management have failed to undertake the necessary actions within the planned audit time frame. • The monitoring of the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements. 	Met

Appendix 1: Suggested CIPFA Audit Committee Terms of Reference (ToR) compared to Lewisham Audit Panel ToR

No.	CIPFA's example ToR	LBL ToR – comparison	Comments
		<ul style="list-style-type: none"> • The Council's assurance arrangements including the Statement of Internal Control [now the Annual Governance Statement]. • The Council's Annual Statement of Accounts, to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Executive. • The external auditor's opinion and reports to members, and monitoring of management action in response to issues raised by external audit. 	
3	<p>Governance, risk and control To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance</p>	<p>See ToR 5 & 9</p> <ul style="list-style-type: none"> • The external auditor's Annual Plan, relevant reports, and reports to those charged with governance. • The Council's assurance arrangements including the Statement of Internal Control [now the Annual Governance Statement]. 	<p>Met LBL ToR doesn't specifically say Audit Panel to compare frameworks. However, this is covered through compliance with the PSIAS set out in the Charter reviewed by the Audit Panel annually – see below</p>
4	<p>To review the AGS prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control</p>	<p>See ToR 9</p> <ul style="list-style-type: none"> • The Council's assurance arrangements including the Statement of Internal Control [now the Annual Governance Statement]. 	<p>Met</p>

Appendix 1: Suggested CIPFA Audit Committee Terms of Reference (ToR) compared to Lewisham Audit Panel ToR

No.	CIPFA's example ToR	LBL ToR – comparison	Comments
5	To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements	See ToR 11 <ul style="list-style-type: none"> The external auditor's opinion and reports to members, and monitoring of management action in response to issues raised by external audit. 	Met LBL ToR doesn't specifically identify VFM but this is implicit under the duties for external audit.
6	To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.	See ToR 1, 3 , & 7 <ul style="list-style-type: none"> The review and approval of the Council's Internal Audit strategy, plans and resources. The annual report of the Council's Head of Internal Audit and Inspection Agencies The monitoring of the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements. 	Met
7	To monitor the effective development and operation of risk management in the council.	See ToR 2 <ul style="list-style-type: none"> Internal Audit progress reports on a quarterly basis summarizing the audit reports issued and performance of the Internal Audit function. 	Met
8	To monitor progress in addressing risk-related issues reported to the committee.	See ToR 7 <ul style="list-style-type: none"> The monitoring of the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements. 	Met
9	To consider reports on the effectiveness of internal controls and	See ToR 2, 4	Met

Appendix 1: Suggested CIPFA Audit Committee Terms of Reference (ToR) compared to Lewisham Audit Panel ToR

No.	CIPFA's example ToR	LBL ToR – comparison	Comments
	monitor the implementation of agreed actions	<ul style="list-style-type: none"> • Internal Audit progress reports on a quarterly basis summarizing the audit reports issued and performance of the Internal Audit function. • Reports from Internal Audit on the implementation of agreed recommendations where management have failed to undertake the necessary actions within the planned audit time frame. 	
10	To review the assessment of fraud risks and potential harm to the council from fraud and corruption.	See ToR 7 <ul style="list-style-type: none"> • The monitoring of the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements. 	Met Annual AFACT report covers key fraud risks and work areas to comply with transparency code.
11	To monitor the counter-fraud strategy, actions and resources.	See ToR 3, 7, & 11 <ul style="list-style-type: none"> • The annual report of the Council's Head of Internal Audit and Inspection Agencies • The monitoring of the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements. • The external auditor's opinion and reports to members, and monitoring of management action in response to issues raised by external audit. 	Met Work of AFACT covered in annual report to Audit Panel and considered as part of internal and external audit reporting.
12	To review the governance and assurance arrangements for	See ToR 3 & 6	Partial

Appendix 1: Suggested CIPFA Audit Committee Terms of Reference (ToR) compared to Lewisham Audit Panel ToR

No.	CIPFA's example ToR	LBL ToR – comparison	Comments
	<p>significant partnerships or collaborations. CIPFA considers that the requirement to review and make recommendations on the authority's financial affairs will be fulfilled by reference to items 5, 9 and 10 in these suggested terms of reference as well as those under financial reporting</p>	<ul style="list-style-type: none"> • The annual report of the Council's Head of Internal Audit and Inspection Agencies • External inspection reports and specific reports as agreed with the external auditor 	<p>More relevant to combined authorities?</p>
13	<p>Internal audit To approve the internal audit charter.</p>	<p>See ToR 1 (included in Charter)</p> <ul style="list-style-type: none"> • The review and approval of the Council's Internal Audit strategy, plans and resources. 	<p>Met</p>
14	<p>To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.</p>	<p>See ToR 1</p> <ul style="list-style-type: none"> • The review and approval of the Council's Internal Audit strategy, plans and resources. 	<p>Met</p>
15	<p>To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.</p>	<p>See ToR 1</p> <ul style="list-style-type: none"> • The review and approval of the Council's Internal Audit strategy, plans and resources. 	<p>Met</p>
16	<p>To approve significant interim changes to the risk-based internal audit plan and resource requirements.</p>	<p>See ToR 1 & 2</p> <ul style="list-style-type: none"> • The review and approval of the Council's Internal Audit strategy, plans and resources. • Internal Audit progress reports on a quarterly basis summarizing the audit reports issued 	<p>Met</p>

Appendix 1: Suggested CIPFA Audit Committee Terms of Reference (ToR) compared to Lewisham Audit Panel ToR

No.	CIPFA's example ToR	LBL ToR – comparison	Comments
		and performance of the Internal Audit function.	
17	To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.	See ToR 1 & 4 <ul style="list-style-type: none"> • The review and approval of the Council's Internal Audit strategy, plans and resources. • Reports from Internal Audit on the implementation of agreed recommendations where management have failed to undertake the necessary actions within the planned audit time frame. 	Met
18	To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.	See ToR 1 & 11 <ul style="list-style-type: none"> • The review and approval of the Council's Internal Audit strategy, plans and resources. • The external auditor's opinion and reports to members, and monitoring of management action in response to issues raised by external audit. 	Partially met Potential conflicts from acting up arrangements have been declared in 2018/19 and noted by external audit. Restructure looking to eliminate these going forward.
19	To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include: a) updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work b) regular reports on the results of the QAIP	See ToR 2 & 4 <ul style="list-style-type: none"> • Internal Audit progress reports on a quarterly basis summarizing the audit reports issued and performance of the Internal Audit function. • Reports from Internal Audit on the implementation of agreed recommendations where management have failed to undertake the necessary actions within the planned audit time frame. 	Met

Appendix 1: Suggested CIPFA Audit Committee Terms of Reference (ToR) compared to Lewisham Audit Panel ToR

No.	CIPFA's example ToR	LBL ToR – comparison	Comments
	c) reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS.		
20	To consider the head of internal audit's annual report: a) The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit. b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the AGS	See ToR 3 (includes PSIAS and QAIP, and annual opinion) • The annual report of the Council's Head of Internal Audit and Inspection Agencies	Met
21	To consider summaries of specific internal audit reports as requested.	See ToR 2 • Internal Audit progress reports on a quarterly basis summarizing the audit reports issued and performance of the Internal Audit function.	Met
22	To receive reports outlining the action taken where the head of internal audit has concluded that management has	See ToR 2, 3 & 4	Met

Appendix 1: Suggested CIPFA Audit Committee Terms of Reference (ToR) compared to Lewisham Audit Panel ToR

No.	CIPFA's example ToR	LBL ToR – comparison	Comments
	accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions	<ul style="list-style-type: none"> • Internal Audit progress reports on a quarterly basis summarizing the audit reports issued and performance of the Internal Audit function. • The annual report of the Council's Head of Internal Audit and Inspection Agencies • Reports from Internal Audit on the implementation of agreed recommendations where management have failed to undertake the necessary actions within the planned audit time frame. 	
23	To contribute to the QAIP and in particular, to the external quality assessment of internal audit that takes place at least once every five years.	See ToR 3 (and a part of the Charter) <ul style="list-style-type: none"> • The annual report of the Council's Head of Internal Audit and Inspection Agencies 	Met
24	To consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations (see Appendix A).	See ToR 3 <ul style="list-style-type: none"> • The annual report of the Council's Head of Internal Audit and Inspection Agencies 	Met
25	To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee	See ToR 1 & 6 (Charter includes this) <ul style="list-style-type: none"> • The review and approval of the Council's Internal Audit strategy, plans and resources. • External inspection reports and specific reports as agreed with the external auditor 	Met
26	External audit To support the independence of external audit through consideration	See ToR 5 & 11	Met

Appendix 1: Suggested CIPFA Audit Committee Terms of Reference (ToR) compared to Lewisham Audit Panel ToR

No.	CIPFA's example ToR	LBL ToR – comparison	Comments
	of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.	<ul style="list-style-type: none"> • The external auditor's Annual Plan, relevant reports, and reports to those charged with governance. • The external auditor's opinion and reports to members, and monitoring of management action in response to issues raised by external audit. 	
27	To consider the external auditor's annual letter, relevant reports and the report to those charged with governance	See ToR 5, 6 & 11 <ul style="list-style-type: none"> • The external auditor's Annual Plan, relevant reports, and reports to those charged with governance. • External inspection reports and specific reports as agreed with the external auditor • The external auditor's opinion and reports to members, and monitoring of management action in response to issues raised by external audit. 	Met
28	To consider specific reports as agreed with the external auditor	See ToR 5, 6, & 11 <ul style="list-style-type: none"> • The external auditor's Annual Plan, relevant reports, and reports to those charged with governance. • External inspection reports and specific reports as agreed with the external auditor • The external auditor's opinion and reports to members, and monitoring of management action in response to issues raised by external audit. 	Met

Appendix 1: Suggested CIPFA Audit Committee Terms of Reference (ToR) compared to Lewisham Audit Panel ToR

No.	CIPFA's example ToR	LBL ToR – comparison	Comments
29	To comment on the scope and depth of external audit work and to ensure it gives value for money.	See ToR 5 <ul style="list-style-type: none"> The external auditor's Annual Plan, relevant reports, and reports to those charged with governance. 	Met
30	To commission work from internal and external audit.	Audit Panel is advisory only Public Sector Internal Audit Standards identify role as "proving (but not directing) the risk-based plan, considering the use made of other sources of assurance"	Not met Delivered via PASC, M&C & Council
31	To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies	Nothing specific.	Not met
32	Financial reporting To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.	See ToR 10 <ul style="list-style-type: none"> The Council's Annual Statement of Accounts, to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Executive. 	Met
33	To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts	See ToR 10 & 11 <ul style="list-style-type: none"> The Council's Annual Statement of Accounts, to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the 	Met

Appendix 1: Suggested CIPFA Audit Committee Terms of Reference (ToR) compared to Lewisham Audit Panel ToR

No.	CIPFA's example ToR	LBL ToR – comparison	Comments
		financial statements or from the audit that need to be brought to the attention of the Executive. <ul style="list-style-type: none"> • The external auditor's opinion and reports to members, and monitoring of management action in response to issues raised by external audit. 	
34	Accountability arrangements To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.	See ToR 4, 5, 7, 10 & 11 <ul style="list-style-type: none"> • Reports from Internal Audit on the implementation of agreed recommendations where management have failed to undertake the necessary actions within the planned audit time frame. • The external auditor's Annual Plan, relevant reports, and reports to those charged with governance. • The monitoring of the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements. • The Council's Annual Statement of Accounts, to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Executive. • The external auditor's opinion and reports to members, and monitoring of management 	Met

Appendix 1: Suggested CIPFA Audit Committee Terms of Reference (ToR) compared to Lewisham Audit Panel ToR

No.	CIPFA's example ToR	LBL ToR – comparison	Comments
		action in response to issues raised by external audit.	
35	To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose	Constitution directs this to the Public Accounts Select Committee who in turn report to Mayor & Cabinet and onto Council	Partially Met Audit Panel reports to PASC annually – not full Council – in the Mayoral model.
36	To publish an annual report on the work of the committee.	Not in the Audit Panel ToR as a Panel not a Committee. This is covered by the Public Accounts Select Committee ToR at 6.6 of the Constitution: <i>Public Accounts Select Committee</i> <ul style="list-style-type: none"> • “To scrutinise the effectiveness of the Audit Panel.” and • “To receive reports as appropriate from the Audit Panel in respect of their overview of contract procedure rules and financial regulations” 	Met via PASC

Agenda Item 9

AUDIT PANEL		
Report Title	External Finance review – as reported to PASC in December 2018 and M&C in February 2019	
Key Decision	No	Item No. 9
Ward	ALL	
Contributors	Acting Chief Finance Officer	
Class	Part 1	Date: 26 March 2019

1. Purpose of the report

- 1.1. This report presents members of the Audit Panel with the external finance review and accompanying referral from the Public Accounts Select Committee (PASC) to Mayor & Cabinet (M&C).

2. Recommendations

- 2.1. It is recommended that the Audit Panel note this report, in particular the appended PASC referral and officer report.

3. Background

- 3.1. The Chair of the Audit Panel has requested that the officers report to PASC and PASC referral to M&C be shared with the Audit Panel at the next available opportunity.

4. External Finance review

- 4.1. Appended to this covering report is the PASC referral to M&C with the Officer report to PASC included which sets out the background to the review being undertaken, the scope and work conducted, the author's report, and officers action plan responding to the report's recommendations.
- 4.2. The PASC resolved to advise Mayor and Cabinet of the following:
 - The Committee welcomes the financial control review. It recommends that Mayor and Cabinet should give it careful consideration before seeking detailed responses on each of the issues raised, including: the finances of children and young people's services; adult social care; the housing revenue account; health services; income generation; IT and the general culture of monitoring at the Council.
 - The Committee also requests that the response return to the Committee with additional clarification around expenditure and accounting between the housing revenue account and the general fund.
- 4.3. The report and the comments of the PASC having been reported to M&C the decision of their consideration of this report and the referral was:

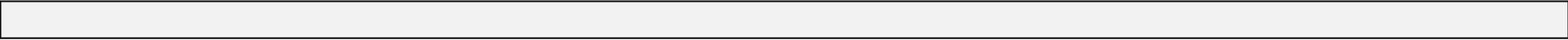
Decision

- 4.4. Having considered an officer report and a presentation by the Chair of the Audit Panel, Councillor Alan Hall, the Mayor and Cabinet agreed that the Committee's comments be noted and the Executive Director for Resources & Regeneration be asked to provide a response.
- 4.5. Officers are scheduled to provide the requested response to M&C at their meeting on the 24 April.
- 5. Legal implications**
 - 5.1. There are no legal implications arising directly from this report.
- 6. Financial implications**
 - 6.1. There are no financial implications arising directly from this report.
- 7. Equalities implications**
 - 7.1. No direct equalities implications have been identified, in terms of adverse impact, with respect to the Council's obligations under the Equality Act 2010
- 8. Crime and disorder implications**
 - 8.1. There are no crime and disorder implications arising directly from this report
- 9. Environmental implications**
 - 9.1. There are no specific environmental implications arising directly from this report
- 10. Background papers.**
 - 10.1. There are no background papers.

If there are any queries on this report, please contact:

David Austin, Acting Chief Finance Officer, on 020 8314 9114, or email him at:
david.austin@lewisham.gov.uk

Appendix 1: External Finance review: PASC referral to M&C and accompanying officer report on



Mayor and Cabinet		
Title	Comments of the Public Accounts Select Committee on the financial control review	
Contributor	Public Accounts Select Committee	
Class	Part 1 (open)	6 February 2019

1. Summary

- 1.1 This report informs Mayor and Cabinet of the comments and views of the Public Accounts Select Committee, arising from discussions about the financial control review.

2. Recommendation

- 2.1 Mayor and Cabinet is recommended to note the Committee's comments as set out in this report and ask the Executive Director for Resources and Regeneration to provide a response.

3. Public Accounts Select Committee views

- 3.1 On Thursday 20 December, the Public Accounts Select Committee considered an officer report on the recent financial control review (appended below).
- 3.2 The Committee resolved to advise Mayor and Cabinet of the following:
- The Committee welcomes the financial control review. It recommends that Mayor and Cabinet should give it careful consideration before seeking detailed responses on each of the issues raised, including: the finances of children and young people's services; adult social care; the housing revenue account; health services; income generation; IT and the general culture of monitoring at the Council.
 - The Committee also requests that the response return to the Committee with additional clarification around expenditure and accounting between the housing revenue account and the general fund.

4. Financial implications

- 4.1 There are no financial implications arising out of this report per se; but there may be financial implications arising from carrying out the action proposed by the Committee.

5. Legal implications

- 5.1 The Constitution provides for Select Committees to refer reports to the Mayor and Cabinet, who are obliged to consider the report and the proposed response from the

relevant Executive Director; and report back to the Committee within two months (not including recess).

6. Further implications

- 6.1 At this stage there are no specific environmental, equalities or crime and disorder implications to consider. However, there may be implications arising from the implementation of the Committee's recommendations.

Background papers

Financial control review report (appended below)

Public Accounts Select Committee agenda, 20 December 2018:

<https://tinyurl.com/PAC201218>

If you have any questions about this report please contact Timothy Andrew, Scrutiny Manager (timothy.andrew@lewisham.gov.uk)

Public Accounts Select Committee		
Report Title	Action plan in response to External Finance Review	
Key Decision	No	Item No. 4
Ward	All	
Contributors	Head of Corporate Resources	
Class	Part 1	20 December 2018

1. Purpose of the Report

- 1.1. This report presents the action plan to address the findings and recommendations in the report from the recent external financial review and asks the Public Accounts Select Committee to note the action plan.

2. Recommendations

- 2.1. It is recommended that the PASC:
- review the appended external finance review report and the identified findings and recommendations; and
 - note the action plan, including management responses and timeframes.

3. Background

- 3.1. In September 2018 the Chief Executive commissioned Bill Roots, Chair of the Council's Internal Control Board and Local Education Partnership, to conduct an external financial review with the following scope:

“Members and officers of the council are committed to strengthening our financial stewardship to ensure there is no repeat of last year's overspend, effective financial controls are in place, particularly in high cost areas, and that in future, savings targets are SMART.

Given this I would like to commission you to please review the following:

- approach to budget setting;
- effectiveness of the council's budget monitoring processes;
- impact of existing financial controls and systems in place; and
- the efficacy of the internal audit function.

A report with clear recommendations will enable us to respond to the issues above, giving confidence to all stakeholders that we are taking the requisite action to strengthen all aspects of our financial governance.”

- 3.2. The work was undertaken in October and involved reviewing a wide range of reports and discussions with Councillors, Officers, and the external auditor. The report (see Appendix B) was delivered as final at the end of October. It confirms the limited scope of this review in the time available, and highlights that any detail in the underlying financial systems has not been reviewed.

- 3.3. The report is drafted by exception, focusing on areas for improvement, but does identify that the documents examined were well written, easy to follow, and comprehensive. In terms of context the report also acknowledges the financial challenges facing all local authorities are extremely testing.

4. Findings and Recommendations

- 4.1. The conclusion of the report identifies five areas as the most important issues which need to be actioned to ensure effective financial control continues to be a characteristic of the Council.

- 4.2. They are:

- i. Establishing a realistic budget for children services;
- ii. Seeing through the overhaul of departmental and corporate information systems;
- iii. Ensuring that savings included in the budget plans are realistic, both in terms of quantity and timescales;
- iv. Assessing whether there are cultural issues regarding staff accountability which affects performance; and
- v. Adopting a three year rolling plan with growth, savings, and use of reserves assessed.

- 4.3. Officers have reviewed the detail of the report and prepared the following action plan which responds to all of the findings and recommendations in the report, including those relating to the point prioritised in the conclusion. For each recommendation the management response and timeframe for action is noted. This is presented at Appendix A.

5. Legal Implications

- 5.1. There are no legal implications arising directly from this report.

6. Financial Implications

- 6.1. There are no financial implications arising directly from this report.

7. Equalities Implications

- 7.1. There are no Equalities implications arising directly from this report.

8. Crime and Disorder Implications

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

9. Environmental Implications

- 9.1. There are no legal implications arising directly from this report.

10. Background Papers

- 10.1. Appended to this report, are:

- Appendix A: Action Plan; and
- Appendix B: External Finance Review report.

- 10.2. If there are any queries on this report, please contact David Austin, Head of Corporate Resources on 020 8314 9114 or at david.austin@lewisham.gov.uk

APPENDIX A: ACTION PLAN in response to Financial Control Review – November 2018

Report Ref	Finding / Recommendation	Management Comment and Action	By when	By Whom
	Medium Term Financial Plan			
10 a)	The budget book for 2018/19 was not produced until June, three months after the start of the financial year.	Agreed Publish the budget book within two weeks of the start of the financial year (mid-April) following the budget being set by Council in late February and the Cash Limits being loaded for budget holders in March.	15/04/2019	Head of Corporate Resources
10 b)	The Medium Term Financial Strategy (MTFS) report included a lot of Treasury and Capital detail which was a distraction.	Agreed This was a once off as a consequence of the new prudential code requirements for 2019/20 and it is accepted would have been better as a separate report. This will not be repeated.	30/06/2019	Head of Corporate Resources
Page 159 10 c)	The Medium Term Financial Strategy (MTFS) summary of the overall financial position was not presented early in the report.	Agreed The financial summary will be presented in the Executive Summary for the next MTFS report.	30/06/2019	Head of Corporate Resources
10 d)	The Medium Term Financial Strategy (MTFS) had no approved savings for future years and was only looking two years ahead, rather than a rolling three year view.	Agreed The 2018 MTFS fell between a new administration in May and the Comprehensive Spending Review (CSR) for June 2019 which impacted the flow of savings proposals. Going forward a rolling three year approach will be presented, as in previous years, recognising that the plans for the first year will be firmer and more detailed than those for later years.	30/06/2019	Head of Corporate Resources
10 e)	The Medium Term Financial Strategy (MTFS) does not show how the Council intends to apply balances and reserves to balance the budget and the impact for the amounts remaining are not clearly identified.	Agreed This reflects a similar comment for the first time from the external auditors in 2018/19. More information on the use of reserves is being incorporated into financial reporting, including the MTFS and Cuts reports going forward, rather than just the Budget.	30/06/2019	Head of Corporate Resources

APPENDIX A: ACTION PLAN in response to Financial Control Review – November 2018

Report Ref	Finding / Recommendation	Management Comment and Action	By when	By Whom
10 f)	The Medium Term Financial Strategy (MTFS) should be produced by early June to give more time to assess and approve savings options which should be completed by Christmas each year.	Agreed The 2018 MTFS followed the elections in May so the annual business was a little later than usual. However, the savings proposals are on track and going to M&C in November, meeting the Christmas deadline suggested. Going forward the MTFS will be prepared for June.	30/06/2019	Head of Corporate Resources
Budget Process and Content				
11	Greater use of Officer and joint Officer / Member Star Chamber meetings is vital to ensure thorough review of proposals to assess the likelihood of achievement.	Agreed The Star Chamber process was re-introduced in 2018 and will continue, starting earlier, for the 2019 round.	30/07/2019	Head of Corporate Resources
Page 160	Savings proposals need to be specific rather than general (e.g. not allowing for inflation) to avoid budgets becoming misaligned.	Agreed This is a sound principle and one that the savings approach of the Council follows. Any generalised savings will be a minority of the total being sought and carefully monitored. No such savings are proposed for 2019/20.	21/11/2018	Head of Corporate Resources
13 (i)	A realistic budget needs to be set initially for Children's services which will enable an approved budget to be managed, with savings if necessary, in the medium term. The short term impact on reserves will need to be recognised.	Agreed Action has been taken in October 2018 to inject a further £6m into the Children's services budget for placements and a review of the staffing structures and costs is underway. This will facilitate an amended and realistic budget to be set for 2019/20, along with the full impact on the Council's reserves set out.	01/03/2019	Head of Corporate Resources
13 (ii)	Service information (financial and non-financial, so budget, staffing and activity) available both within the Directorates and Corporately is weak and inconsistent, in particular in CYP.	Agreed 1) This is the subject of the Executive Management team's focus on the need for change – culture, systems and processes – and deep dive budget reviews going forward.	Quarterly	Chief Executive

APPENDIX A: ACTION PLAN in response to Financial Control Review – November 2018

Report Ref	Finding / Recommendation	Management Comment and Action	By when	By Whom
	Review meetings need to be in place to assess progress with a group of officers and members providing oversight.	<p>2) An improvement plan and Board to conduct regular reviews. The Board is chaired by the lead Cabinet Member for CYP.</p> <p>3) In addition, monthly Children finance meetings are held by the Chief Executive.</p>	<p>Two weekly</p> <p>Monthly</p>	<p>Exec. Dir. for CYP / Cabinet Member</p> <p>Chief Executive</p>
14 a)	The Council is seeking to maximise income but does not always reflect the full cost of services as central overheads are not recharged to service areas.	<p>Agreed</p> <p>Once the Oracle Cloud system is settled in, Finance with the support of the Commercial and Procurement team will review the corporate approach to overheads and memorandum trading accounts.</p>	31/03/2018	Head of Financial Services
14 b)	A more transparent and regular update on reserves is needed, at least until the Council's budget is balanced.	<p>Agreed</p> <p>See response to 10 e) above</p>		
14 c)	Staff number budgets (Establishment) are not currently in place, putting the financial forecasting at risk.	<p>Agreed</p> <p>The Oracle Cloud HR and Payroll implementation, due in 2018/19, will address this recommendation.</p>	31/05/2019	Head of Financial Services
14 e)	There do not appear to be pressures on the Housing Revenue Account (HRA) to find economies, with additional investment potentially benefitting the General Fund.	<p>Not Agreed</p> <p>The HRA is being managed to support the development of more social housing, a priority for this administration. The reserves are identified and committed for development (see the GLA bid recently agreed). The Council has also made loans to Lewisham Homes to secure more temporary accommodation and reduce General Fund risk.</p>		
14 f)	The Capital Programme should be amended to invest more in projects that generate income for the Council.	<p>Agreed</p> <p>As noted at 14 e) this is being done in conjunction with the treasury strategy. The cuts for 2019/20 include a number of such proposals (e.g. investment property, more temporary accommodation, trade waste, bereavement services), and Private Rented</p>	Done	See 2019/20 cuts proposals.

APPENDIX A: ACTION PLAN in response to Financial Control Review – November 2018

Report Ref	Finding / Recommendation	Management Comment and Action	By when	By Whom
		Sector (PRS) developments and the regeneration of Catford are in progress.		
14 g)	The Council's IT capability is well below what is needed, inhibiting performance, financial accuracy and the ability to manage effectively.	Agreed A full review of the Council's IT infrastructure, governance, and operational arrangements has been conducted over the summer. Investments in security, resilience and functionality of the corporate systems (e.g. network, website, casework, Share Point) are underway. An Acting Asst. Dir. has been appointed and recruitment for a permanent lead is being advertised. Work on the children and adult instances of Liquid Logic, to include the financial interface (Controcc) has been commissioned and started with the early help module in Children's (see 13 ii above). The corporate digital transformation board is in place to monitor progress, chaired by the acting Chief Executive.	Monthly	Chief Executive and Exec. Dir. CUS.
	Monitoring			
15	A clearer explanation of 1) what action is being taken to recover overspends, and 2) why savings options are not being achieved and by when they will be achieved is needed.	Agreed The financial monitoring reports is being improved and strengthened to answer these challenges. It will include more detail on progress with savings and a fuller account of the forecasts with reference to the underlying financial commitments (on staff and spend) compared to budget, compared to activity/caseload trends, to help underpin the detailed management assumptions and actions required.	31/03/2019	Head of Financial Services
16 (i)	Separate review meetings, particularly on the larger more volatile budgets should be considered	Agreed This has been recognised – see action for 13 (ii) 1) above.		

APPENDIX A: ACTION PLAN in response to Financial Control Review – November 2018

Report Ref	Finding / Recommendation	Management Comment and Action	By when	By Whom
16 (ii)	The £100 DEP/CEP process should be lifted as no longer particularly effective	Agreed This is agreed with the focus to be on a Corporate Permission to Recruitment process to replace it, pending the establishment controls in Oracle Cloud.	31/11/2018	Head of Corporate Resources
17	The reduced quality and quantity of financial advice and assistance available to the organisation may have gone too far.	Agreed Finance review, as part of operating model and business process update to align with Oracle Cloud capabilities, to be conducted to support service reorganisation in 2019/20.	31/03/2018	Head of Corporate Resources
Internal Audit				
18	Evidence of lack of compliance and accountability from the failure of managers to implement agreed recommendations to agreed timescales.	Agreed This is the cultural element that aligns with the IT transformation work noted at 14 g) above. The change agenda is being reset by the acting Chief Exec., noting that cultural change will take two to three years to embed.	Agenda by 31/03/2019 for a three year plan	Chief Executive / Head of HR & OD
Financial Control and Systems				
19	Lack of quality and reliability of information systems	Agreed See action for 14 g) above		
20	A systematic methodology is needed to support improved frequency and depth of monitoring, aligned to risk and to ensure improvement actions are not lost.	Agreed See action for 15) above		
21	The cultural issue of personal accountability from concerns with staff failing to carry out their roles effectively and on a timely basis should be reflected upon.	Agreed See action for 18) above		

APPENDIX A: ACTION PLAN in response to Financial Control Review – November 2018

Conclusion

The report concludes with five high level points prioritising the detail covered in the actions above. They are:

- 1) Establishing a realistic budget for children services;
- 2) Seeing through the overhaul of departmental and corporate information systems;
- 3) Ensuring that savings included in the budget plans are realistic, both in terms of quantity and timescales;
- 4) Assessing whether there are cultural issues regarding staff accountability which affects performance; and
- 5) Adopting a three year rolling plan with growth, savings, and use of reserves assessed.

London Borough of Lewisham--Financial Control Review

Report October 2018 by W. Roots

A. Introduction

1. I was commissioned in September 2018, by Ian Thomas the Council's Chief Executive, to undertake an external review of certain elements of the Council's financial processes and practice. For a number of reasons the review could not be undertaken until October 2018.
2. I attach, at Appendix 1, an extract from a note to me from Ian Thomas setting out my remit. The note in essence sets out my Terms of Reference (TOR) for this review. I must stress that this exercise was undertaken in relatively few (four) days. This includes obtaining and reading documents, undertaking interviews and report writing. It has not included examining every financial activity undertaken by the Resources Directorate, or elsewhere within the Council. It has, however, had specific regard to the TOR and those issues which I assess as most relevant. Having said this I regard the TOR as a broad guide rather than a rigid remit. I do have the benefit of having read extensively covering a range of the Council's financial activity and from chairing the Council's Internal Control Board (ICB) for some ten years. I stress that in undertaking this particular review that I have not looked in any detail at the underlying financial systems as I would when undertaking a full financial diagnostic health check.
3. I have also set out at Appendix 2, for the sake of completeness, a brief outline CV. I have undertaken a number of these reviews and adopt an approach which concentrates on what needs to change. This does mean that my report can be seen as negative or unnecessarily critical. This is not the intention since I believe that it is better to focus on where improvements can be made which would enhance the Council's performance.
4. I have listed in Appendix 3 those documents that I have sought to read, examine or which have been supplied to me. I have however commented in the body of the report on the quality and /or content of some of the documents examined. Those people that I have interviewed are listed in Appendix 4. I would like to thank them for responding to my questions and comments in an open and candid manner. I would also like to thank Paul Aladenika and Kim Chevovs for obtaining the documents I sought, for making all of the appointments and the other necessary administrative arrangements.
5. I have adopted a style of reporting based upon simply setting out my findings and recommendations rather than elaborating on the pros

and cons of each issue addressed. Writing a detailed account of how practices operate would be time consuming given the time at my disposal. Further the intended audience of this report have a close knowledge of operational practice in any event. I am of course more than willing to explain my thinking and the rationale behind my views, if so required. On some issues I have merely suggested that the Council undertakes a review itself to determine the action/change needed. This is because there are a number of options as regards an appropriate outcome and there is no single “right” answer. It is also because a detailed knowledge of Council priorities, projects and transactions is needed to establish a definitive position on some elements of financial and other activity.

B. Context of the review

6. Lewisham is a diverse Inner London Borough with demographic characteristics which are more testing than applies to national averages. This, of course, causes distortions in comparisons as I am sure that the Council appreciates. It is also the case that senior figures within the Council were until recently of relatively of long standing. This can have the effect of inhibiting the dynamic change needed to resolve emerging problems. The financial challenges facing all local authorities are, to put it mildly, extremely testing and with Lewisham having made savings of some £165 million in recent years the ability to make further significant savings is a major challenge.

C. My Findings

7. The documents that I have examined are well written; easy to follow and comprehensive but I comment below where I think changing the focus would improve the understanding for the intended audience for some of the reports.
8. While the significant reduction in staff numbers is undoubtedly affecting the speed with which issues are dealt with I question whether the accountability culture is as strong as it should be; I comment further on this point below.
9. I have set out my findings and comments in a summarised fashion over following headings.
 1. Medium Term Financial Plan (MTFP)
 2. Budget Process and Content
 3. Monitoring
 4. Internal Audit
 5. Financial control and Systems

1)-Medium Term Financial Plan

10. The Council has a very comprehensive annual timetable for the MTFP and Budget preparation but the following points do in my view need attention and I accept that a number are “style” issues.

- a) The Budget book for 2018-19 was not produced until June 2018-three months after the start of the year which is not good financial practice, particularly for budget holders.
- b) The MTFP report to Members (July 2018) contained a major sub report on Treasury Management and Capital Strategy. This made the report overly long (additional 28 pages); was incidental to the overall Plan and could divert attention from the Plan itself.
- c) The overall summary of the financial position (Table 5) does not appear until page 22 of the report. An early financial summary of the forecast Plan in the document would aid comprehension and focus, with the justification for the figures following later in the report. National and other statistics would be better set out in appendices.
- d) The Plan shows the forecast gap on the basis of three scenarios which is good practice given uncertainty but it states that there are no approved savings for future years. This is the key omission to me. I believe that financial planning should take place on a rolling three year basis with options being identified for the duration of the Plan. The Plan covers the period 2019-20 to 2022-23 i.e. 4 years and I understand that currently the Council is only seeking savings options for the first two years and at present is some £10m short of what is needed of approximately £30m.
- e) The extent to which the Council intends to apply balances and reserves to balance the budget needs to be shown and the impact on amounts left clearly identified.
- f) If possible, and I accept that there are resource issues, this report should be produced by early June given more time in the budget process to assess and approve savings options which should be completed by Christmas each year.

2) The Council’s Budget Process and Content

11. The Council has a well documented timetable but final decisions are taken late in the process. More time is needed to ensure that options to save costs or cut services are assessed thoroughly before being included in the budget. I say this because the number of agreed savings not being achieved is greater than I would expect as is evidenced by monitoring reports. I understand that greater use is

being made of officer and joint Officer/Member Star Chamber meetings which are vital to ensuring the realism of savings put forward. These need to be thorough in terms of the assessing the likelihood of suggested savings being achieved.

12. I have commented above about my strong belief that a three year rolling programme of options to achieve a balanced budget is needed especially as the more difficult options take more than one year to implement. Options need to be specific and generalised ones e.g. a general increase in vacancy levels or not allowing full inflation leads to unexpected and sometimes embarrassing service impacts which were not foreseen. This can understandably lead to Member pressure to moderate them.
13. **The most important financial issue for the Council is in my view the need to establish a real budget for Children's services.** The information available both within the Directorate and corporately is weak and inconsistent. Information system weaknesses add to the confusion. I am aware that the Council has received a number of reports on action being taken and set up forums for detailed review and assessment. To be extremely blunt there is no sense at all in the Directorate on day one of a new financial year being assessed as many millions of pounds overspent (2018-19 reported as £13.5m in May 2018 and £15.5m in July 2018). While Council reserves are being used to moderate the position, the gap (I am loathe to call it an overspend) will remain large and attempts to manage it are having a negative impact on effective service management and indeed corporate activity and will occupy an increasing amount of Council scarce resources. A realistic budget needs to be set initially which will enable an approved budget to be available in the medium term. Alongside this firm plans with clear actions, timescales, named individuals and very close corporate monitoring is needed to develop considered options on possible future reductions. Review meetings to assess progress should take place in a group of members and officers established for this purpose and I understand that an appropriate group has been established. The short term impact on reserves will need to be recognised and allowed for in future projections. The outcome of the imminent Ofsted assessment could add to the pressure for action.
14. In undertaking this review a number of other issues have become apparent which I summarise below as matters for the Council to consider further.
 - a. The Council is seeking where possible to maximise income but does not always fully reflect the total cost of services as central costs are not allocated to service areas. There are areas e.g. joint funding with the NHS where I understand that significant additional income could arise.

- b. I think that a more transparent and regular update on reserves is needed especially as the Council seeks to balance its budget by using its reserves at an enhanced rate.
- c. Staff number budgets do not currently exist as such but are being developed. The Council's financial forecast capability is at risk and seeing this work through quickly is important.
- d. There is a general view that further savings could be made in the Adults' budget given the Better Care Fund and other income sources.
- e. The Council has a healthy (in financial terms) Housing Revenue Account (HRA) where there appears (and I may be wrong) to be no pressure to find economies. If additional sums could be added to housing reserves this may enable additional investment to be made which could benefit the General Fund.
- f. It is also worth considering whether the focus of the Capital Programme could be amended to invest more in projects that generate income to the Council?
- g. The Council is well aware that its IT capability is well below what is needed; a position that has existed for a number of years. This is no doubt inhibiting performance, financial accuracy and the ability to manage effectively with less staff resources.

3) Monitoring

- 15. The reports that I have seen to the Public Accounts Committee (PAC) are again, full in terms of explaining variances and are clearly written. I have commented above regarding the variances in planned savings and it is a positive move that these are being reported. Two points arise from my perspective. Firstly a clearer explanation of what action is being taken to recover overspends and secondly why savings options promised a few months earlier after a fairly intensive process are not now being achieved and when they will be achieved.
- 16. There can be little doubt that the quality of IT and support systems affects the timeliness and accuracy of monitoring information. While formal reporting is necessary more positive outcomes are generally achieved by having separate review meetings particularly on the larger and more volatile budgets. The Council had adopted a

process for authorising payments of £100 and above and I thought that this had ceased as it is not a particularly effective means of control and is very time consuming especially given reduced resources. It appears however that it still operates in some areas at least.

17. A number of those that I interviewed questioned whether the reduction in financial management support from the Resources Directorate had gone too far. There was a clear message that this had reduced the quality and quantity of advice and assistance available to budget holders. Further the lack of reliable staff budgets was said to be having an impact on the ability to monitor budgets. Clearly a detailed assessment is needed on these points.

4) Internal Audit

18. The provision of the Council's Internal Audit function has gone through a number structural and supplier iterations in recent years. Any suggested further reduction in audit coverage requires a very precise assessment given the reductions in recent years. Timeliness of reporting and the ability to cover a year's work in a timely manner need protection. The most concerning issue with regard to Internal Audit is the failure of auditees to implement agreed recommendations in an agreed timescale. At the conclusion of each Audit a timescale is agreed by when the recommendations will be implemented. The delays in actioning these is reported to the Internal Control Board and the Audit Committee. However there are now many examples where the deadline had been extended 4 or more times and implementation is some 18 months late. This is to some extent a reduction in resources issue but also reflects relative priority given by audited staff and one where the compliance and accountability issues manifest themselves (see paragraph 21). There are separate arrangements whereby any disputed items are considered by the ICB.

5) Financial Control and Systems

19. A number of those that I have interviewed have bemoaned the quality and reliability of information systems. The starkest being in Children's Services but others are reportedly poor too. I know that this issue has been aired a number of times but proposed improvements often seem to stall or hit the buffers. I believe that action is now underway to assess and improve the position which I can only fully endorse as necessary.
20. I have mentioned above the crude £100 control which hopefully has been scrapped. What is important is to have action based review meetings on the more volatile and significant budgets to ensure that they are kept under control. The frequency and depth of monitoring needs to reflect the risks involved. The timeliness of action and reporting is important too. A systematic methodology is needed to ensure that latest issues do not dissipate the attention being given to

the larger and more volatile budget areas.

21. I mentioned above the benefits of the information obtained from chairing the Council's Internal Control Board. While the support and reaction received from staff during this review has been first class I have increasing concerns regarding the accountability of staff where they fail to carry out their roles effectively and in a reasonable timescale. This a cultural issue which is not easy to quantify but nevertheless does cause me to question personal accountability. The is a matter for the council to reflect upon especially at a time of reduced staff numbers.

D. Conclusions

22. This review has been undertaken in a very short timescale (planned as 4 days) and can thus only point to matters for attention in general terms. While I have raised a number of issues above most are for the Council to consider and are not fundamental but if addressed would in my view improve overall performance. The following are the most important issues which need to be actioned as priorities to ensure effective financial control continues to be a characteristic of the Council.

1. Establishing a realistic Budget for Children's Services. The current position means that effective management of this important service with an acceptable degree of certainty is nigh on impossible. The impact on the Council as a whole is apparent and detrimental.
2. Seeing through the overhaul of departmental (especially the Children's and Adults' information systems), and Corporate IT.
3. Ensuring that savings included in the budget are realistic both in terms of quantity and the timescales for achievement.
4. Assessing whether there are cultural issues regarding staff accountability which affect performance.
5. Adopting a three year rolling plan with growth; savings and use of reserves being assessed for the period.

E. Recommendations

24. That the Council:
 - a) determines as a matter of priority the action it wishes to take on the key issues set out in Paragraph 22 above.

- b) considers the other issues raised in this report as set out in paragraphs 10 to 21 and determines where action will be taken and the timescale.
- c) Prepares clear action plans in respect of all items to be progressed as a result of paragraphs 24 a) and 24 b).

W Roots— 20th October 2018

London Borough of Lewisham -Outline remit

“-----

It was good to meet you at our ICB and to speak to you subsequently regards follow up action. I have now had opportunity to reflect on the discussions we had at the ICB and minutes of previous meetings. As you are aware we have a well documented situation regards reliance on reserves in recent years and an unprecedented overspend last year, with an unusually sharp increase in reported overspend in CYPS. Understandably Members and officers of the council are committed to strengthening our financial stewardship to ensure there is no repeat of last year's events, effective financial controls are in place, particularly in high cost areas, and that in future, savings targets are SMART.

Given this I would like to commission you to please review the following:

- * approach to budget setting
- * effectiveness of the council's budget monitoring processes
- * impact of existing financial controls and systems in place
- * the efficacy of the internal audit function

-----). A report with clear recommendations will enable us to respond to the issues above, giving confidence to all stakeholders that we are taking the requisite action to strengthen all aspects of our financial governance.

Both Janet and David will be able to furnish you with any documentation you require to inform your work. You have indicated that the assignment will take approximately 4 days (due to your prior knowledge of the council) -----.

I look forward to receiving your report in due course”

Appendix 2

Outline CV

Bill Roots was Chief Executive and Director of Finance of Westminster City Council 1994-2000. He was previously Director of Finance and Deputy Managing Director from November 1990 to February 1994. Prior to that he was Director of Finance of the London Borough of Bexley for 8 years and prior to that he worked for Southwark and the GLC. Bill is a CIPFA member, a former examiner and has sat on numerous national working parties representing the local authority associations. He was Chairman of the London Financial Advisory Committee for 10 years until 2000 and a former President of the Society of London Treasurers. He was President of the Association of Local Authority Treasurers Societies in 1999/2000. He is now an independent consultant operating in central government, local government and the wider public sector where he mainly undertakes trouble shooting roles. He has sat on company boards and chaired a local charity. He also chairs the Internal Control Board (ICB) for the LB of Lewisham.

Documents, files and papers required and requested

1. Written explanation of the Council's Budget setting process
2. The Annual Timetable
3. Any process changes for 2018-19 and 2019-20
4. Latest version of the Council's Medium Term Financial Plan (MTFP)
5. Latest version of the Capital Programme
6. Scene setting reports re financial prospects 2018 onwards prepared for EMT and the Mayor and Cabinet. The size of budget gaps to be identified.
7. The formal 2018-19 budget report to the Council.
8. Savings lists for each year 2018-19 to 2021-22 and how they were determined
9. Planned Capital and Revenue Reserves 2017-18 to 2021-22.
10. Last two (Revenue and Capital) quarterly monitoring reports to the Executive Management Team (EMT).
11. Last two (Revenue and Capital) quarterly monitoring reports to the Mayor and Cabinet.
 - a. Financial forecast to the Public Accounts Committee (PAC)--September 2018
 - b. Financial Forecast report to Mayor and Cabinet --July 2018.
 - c. Financial results 2017-18 to Mayor and Cabinet-- July 2018 plus addendum.
 - d. Children's Social Care Budget update to PAC-- September 2018 including an appendix on progress with the Children's Improvement Programme
12. Latest External Audit reports and the Council's response
13. Report September 2017 to PAC re Financial position of the Children's budget

Persons Interviewed

Councillors

Cllr Amanda De Ryk—Lead Member for Finance

Cllr Alan Hall—Chair of the Audit Panel

Officers

Janet Senior---Executive Director of Resources and Regeneration

Sara Williams---Executive Director of Children and Young Persons

Kevin Sheehan---Executive Director of Environment

David Austin---Head of Corporate Resources

Selwyn Thompson---Head of Financial Services

Lucie Heyes---Assistant Director of Children's Care

Kate Pottinger---Service Manager-Services and Support Planning -Adults

Robert Mellors and John Johnson-- Group Finance Managers-- (Resources Directorate)

External Audit*

Paul Grady and Andy Ayre---External Auditors (Grant Thornton)

*Telephone conference



To: The Cabinet Member for
Democracy, Refugees & Accountability

Councillor Bill Brown
Chair of Overview and Scrutiny
Civic Suite
Catford
London SE6 4RU

direct line 020 8314 9821
Cllr_BillBrown@lewisham.gov.uk

19 February 2019

Dear Councillor Bonavia

Re: Overview and Scrutiny Committee – 28 January 2019

Thank you for attending the recent meeting of the Overview and Scrutiny Committee and outlining the work you have recently been undertaking in relation to your portfolio. You agreed to look into the following two matters:

- **Voicemail** – the investigation of issues resulting from the move to a new telephone system, the re-stacking of Laurence House and staff use of the system.
- **Local Democracy Review** – the consideration of updated CIPFA guidance (2018) on Audit Committees and the relevant recommendations, with a view to indicating whether the Democracy Review would be recommending that the best practice for audit committees put forward in the document should be adopted.

I would be grateful if you could provide the Committee with an update on these two matters in time for the next scheduled meeting on 7 March 2019. Papers for that meeting will be published on 26 February so a response by that date would be welcome. Please can you also provide an update on plans to review local assemblies and efforts to build more resilience locally, in Lewisham, in terms of the Shared IT service.

Yours Sincerely

Councillor Bill Brown
Chair of Overview and Scrutiny

Agenda Item 10

AUDIT PANEL		
Report Title	Internal Audit Update Report	
Key Decision	No	Item No. 10
Ward	ALL	
Contributors	Head of Corporate Resources	
Class	Part 1	Date: 26 March 2019

1. Purpose of the report

1.1. This report presents members of the Audit Panel with:

- Progress against the internal audit plans – corporate and schools, and
- Progress of implementation of internal audit recommendations.
- Indicative draft internal audit plan for 2019-20.

2. Recommendations

2.1. It is recommended that the Audit Panel note the contents of this report.

3. Executive Summary

Progress against the corporate audit plan

3.1. 70% of the plan is at least to Terms of Reference stage. Some audits have had to be deferred or cancelled mainly due to resource issues for both the in-house team and contractor.

3.2. All those audits in the current plan are expected to be completed in time for the annual assurance report to be presented to the Audit Panel in June 2019.

3.3. There were no limited reports issued since the last meeting.

High or Medium recommendations not agreed by management

3.4. Management agreed all High and Medium recommendations made.

Follow up reviews

3.5. There were three follow up reviews. All the actions followed up were either implemented or in progress.

Management progress against actions agreed

3.6. 44% of open actions were overdue (this is 34% after taking out the apprenticeship actions which the internal control board agreed should be treated as one – to address the governance and strategy – going forward)

which is an increase since the last meeting. In addition 38% of open actions are taking 12 months of more to complete, but this has remained static.

Types of controls for corporate audit actions

- 3.7. Overall for the year, procedures and Compliance / Legal controls are where the most actions made, not segregation or duties or reconciliations as previously.

Schools - audit plan, progress on recommendations and follow-up reviews

- 3.8. All school have now had their audit visit. One limited report was issued since the last meeting.

Indicative plan

- 3.9. An outline of the plan and resources is presented for information. However, the full plan will be presented to Members in July for approval once the full year's work is completed so it will be more current and relevant.

Any other business

- 3.10. Agency staff are in the process of being recruited, alongside a temporary Head of Internal Audit.

4. Background

- 4.1. Internal Audit is a statutory service. Its main priority is to provide management and members with independent and objective assurance on the control environment within the Council. This is set out more fully in the Charter.
- 4.2. The internal audit service consists of an in-house team that is supported by external service providers.
- 4.3. This report details work as at the 28 February 2018, unless otherwise stated.

5. Progress against the corporate internal audit plan

- 5.1. As at 7 March, there were 31 out of the 44 (70%) audits to at least the issue of the Terms of Reference stage.
- 9 Finalised
 - 4 Draft
 - 2 Exit meeting / Review stage
 - 6 Fieldwork
 - 10 ToR issued
- 5.2. Of the 13 not issued with a ToR :
- 8 are IT audits.
 - 5 are core audits, with 4 have had entry meetings, and 1 is being done near to the end of March
- 5.3. All audits are expected to be completed in time for the annual assurance report.

- 5.4. The grant certification (Supporting Families) is on-going. See appendix 1 for further detail on the status of the whole corporate plan.
- 5.5. Since the last meeting, four corporate reports were finalised. The table below shows them with the audit opinion, and number or recommendations.

Audit (Corporate)	Date of Final	Audit Opinion	Follow up due	H	M	L
				Recs made		
2018/19-63 – Corporate Health and Safety	20/02/19	Substantial	n/a	-	1	1
2018/19-18 - Business Continuity Plans (BCP) - Core	02/01/19	Satisfactory	n/a	1	3	-
2018/19-35 - Disability Facilities Grant (DFG)	17/12/18	Substantial	n/a	-	4	1
2018/19-57 - Treasury Management 18-19	02/02/19	Substantial	n/a	-	5	3

Cancelled / Deferred

- 5.6. There was 10 audit deferred or cancelled since the last meeting:
- 2018/19-75 - Multi Agency Safeguarding Hub (MASH) Adults – Cancelled – service changes not yet in place so nothing to audit in 2018/19.

Deferred / cancelled due to limited in-house resources

- 2018/19-05 - Bereavement Services – deferred to 19-20 Qrt 1
- 2018/19-06 - Handover from Hospital Discharge Neighbourhood Team - – deferred to 19-20 – Qrt 1
- 2018/19-64 - Planning Control – deferred to 19-20
- 2018/19-67 - School Finance – deferred to 19-20 Qrt 1/2
- 2018/19-82 - Rogue Landlords – deferred to 19-20 Qrt 1/2
- 2018/19-36 - Early Help Service – deferred to 19/20

Deferred due to contractor resources lack of specialist as requested

- 2018/19-62 - Contract Management
- 2018/19-68 - Tendering / Procuring contracts and supplier resilience

- 5.7. It should be noted however, resources permitting any of the deferred work would be brought back into 18/19 if possible.

Resourcing issues and reasons for delays in-house

- 5.8. The in-house team has had resourcing issues during this year that have contributed to the in-house part of the plan falling behind.

Resource issues were:

- Member of staff went on maternity leave in November;

- A failed recruitment exercise in August;
 - New member of staff not starting until January;
 - Temporary member of staff starting in November; and
 - At the time of writing, no agency staff in place (failed recruitment).
- 5.9. Resources also had to be diverted to help train on the new audit ware system, oversee new staff, and train up an inexperienced member of staff on the audit process.
- 5.10. While the schools' programme is practically complete, there have been several school reports with multiple recommendations (both Limited and Satisfactory report) and audit date changes. As such they have taken longer to complete than normal. The schools audit approach is to be reviewed with the CYP lead, including how implementation of actions is monitored.

Resourcing issues and reasons for delays - Contractors

- 5.11. Normally, where it is known that the in-house plan may not be completed in time, there is the option of referring the work to the contractor to complete.
- 5.12. However, due to their own resources constraints this year, the internal audit manager did not have the confidence to refer extra work to them and expect it to be completed in time for the annual assurance report.
- 5.13. Specialist staff such as IT and Contract auditors have left and they are having difficulty replacing them (industry issue – not specific to the contractor). Hence why the contract audits were taken away this year, as it would not be completed in time for the annual assurance report.
- 5.14. The graduates that the contractor normally employs are not staying as long as they used to due to the change in the IIA qualification (i.e. taking a much shorter time to qualify). This has resulted in a higher than expected turnover of staff. Although this being addressed, it will not be in time for this year.
- 5.15. A key member of the contractor's team who oversees the work for Lewisham and conducts the more technical audits is also leaving mid-March.

Additional work

- 5.16. There was no additional assurance or consultancy work required or requested.

6. High or Medium recommendations not agreed by management

- 6.1. Where management do not agree high or medium recommendation, the recommendation goes before the next Internal Control Board (ICB) for the final decision.
- 6.2. Management agreed all High or Medium recommendations made.

7. Follow-up reviews

- 7.1. Internal audit conducts a formal follow up review on all reports with a Limited or No Assurance opinion, and Consultancy reviews. Internal audit also reserve the right to follow-up on any audit or any individual action as required.
- 7.2. The table below lists the follow-ups conducted since the last meeting, showing the number of implemented, in progress, not implemented and reopened actions.

Audit	Date of follow up	Implemented	In Progress	Not Implemented	Re-opened
2018/19 - F01 - Health Visiting Contract Monitoring	07/01/19	3	6	-	-
2018/19 - F04 - Monitoring of Child Care Providers	14/02/19	1	6	-	-
2018/19 – F11 – General Data Protection Regulation (GDPR) Preparation	25/02/19	7	2	-	2

8. Progress against Management Actions

Overdue actions

- 8.1. This section reports on the status of management actions since the last meeting.
- 8.2. While internal audit still makes recommendations in their reports, it is the management actions are now tracked and reported on. Actions now have the due dates and owners against them, rather than the recommendations.
- 8.3. There may be more than one action to a recommendation. This means that it may not always be able to compare like for like until a few reports time.
- 8.4. Please note, the recommendations in reports prior to 2018/19, are now treated as actions for ease of reporting.
- 8.5. The cut-off date for management to respond by was the 28/02/19.
- 8.6. To accompany the table, appendix 2 lists the individual audits with actions that overdue and / or show those taking 12 months or more to complete.
- 8.7. There was a sharp increase in overdue actions. However, it should be noted that although some officers updated the action with a progress update, they did not change the due date. This means that they are being reported as overdue, regardless of updates. Also the Internal Control Board agreed that the 17

actions arising from the Apprenticeship Levy audit should be consolidated into one to reset the strategy and governance arrangements for this activity, with the Head of HR and OD responsible.

Month of meeting	Current no. of open actions	No. of overdue actions	Percentage of overdue actions
Mar 19	183	80	44%
Dec 18	170	45	26%
Sep 18	164	50	30%
Jul 18	167	68	41%
Mar 18	159	54	34%

Aged analysis report

- 8.8. This age analysis for actions is worked out by using the current due date for each open action against the date of the final report.

Month of Meeting	No. of recs under 3 mths	No of recs 3 under 6 mths	No of recs from 6+ to 9 mths	No. of rec 9+ to 12 mths	No of recs 12+ to 18 mths	No of recs over 18+ mths	No / % of recs over 12 m
Mar 19	38	34	28	14	29	40	69 / 38%
Dec 18	30	32	32	12	25	39	64 / 38%
Sep 18	31	29	28	19	25	32	57 / 35%
Jul 18	44	35	24	13	37	14	51 / 30%
Mar 18	59	26	11	16	30	17	47 30%

- 8.9. The table above shows that the percentage of open actions that are taking over one year to be completed. The percentage of actions taking over 12 months remains static. Please see appendix 2 for details.
- 8.10. All responsible officers for actions now over one year old are being required to submit an explanation to the April meeting of the internal control board to explain the reasons for the delay in their implementation. Any additional action to close these actions off will then be considered.

9. Control issues found

- 9.1. The section reports on the types of controls as they relate to High or Medium findings. One finding may have more than one control recorded against it. This is because the controls are connected to the management actions.
- 9.2. For example – a finding could state that a policy was not in place. The actions for this finding could state that management will create a policy (Policies), get it approved (Governance) and then publish it (Other). As such, it would show three controls against one finding.
- 9.3. The table below provides the number of actions per control in relation to the reports issued during 18/19. Going forward they will be shown by meeting in line with other tables in this report.
- 9.4. In Appendix 3, it shows each finding and what controls are recorded against it for audits issued since the last meeting.
- 9.5. This table shows that main areas to date where actions are made are:
- Compliance / Legal – 27 (33%), and
 - Procedures – 19 (23%).

Type of control	From April to Nov 19	Mar 19	Running Total
Authorisation	-	2	2
Compliance / Legal	27	-	27
Financial / Budget Monitoring	3	1	4
Governance	5	1	6
Information Security	6	4	10
Policies	2	2	4
Procedures	11	8	19
Reconciliations	1	-	1
Separation of duties	-	-	-
Other	6	2	8
Total per month	63	20	83

10. Progress against schools' internal audit plan

- 10.1. Of the 27 schools in the plan, all schools have had an audit visit. See appendix 4. There were six school audits finalised since the last meeting. Of these, one was Limited. The executive summary for this audit is in appendix 6.

Audits (Schools)	Date of Final	Audit Opinion	Recs. Made		
			H	M	L
2018/19-24 - Chelwood Nursery School 2018-19	01/12/18	Satisfactory	-	11	3
2018/19-29 - Conisborough College 18-19	07/03/18	Limited	2	13	9
2018/19-37 - Edmund Waller Primary 18-19	17/12/18	Satisfactory	-	12	5
2018/19-39 - Forest Hill Secondary School 18-19	28/11/18	Satisfactory	-	9	7
2018/19-51 - Kender Primary School 2018-19	27/12/18	Satisfactory	2	10	6
2018/19-53 - Holbeach Primary School 2018-19	15/01/19	Substantial	-	6	5

School actions

- 10.2. The table below shows the status of open High and Medium actions as at the 28/02/19. The percentage of overdue recommendation that are overdue, has increased to 76%. However, currently the officer who requests the information from schools is unable to chase.
- 10.3. The status of the individual schools where actions are overdue can be found at appendix 5.

Month of meeting	Current no. of open recs	No. of overdue recs	Percentage of overdue recs to open
Mar 19	253	191	76%
Dec 18	234	160	68%
Sep 18	148	99	66%
Jul 18	142	65	46%
Mar 18	99	60	61%

School follow up reviews

10.4. There were no school follow up reviews issued since the last report.

11. Indicative audit plan for 2019/20

11.1. The plan is just for information at this stage, as a more detailed plan will be presented to members in July for their approval. The indicative plan for 19/20 can be found at appendix 7. However, it only shows school and annual core financials at this stage. Currently this allocates approx. 270 days for corporate work and 145 days for schools work, or half the available audit days for the year. The more detailed plan will include:

- Indicative scope
- Days per audit
- Split between in-house and contractor (or agency)
- Type of audit
- Link to the corporate risk register, and
- Expected timing where know.

11.2. The reason for presenting the plan in July, is so it can be more up to date, and therefore more relevant. It will take into consideration the most recent updates to the risk register, allow for new senior officers to embed and know their areas, and review the most recent completed services plans aligned to the new corporate strategy (due for completion in May).

11.3. As noted at 5.14, an improvement to next year plan is to conduct all the school audits between May and July, rather than doing them throughout the year. This will then allow the in-house to concentrate completing the corporate plan once completed, and be able to start core financials in qtr. 3 as expected.

12. Any other business

12.1. A new Principal Auditor started in January. At the time of writing, adverts are out again to recruit a suitable temporary principal auditor

12.2. Due to the change in role of the Head of Corporate Resources to the Acting Chief Finance officer, the risk of conflicts of interest returned and so a temporary Head of Internal Audit and Risk is being recruited for.

13. Legal implications

13.1. There are no legal implications arising directly from this report.

14. Financial implications

14.1. There are no financial implications arising directly from this report.

15. Equalities implications

- 15.1. No direct equalities implications have been identified, in terms of adverse impact, with respect to the Council's obligations under the Equality Act 2010

16. Crime and disorder implications

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

17. Environmental implications

- 17.1. There are no specific environmental implications arising directly from this report

18. Background papers.

- 18.1. There are no background papers.

If there are any queries on this report, please contact:

David Austin, Head of Corporate Resources, on 020 8314 9114, or email him at: david.austin@lewisham.gov.uk

Appendix 1 – Progress on the corporate audit plan 2018-19

Audit	Audit type	Milestone	Final Report Date	Assurance opinion	H	M	L
2018/19-43 - Adherence to the Local Government Transparency Code	Corporate	Final Report	12/10/18	Limited	1	3	-
2018/19-03 - Deprivation of Liberty Safeguards (DoLs)	Corporate	Final Report	19/10/18	Satisfactory	1	6	1
2018/19-04 - Apprenticeship Levy Spend including Professional Qualifications	Corporate	Final Report	27/09/18	Limited	3	8	-
2018/19-74 - Complaints (Corporate)	Corporate	Final Report	06/11/18	Satisfactory	-	6	1
2018/19-18 - Business Continuity Plans (BCP) - Core Processes	Corporate	Final Report	02/01/19	Satisfactory	1	3	-
2018/19-35 - Disability Facilities Grant (DFG)	Corporate	Final Report	17/12/18	Substantial	-	4	1
2018/19-57 - Treasury Management 18-19	Core Financial	Final Report	02/02/19	Substantial	-	5	3
2018/19-63 - Corporate Health and Safety	Corporate	Final Report	20/02/19	Substantial	-	1	1
2018/19-76 - Lewisham Services for Schools Website	Corporate	Final Report	03/03/19	Substantial	-	3	3
2018/19-30 - Pensions and Investments 18-19	Core Financial	Draft Report					
2018/19-44 - Housing Benefit and Council Tax Reduction Scheme (CTRS) 18-19	Core Financial	Draft Report					
2018/19-79 - Fostering Arrangements	Corporate	Draft Report					
2018/19-81 - Implementation of GDPR	Corporate	Draft Report					
2018/19-34 - Direct Payments 18-19	Core Financial	Review stage					
2018/19-23 - Payroll 18-19	Core Financial	Exit meeting					
2018/19-66 - Recruitment Process	Corporate	Fieldwork End					
2018/19-07 - Accounts Payable 18-19	Core Financial	Fieldwork Start					
2018/19-14 - Capital Expenditure 18-19	Core Financial	Fieldwork Start					

Appendix 1 – Progress on the corporate audit plan 2018-19

Audit	Audit type	Milestone	Final Report Date	Assurance opinion	H	M	L
2018/19-28 - Domestic Waste Management	Corporate	Fieldwork Start					
2018/19-56 - Homecare Service	Corporate	Fieldwork Start					
2018/19-65 - Pooled Budgets and Section 75 Payments	Corporate	Fieldwork Start					
2018/19-08 - Accounts Receivable and Debt Recovery 18-19	Core Financial	ToR					
2018/19-17 - Banking 18-19	Core Financial	ToR					
2018/19-26 - Payments to Child Care Provider and Foster Carers for Looked After Children 18-19	Core Financial	ToR					
2018/19-27 - Client Contribution for Care Provision 18-19	Core Financial	ToR					
2018/19-31 - Council Tax 18-19	Core Financial	ToR					
2018/19-25 - Children in Need (CIN) Framework	Corporate	ToR					
2018/19-32 - Performance Management Framework for Child Social Care (CSC)	Corporate	ToR					
2018/19-61 - Besson Street Project	Corporate	ToR					
2018/19-78 - Special Educational Needs	Corporate	ToR					
2018/19-69 - Icasework IT System	IT Review	ToR					
2018/19-13 - Budget Setting and Monitoring 18-19	Core Financial						
2018/19-19 - Main Accounting 18-19	Core Financial						
2018/19-21 - Non-Current Assets 18-19	Core Financial						
2018/19-22 - Business Rates 18-19	Core Financial						

Appendix 1 – Progress on the corporate audit plan 2018-19

Audit	Audit type	Milestone	Final Report Date	Assurance opinion	H	M	L
2018/19-77 - Payments to Adult Care Providers 18-19	Core Financial						
2018/19-12 - Adult Care System (ACS) interface with Financial System	IT Review						
2018/19-15 - ASH - Debt Recovery System	IT Review						
2018/19-58 - OracleCloud - Financials	IT Review						
2018/19-59 - OracleCloud - HR	IT Review						
2018/19-60 - OracleCloud - Payroll	IT Review						
2018/19-70 - New Phone System and BCP	IT Review						
2018/19-71 - Office 365 and SharePoint	IT Review						
2018/19-73 - Self Service IT processes	IT Review						

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Appendix 2 - Status of corporate actions.

Name of Audit (Corporate)	Opinion	Final Report Date	Actions Overdue		Actions taking over 12mth	
			H	M	H	M
Accounts Payable 2016-17	Satisfactory	16/03/17		1		2
Adherence to the FOIA and DPA 17-18	Satisfactory	06/02/18				1
Adoption Process	Satisfactory	19/07/18		5		
Adult Social Care System - Back up and BCP	Limited	04/04/16	1	1	1	1
Apprenticeship Levy Spend including Professional Qualifications	Limited	27/09/18	7	10		
Banking 16-17	Limited	18/05/17				1
Banking 17-18	Satisfactory	22/02/18			3	
Budget Monitoring and Setting 2017-18	Satisfactory	05/12/17		2		2
Business Continuity Management - Adult Social Care Providers	Limited	20/06/17		1		1
Business Continuity Plans (BCP) - Core Processes	Satisfactory	02/01/19	1			
Catford Regeneration Partnership Ltd	Limited	17/05/18			1	
Client Contributions to Care Provision 16-17	Satisfactory	24/05/17				1
Corporate Health and Safety	Substantial	20/02/19		1		
Data Breach Management	Limited	18/05/17				3

Appendix 2 - Status of corporate actions.

Name of Audit (Corporate)	Opinion	Final Report Date	Actions Overdue		Actions taking over 12mth	
			H	M	H	M
Deprivation of Liberty Safeguards (DoLs)	Satisfactory	19/10/18	4	2		
Direct Payments 17-18	Satisfactory	22/03/18				1
Expenses Reimbursed by Payroll 16-17	Satisfactory	30/01/17				1
Garden Waste Service 2017/18	Satisfactory	05/01/18		2		
GDPR Readiness	Consultancy	19/04/18				2
Governor Services	Substantial	05/06/18		1		
ICT Disaster Recovery	Substantial	11/04/17		1		1
Initial Contact, Information and Advice	Consultancy	29/05/18		2		1
IT Helpdesk - Shared Services	Substantial	17/05/18		2		
Main Accounting 17-18	Satisfactory	06/02/18			1	2
Main Grant Programme 2017/18	Satisfactory	28/06/18		5		
Mobile Devices Contract 16-17	Satisfactory	07/07/17				2
Monitoring of Child Care Providers	Limited	17/10/17		3	2	4
Multi-Agency Safeguarding Hub Arrangements 2017/18	Consultancy	28/09/17		2	1	5

Appendix 2 - Status of corporate actions.

Name of Audit (Corporate)	Opinion	Final Report Date	Actions Overdue		Actions taking over 12mth	
			H	M	H	M
Oracle Cloud - Migration 17-18	No Assurance	02/07/18	1			
Parking Contract 2017/18	Satisfactory	27/11/17				1
Passenger Services	Substantial	18/05/18				1
Payments to Adult Care Providers 17-18	Satisfactory	27/04/18				1
Payments to Care Providers and Foster Carers 2017-18	Satisfactory	19/03/18	1	1		
Payroll 2017-18	Substantial	05/12/17				1
Pensions 17-18	Satisfactory	15/01/18				2
Performance Indicators and Service Planning 17-18	Consultancy	21/07/17				2
PFI Monitoring - School 15-16	Satisfactory	15/08/16		1		1
Prepaid Cards 16-17	Limited	17/03/17				4
Procurement Arrangements 17-18	Consultancy	03/07/18		1		
Public Sector Network 16-17	Limited	01/02/17		1		1
Recording of Safe Guarding – Section 42 Referrals	Limited	03/07/17		8		8
Reed Agency 17/18	Satisfactory	26/06/18				1

Appendix 2 - Status of corporate actions.

Name of Audit (Corporate)	Opinion	Final Report Date	Actions Overdue		Actions taking over 12mth		
			H	M	H	M	
Risk Framework 17-18	Satisfactory	04/06/18		1			
Schools' Catering Contract 16-17	Limited	03/03/17		3		3	
Small and Faith Fund Grants 2017/18	Satisfactory	28/06/18		3			
South London and Maudsley NHS (SLaM)	Satisfactory	14/07/15		1		1	
Synergy Application	Satisfactory	19/06/18	1	1			
Vehicle and Fuel Maintenance	Satisfactory	19/06/17	1	1	1	1	
			total	17	63	10	59

Appendix 3 – Types of Controls

Finding	Authorisation	Financial / Budget Monitoring	Governance	Information Security	Other	Policies	Procedures
Policies and procedures were not up to date on the intranet.						1	
The certificate of intended letting was signed by the tenant instead of the owner	1						
The responsibilities of service teams in their delegated authority to publish SLA's are not formally documented.							1
The terms of reference for the Emergency Planning Resilience Response Forum had not been evidenced as reviewed since 4 July 2015.			1				
At the time of the audit, formal feedback from users of the website had not been sought.					1		
Services had not tested (or documented) their respective BCPs for effectiveness.							1
Health and Safety Manual to update or remove from intranet.							1
The proof of ownership search was not carried in four cases relating to social housing.						1	
BCPs were not evidenced or held by the Business Continuity Team for some services							1
Expired articles on the website are not being archived.							2
Delays to the processing of the application due to quotes not received within a timely manner.	1						
Not reviewing their BCPs within the required two year intervals or their review dates on the BCPs were not correct prior to May 2018.							1

Appendix 3 – Types of Controls

Review of seven leavers identified three did not have their access to the website portal removed.				2			
The charge was not registered with the Land Registry in one of nine cases tested.		1					1
Manual file management is used as well as a paperless method					1		
The first time password for registering for the website portal was published on the public website in guidance notes.				1			
Data was not encrypted				1			
Grand Total	2	1	1	4	2	2	8

Appendix 4 Progress on the Schools' Audit Plan for 2018-19

School	Final Report	Current Milestone	Assurance opinion	H	M	L
2018/19-01 - Abbey Manor College 18-19	Final Report	16/11/18	Limited	2	11	3
2018/19-33 - Deptford Green Secondary 18-19	Final Report	19/10/18	Limited	2	8	6
2018/19-11 - Addey and Stanhope Secondary 18-19	Final Report	02/10/18	Satisfactory	1	12	7
2018/19-46 - Sedgehill Secondary 18-19	Final Report	18/09/18	Satisfactory	2	9	1
2018/19-47 - Prendergast School (Secondary) 18-19	Final Report	27/09/18	Satisfactory	2	10	2
2018/19-48 - Launcelot Primary 18-19	Final Report	19/11/18	Satisfactory	-	12	7
2018/19-02 - St Michael's CE Primary School 18-19	Final Report	12/07/18	Substantial	1	4	7
2018/19-09 - Adamsrill Primary 18-19	Final Report	07/08/18	Substantial	-	3	6
2018/19-38 - Fairlawn Primary 18-19	Final Report	08/11/18	Substantial	-	1	4
2018/19-41 - Prendergast Ladywell 18-19	Final Report	21/09/18	Substantial	-	8	1
2018/19-42 - St Margaret's Lee CE Primary 18-19	Final Report	17/09/18	Substantial	-	8	5
2018/19-45 - Prendergast Vale School 18-19	Final Report	27/09/18	Substantial	-	5	2
2018/19-49 - Watergate (special) 18-19	Final Report	16/10/18	Substantial	-	6	3
2018/19-24 - Chelwood Nursery School 2018-19	Final Report	02/12/18	Satisfactory	-	11	3

Appendix 4 Progress on the Schools' Audit Plan for 2018-19

2018/19-37 - Edmund Waller Primary 18-19	Final Report	17/12/18	Satisfactory	-	12	5
2018/19-39 - Forest Hill Secondary School 18-19	Final Report	28/11/19	Satisfactory	-	9	7
2018/19-51 - Kender Primary School 2018-19	Final Report	27/12/18	Satisfactory	2	10	6
2018/19-53 - Holbeach Primary School 2018-19	Final Report	15/01/19	Substantial	-	6	5
2018/19-29 - Consiborough College 18-19	Final Report	07/03/18	Limited	2	13	9
2018/19-16 - Athelney Primary 18-19	Draft Report					
2018/19-40 - Forster Park Primary 18-19	Draft Report					
2018/19-10 - Ashmead Primary 18-19	Fieldwork End					
2018/19-20 - Bonus Pastor Catholic College 18-19	Fieldwork End					
2018/19-50 - St Mary Magdalen's Catholic Primary 18-19	Fieldwork End					
2018/19-52 - Sydenham Secondary 18-19	Fieldwork End					
2018/19-54 - Kilmorrie Primary 18-19	Fieldwork End					
2018/19-55 - Trinity All Through School 18-19	Review Stage					

Appendix 5 – Schools’ Progress on Recommendations

Name of Audit (Schools)	Opinion	H Actions Overdue	M Actions Overdue
Abbey Manor College 18-19	Limited	3	4
Addey and Stanhope 2018-19	Satisfactory	1	12
Baring Primary School 2017-18	Satisfactory	3	9
Beecroft Garden Primary School 2017-18	Satisfactory	-	5
Brent Knoll School 2017-18	Satisfactory	-	6
Chelwood Nursery School 2018-19	Satisfactory	-	6
Coopers Lane Primary School - 2017-18	Satisfactory	-	10
Deptford Green Secondary 2018/19	Limited	4	13
Elfrida Primary School 2017-18	Satisfactory	-	11
Forest Hill School 2015-16	Satisfactory	-	2
Holy Trinity CE Primary School 2017-18	Satisfactory	-	1
Horniman's School 16-17	Satisfactory	-	1
Kelvin Grove Primary School 2017-18	Substantial	-	2
Launcelot Primary 18-19	Satisfactory	-	6
New Woodlands School 17-18	Substantial	-	2
Prendergast - Hilly Fields 2015-16	Satisfactory	-	2
Prendergast Ladywell School 18-19	Substantial	-	9
Prendergast Vale School 2018-19	Substantial	-	4
Prendergast School (Secondary) 18-19	Satisfactory	4	10
Sandhurst Infants School 16-17	Substantial	-	2
Sandhurst Junior School 16-17	Satisfactory	-	1
Sedgehill Secondary 2018-19	Satisfactory	3	11
Sir Francis Drake Primary School	Substantial	-	8
St Augustine's Catholic Primary School	Substantial	-	1

Appendix 5 – Schools’ Progress on Recommendations

St James Hatcham CE Primary School 2017/18	Satisfactory	-	15
St Margarets Lee CE Primary School 18-19	Substantial	-	1
St Saviour's RC Primary School 17-18	Satisfactory	-	1
St William of York Catholic School 17-18	Substantial	-	3
St Winifred's Catholic Primary School 17-18	Substantial	-	4
Watergate School 2018-19	Substantial	-	11
	TOTAL	18	173

Conisborough College 18-19

	Process Areas	High	Medium	Low
●	1. Procurement	0	3	2
▲	2. Income	1	2	2
●	3. Asset Management	0	3	0
●	4. Governance	0	2	4
▲	5. Budget Monitoring	1	1	0
●	6. Banking	0	1	0
★	7. Payroll	0	0	1
★	8. HR	0	1	0
★	9. Information Security	0	0	0

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Basis for opinion

The School Business Manager (SBM) was on long term sick leave between January - December '18 and missed approximately 180 working days. The SBM is on a phased return since 09/01/19. As the SBM was responsible for a number of processes, their absence resulted in some areas not being attended to.

The main process area that impacted upon the assurance of the opinion was budget monitoring. This is a high risk area, which significantly impacts on the College's financial management.

For the financial year 2018/19, budget monitoring could only be provided for September and November '18.

The college employed a Finance Consultant in November '18. The Financial Consultant has since produced a budget forecast which shows that the financial position of the college has significantly adversely changed from being in surplus by nearly £200k, to being in deficit by £116k.

Assurance Opinion and Recommendations Made

Conisborough College 2018/19 has been assigned a rating of Limited. The previous opinion from 2015/16 was Substantial

To improve controls, recommendation are agreed by management. The number of recommendations and their categories were:

2 High recommendations,

13 Medium Recommendations, of these one was made in the previous report, and

9 Low Recommendations, of these one was made in the previous report.

Key Findings *indicates reoccurring recommendation

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For the financial year 2018/19, evidence of budget monitoring could only be provided for September and November 2018.

Review of three lettings identified for all three, the letting charges were not approved as per the Financial Management policy. In addition, one recurring letting had not been invoiced since 14/12/2017.

* Three disposals had not been authorised. In addition, one disposed of asset was not removed from the asset register.

- A physical inspection of three items from the asset register identified one laptop that could not be located.
- A reconciliation of the signed budget to the original budget entered into the finance system identified two items of expenditure did not agree.
- An annual physical inventory check is not conducted.
- Dinner money debt write off, of approximately £300 was not authorised as per the College Financial Code of Practice.
- Evidence of quotations could not be supplied for the IT SLA with Covue Ltd for £36,960 excluding VAT.
- It was not possible to verify the financial information presented to Governors agreed to the information on the finance system.
- One officer that left the college on the 31/03/2017 still had access to the college online banking service.
- Review of DBS records for three Governors identified one did not have a current DBS.
- Review of three lettings identified two had no application form, three had no evidence of authorisation by the college and three had no third party insurance retained on file.
- Seven invoices were not paid in a timely manner, with an average payment time of 49 days.
- The DBS Certificate of an employee was retained on file.
- Three purchase orders were not raised for applicable purchases.

Type	Dir	Audit Name	Scope	Days	Conducted by
Core	CUS	Accounts Payable 19-20 (Core Financial Audit)	See previous audit for scope – Full scope when presenting draft plan.	20	In-house
Core	CUS	Accounts Receivable and Debt Recovery 19-20 (Core Financial Audit)	See previous audit for scope	20	In-house
Core	CUS	Banking 19-20 (Core Financial Audit)	See previous audit for scope	14	In-house
Core	RRE	Budget Setting and Monitoring 19-20 (Core Financial Audit)	See previous audit for scope	12	In-house
Core	CUS	Business Rates 19-20 (Core Financial Audit)	See previous audit for scope	12	In-house
Core	RRE	Capital Expenditure 19-20 (Core Financial Audit)	See previous audit for scope	15	In-house
Core	CUS	Client Contribution for Care Provision 19-20 (Core Financial Audit)	See previous audit for scope	15	In-house
Core	CUS	Council Tax 19-20 (Core Financial Audit)	See previous audit for scope	15	In-house
Core	COM	Direct Payments (Core Financial Audit) 19-20	See previous audit for scope	15	In-house
Core	CUS	Housing Benefit and Council Tax Reduction Scheme (CTRS) 19-20 (Core Financial Audit)	See previous audit for scope	15	In-house

Core	RRE	Main Accounting 19-20 (Core Financial Audit)	See previous audit for scope	15	In-house
Core	RRE	Asset Management 19-20 (Core Financial Audit)	See previous audit for scope	12	In-house
Core	COM	Payments to Adult Care Providers 19-20 (Core Financial Audit)	See previous audit for scope	15	In-house
Core	CYP	Payments to Child Care Provider and Foster Carers for Looked After Children 19-20 (Core Financial Audit)	See previous audit for scope	15	In-house
Core	RRE	Payroll 19-20 (Core Financial Audit)	See previous audit for scope	15	In-house
Core	RRE	Pensions for LGPS 19-20 (Core Financial Audit)	See previous audit for scope	15	In-house
Core	RRE	Treasury Management 19- 20 (Core Financial Audit)	See previous audit for scope	12	In-house
SCH	SCH	Brindishe Green Primary	Procurement, Income, Asset Management, Governance, Banking, Budget Monitoring, Payroll, HR and Information Governance	6	In-house
SCH	SCH	Brindishe Manor	As Above	6	In-house
SCH	SCH	Clyde Nursery	As Above	6	In-house
SCH	SCH	Dalmain Primary	As Above	6	In-house

SCH	SCH	Deptford Park Primary	As Above	6	In-house
SCH	SCH	Drumbeat School	As Above	7	In-house
SCH	SCH	Good Shepherd Catholic School	As Above	6	In-house
SCH	SCH	Holy Cross Catholic Primary	As Above	6	In-house
SCH	SCH	Horniman Primary	As Above	6	In-house
SCH	SCH	John Stainer Primary	As Above	6	In-house
SCH	SCH	Lucas Vale Primary	As Above	6	In-house
SCH	SCH	Marvels Lane Primary	As Above	6	In-house
SCH	SCH	Myatt Garden Primary	As Above	6	In-house
SCH	SCH	Rangefield Primary	As Above	6	In-house
SCH	SCH	Rathern Primary	As Above	6	In-house
SCH	SCH	Rushey Green Primary	As Above	6	In-house

SCH	SCH	Sandhurst Junior (Primary from April 18)	As Above	6	In-house
SCH	SCH	St Augustine's Catholic Primary	As Above	6	In-house
SCH	SCH	St Joseph's Catholic Primary	As Above	6	In-house
SCH	SCH	St Mary's CE Primary	As Above	6	In-house
SCH	SCH	St Stephen's CE Primary	As Above	6	In-house
SCH	SCH	Stillness Infant	As Above	6	In-house
SCH	SCH	Stillness Jnr	As Above	6	In-house
SCH	SCH	Torridon Primary	As Above	6	In-house
GRT	RRE	Supporting Families Claim	As Above	5	In-house
IT	RRE	Oracle - HR	Post implementation review	5	Mazars
IT	RRE	Oracle - Payroll	Post implementation review	5	Mazars