



AGENDA AUDIT PANEL

Date: THURSDAY, 19 SEPTEMBER 2019 at 7.00 pm

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

**Enquiries to: Sarah Assibey
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COUNCILLORS

Councillor Jim Mallory
Councillor Paul Maslin
Councillor Joan Millbank
Councillor Stephen Penfold
Councillor James Rathbone
Councillor Susan Wise

Independent Members

Carole Murray
Ian Pleace
Stephen Warren

Members are summoned to attend this meeting

**Janet Senior
Acting Chief Executive
Lewisham Town Hall
Catford
London SE6 4RU
Date: 11th September 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.

ORDER OF BUSINESS – PART 1 AGENDA

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Agenda Item 1

AUDIT PANEL		
Report Title	ELECTION OF VICE CHAIR	
Key Decision		Item No. 1
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 19 September 2019

Recommendation

It is recommended that a Vice Chair of the Audit Panel be appointed for the municipal year 2019/20

Agenda Item 2

AUDIT PANEL		
Report Title	MINUTES	
Key Decision		Item No. 2
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 19 September 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 July 2019 be confirmed and signed.

MINUTES OF THE AUDIT PANEL MEETING

Thursday 11 July at 7pm

PRESENT: Councillor Rathbone, Councillor Mallory, Councillor Millbank, Councillor Wise, Carole Murray, Ian Pleace, Stephen Warren

Apologies: Councillor Maslin, Councillor Penfold

1. Election of Chair and Vice Chair

Councillor Rathbone was elected as Chair of the Panel.
Nominations for Vice Chair are postponed until the next meeting.

2. Minutes

Grant Thornton Housing Benefit Item:

Panel Members noted that the sentence on the Council's response to financial challenges, Brexit and political uncertainties, did not pertain to the report in question.

LBL Value for Money Report:
Under "Resolved", the word "opinion" be amended to "conclusion".

RESOLVED that the minutes of the meeting held on Tuesday 26 March 2018 be agreed as an accurate record.

3. Declarations of Interest

No interests were declared.

4. Oracle Cloud Update

The Director of Financial Services presented the report. The Programme Manager gave the presentation.

The payroll team was restructured and additional resources have been used to improve the parallel runs and backlog in regards to payroll processing. Oracle is already live with pensions and as of August these should be paid out of Oracle.

Self-service will be launched for all staff and training has commenced. This will also be going live from 19 August.

In transition from Phase 1 to Phase 2 the risks of being out of support have been mitigated.

The system has failed on occasions when attempting BACS payments. A business continuity plan is being developed to address the needs of the system and put some resilience in place.

One of the key features of the new data security going forward will ensure that secure data cannot be accessed, i.e. employee data by managers.

Action: the Director of Financial Services and Programme Manager are to update the Panel on the progression of the system after the system has gone live, at the next Panel meeting.

5. Pre-Audit Statement of Accounts 2018-19 and Annual Governance Statement

The Interim Chief Finance Officer introduced the report. He asked the Panel to note that, in agreement with external auditors, the completed audit report will be presented at the next meeting, to go to the subsequent 2nd October Council meeting. The audit is 80% complete- in this there are no concerns in terms of numbers but it is important to have the completed audit at the next meeting to avoid the risk of errors.

Action: The completed Audit Statement of Accounts will be itemised at the September meeting by the clerk.

Independent Members suggested that the issues and causes for the delay be remunerated and a remediation plan is put in place to guarantee that next year's audit will run more smoothly. Insufficient resource in the finance team was also discussed, noting that the authority needs to look more closely into this. A review of how external audits are executed for local authorities has been launched by the government which may also challenge how audits are carried out going forward.

RESOLVED the Panel noted that the Authority will not meet the 31 July 2019 reporting deadline and that the concerns were raised in respect of the quality of financial reporting. One reason for this is underresourcing in the Finance Department. The Panel recommend that the Public Accounts Committee give consideration to the level of resourcing in the team with a view to increase the resource available.

6. Audit Draft Findings 2018-19

Paul Jacklin, Senior Audit Manager, Grant Thornton, presented the report.

He noted that the audit accounts were delivered within 6 weeks which is a very short time. He echoed that the speed of the audit is not as important as the material accuracy and quality. Discussing the costs, he stated that additional work drives the fee as well as an increased time frame.

The work on the Value for Money project is mostly complete. OfSted have notified LBL and Grant Thornton of the inspection taking place, of which Grant Thornton will report of their findings in September.

Regarding the financial management arrangement, there was a qualification issue this year. The Council's transformation arrangement is performing well in rectifying oversights. The overall design is good and Grant Thornton are happy with the Council's response to issues raised last year.

Ian Pleace asked that a response to the FRC's audit quality report be at a subsequent meeting, after the report noted Grant Thornton needing special measures on its audit quality improvement plan and plans to place its work under additional scrutiny. Paul Jacklin responded that the report was not specific to Lewisham's audit. 8 out of 60 areas were reviewed and 4 of those had issues that were reported by the FRC. The firm has an official response to the report. Grant Thornton does take the report findings seriously and will be putting additional measures in place to drive higher quality.

Discussing the reserves, Councillor Mallory noted that the report laid out a clear and comprehensive explanation on the reach of reserves, capacity, potential, limitations on using them etc. it aided in the informed budget making process significantly.

Audit work on the Pension Fund is almost done. Accounts are in good quality and there are no areas of considerable concern.

RESOLVED for due diligence reasons, the Panel asked that Grant Thornton prepare to speak and share their official response to the FRC's report at the September meeting.

7. Internal Audit Update

The Interim Chief Finance Officer presented this report.

Work on next year's early will begin earlier than usual to ensure there is no backlog of work and to avoid risk of delay. This will begin with the core financial risk and school audits.

Control and monitoring over Contract Management is crucial as the Council spends £200m per year on contracts with third party organisations, which will be in the second part of the plan. IT system changes and Project Assurance are also expected to be audited alongside Contract Management.

It is a requirement that the charter appended in the report is brought to the Panel meeting regularly for review to ensure clarity in the framework and approach for the internal audit. The report will be presented at the final meeting of the year where the panel will discuss who and how the review will be done by, as there is currently a conflict of the Chief Finance Officer fulfilling that review.

Action: the Chair asked that the Annual Counter Fraud update be put on the agenda as a standard item rather than an appendix. The clerk will ensure this is an item for the July meetings.

The meeting finished at 8.50pm

Agenda Item 3

AUDIT PANEL		
Report Title	DECLARATIONS OF INTEREST	
Key Decision		Item No. 3
Ward		
Contributors	Chief Executive	
Class	Part 1	Date: 19 September 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	Accounts 2018/19 – Grant Thornton’s Draft Audit Finding Reports		
KEY DECISION	No	Item No.	
WARD	N/A		
CONTRIBUTORS	Executive Director for Corporate Services		
CLASS	Part 1	Date	19 th September 2019

1. PURPOSE

- 1.1 The purpose of this covering report is to present to the Audit Panel the draft audit finding reports from Grant Thornton on their findings during the external audit of the Council’s Main Accounts and Pension Fund Accounts for 2018/19.
- 1.2 The Grant Thornton report on its Value for Money conclusion on the Council’s arrangements in place for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness is included within the Main Accounts report.
- 1.3 The Statements of Accounts are currently being revised to take account of the amendments proposed by Grant Thornton, and as agreed by officers . An updated version of the accounts, including the Annual Governance Statement will be sent directly to all Audit Panel members ahead of its meeting on 19th September 2019.

2. RECOMMENDATION

- 2.1 It is recommended that the Audit Panel consider and note the attached reports which are as at 11th September 2019 and to note the verbal update to be provided by Council’s external auditors, Grant Thornton at the meeting.

APPENDICES

- 1 – Grant Thornton – Draft Audit Findings for the London Borough of Lewisham and the Value for Money conclusion – Year ended 31 March 2019. **ATTACHED**
- 2 - Grant Thornton – The Audit Findings for the London Borough of Lewisham Pension Fund - Year ended 31 March 2019. **ATTACHED**

The Audit Findings for the London Borough of Lewisham

Page 1
Year ended 31 March 2019
Report as at 11 September 2019



Contents



Your key Grant Thornton
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Section

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2. Financial statements
3. Value for money
5. Independence and ethics

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Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinion

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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Headlines

This table summarises the key findings and other matters arising from the statutory audit of London Borough of Lewisham Council ('You' or 'the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and your financial statements:

- give a true and fair view of the financial position of the group and Council and your income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We previously reported the Audit Findings Report (dated 5 July) to the Audit Panel on 11 July 2019. We have continued with our audit of your financial statements and this is an updated version of the report.

We received your draft financial statements on the 31 May 2019 in accordance with the statutory target date. The draft financial statements did not include the Annual Governance Statement, which was provided for audit on 30 July 2019. Our audit work has been undertaken on site from June and we are now concluding on our work. Our findings to date are summarised on the following pages.

Achieving the 31 July target for publishing audited financial statements remains a significant challenge for most local authorities. Achieving this for an organisation of your size and complexity, with a relatively lean finance team and some unplanned sickness absence issues, is particularly difficult. The challenge has been further compounded this year as you have also transitioned your financial ledger onto Oracle Cloud. Management and officers have worked hard to try to mitigate these factors but, we experienced delays in the provision of essential supporting information throughout the audit. In addition, uncertainty over legal action in respect of pension scheme obligations – a national issue affecting all local authorities in the country – has also added delays to the closedown process. As at 4 September 2019 we are yet to receive the Head of Internal Audit opinion for the year in question. As a result of these delays, we were unable to conclude our audit by the 31 July 2019.

We have not identified any adjustments to the financial statements that have resulted in amendment to your General Fund position. We have, however, identified more amendments to your financial statements than in previous years, which had not been identified and corrected by management's review of the accounts prior to their submission for audit. We would recommend a strengthening of this process to identify and correct such misstatements and enhance the quality of the financial statements submitted for audit in future years. Audit adjustments identified to date are detailed in Appendix C.

The most significant amendments are in respect of Property Plant and Equipment Valuations and the McCloud Legal ruling.

We identified that you had obtained valuations for your Council Dwellings as at 28 February 2019 and all your other property plant and equipment as at 31 January 2019. We requested an assessment of valuation movements between the date of the valuations and the balance sheet date be undertaken, and your valuers subsequently updated their valuation. This has resulted in a decrease in the valuation of your Property Plant and Equipment of £17.9m.

The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for your pension scheme. Discussion has been ongoing across the local government sector regarding the potential impact of the ruling on the financial statements of local government bodies. This has impacted all councils. You received detailed analysis from your actuary to enable you to determine the potential financial impact of the ruling on your pension liability on 5 July 2019 and you have updated your financial statements. The actuary have estimated the potential impact on the McCloud judgement as an increase in pension liabilities of £6.4m for London Borough of Lewisham and £0.9m for Lewisham Homes. In addition, the GMP equalisation impact £5.3m for London Borough of Lewisham and £0.2m for Lewisham homes so in total £12.8m impact on your pension liability.

Headlines

Financial Statements

....continued

We have worked with finance officers to maximise the amount of substantive testing we are able to bring forward from the peak June and July period to earlier in the year. We completed more early work than in previous years. However, we were not provided with all the information we requested for our interim visit, and therefore were unable to complete a full interim audit. Our understanding is that this was in part due to the organisational challenge at the time of implementing the new financial ledger system. We reported the outstanding items to the Audit Panel in March 2019. The majority of the outstanding interim areas were not subsequently provided until June and July. Some items relating to schools payroll remain outstanding as at 4 September 2019.

Whilst the draft accounts were submitted on time, there was a noticeable reduction in the quality and accuracy of the notes to the accounts. There have also been problems with the quality and availability of essential supporting evidence and information. Working papers were not always presented for audit on time and contained errors in some cases. There have been delays in the provision of supporting evidence and responses to queries, and delays in the provision of items required for testing. Various notes to the accounts have required amendment. Obtaining information from the wider organisation has been difficult and external audit requests have not always been prioritised. Your finance team has been extremely supportive in seeking to overcome these issues, and have sought to expedite and resolve audit queries with the wider organisation, working in partnership with us. However, when information is requested from other departments, we encounter significant delays. The larger than expected number of errors in the accounts introduces further delay, which is compounded by the fact that the revised elements of the accounts, on correction, need to be resubmitted for audit and re-audited. We have worked closely in partnership with your finance team and leadership to seek to recover as many of the delays as possible in the completion of the audit. However, overall, it is an unavoidable fact that the later it is before accurate accounts and supporting working papers and reconciled transaction listings are delivered for audit, the later it is before the audit can be completed. Equally, the more errors that are identified which require re-work and re-submission, the longer the overall process takes and the more costly it becomes.

We have been in constant daily communication with the finance team and management over the list of items requiring attention, and have been RAG rating their importance throughout the audit. We have also periodically shared updates with the Executive Director for Resources and Regeneration. It is important to ensure the wider organisation is seamlessly integrated into the final accounts process and able to prioritise the audit within a strategic framework of managed priorities. We are happy to provide on-going training with the wider organisation to support your strategic considerations. The key to delivering financial closedown within the tight timescales lies not only within the finance team but also in the ability of the wider organisation to play an integrated role in responding to audit requirements within deadlines, whilst still delivering other corporate priorities. It is also essential this is done within a corporate structural framework that delivers the financial statements without compromising quality, efficiency and the availability of personnel and evidence.

The items that are currently outstanding as at 11 September 2019 are as follows:

- Head of Internal audit Opinion for 2018/19.
- Management responses to our Information Technology Review.
- Audited financial statements from Lewisham Homes Limited and Catford Regeneration Partnership Limited.
- A revised set of financial statements.
- Whole of Government Accounts consolidation pack (to be received following the audit)

Headlines

Financial Statements

...continued

We are still completing work in the following areas, in addition to those areas where we are awaiting information:

- Expenditure and Funding Analysis Note, Property Plant and Equipment revaluations, Reserves and Group Accounts

Subject to us being provided with the outstanding information and all outstanding audit queries being resolved, we anticipate issuing an unqualified audit opinion.

Our work is also subject to the following closing procedures which necessarily take place at the end of the audit:

- Completion of residual audit work in respect of recently provided evidence and supporting information.
- Final senior management and quality reviews and clearance of any queries that may arise from this final process.
- Agreement and receipt of your management representation letter.
- Consideration of subsequent events.
- Review of the final set of approved financial statements.
- Review of the final approved Annual Governance Statement.
- Completion of work in respect of your Whole of Government Accounts return.

Should any further matters arise during the completion of our work that we need to report to you, we will do so before we issue our opinion.

We have made recommendations to assist with improving the financial statements preparation and audit in Appendix A. Responses to our recommendations from the previous year audit are documented in Appendix B.

Headlines continue

Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

We have completed our risk based review of the Council's value for money arrangements. We have concluded that you have proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 20 to 36.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- To certify the closure of the audit.

We have not to date exercised any of our additional statutory powers or duties.

In the 2016/17 audit, we received two objections from electors in respect of your LOBO loans and PFI schemes. We are still completing our response to these objections. As such, we have not yet certified the closure of the 2016/17 audit.

In 2018/19, we received information relating to a procurement issue which management is currently investigating.

We will not be able to certify the conclusion of the 2016/17, 2017/18 and 2018/19 audits until we have certified the closure of the prior year audits, and management has concluded its investigation of the above matter raised in 2018/19.

Acknowledgements

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

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and are presented to the Audit Panel.

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

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls.
- An evaluation of the components of the group based on a measure of materiality, considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a comprehensive audit response was required for the London Borough of Lewisham and a targeted, analytical approach was required for Lewisham Homes Limited and Catford Regeneration Partnership Limited components.
- An evaluation of your internal controls environment including your IT systems and controls.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you in March 2019.

Conclusion

We are continuing our audit of your financial statements and, subject to the satisfactory completion of outstanding work, including those items highlighted on pages 3 to 5, we anticipate issuing an unqualified audit opinion, as detailed in Appendix E.

Our approach to 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.

Our assessment of the value of materiality was updated from our Audit Plan to reflect your draft financial statements.

	Group Amount (£)	Council Amount (£)
Materiality for the financial statements	19,575,000	19,000,000
Performance materiality	13,700,000	13,300,000
Trivial matters	978,750	1,000,000

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

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.

Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited; and
- the culture and ethical frameworks of local authorities, including London Borough of Lewisham Council, mean that all forms of fraud are seen as unacceptable.

Therefore we do not consider this to be a significant risk for you.

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Management override of controls

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. You face external scrutiny of your spending, and this could potentially place management under undue pressure in terms of how they report performance.

We identified management override of controls as a risk requiring special audit consideration.

Auditor commentary

We have completed the following work in relation to this risk:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk unusual journals;
- tested unusual journals recorded during the year for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence;
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions; and
- review of large and unusual journal entries for the last few periods of the year and year end journals for testing back to supporting documentation

Subject to the satisfactory completion of our management reviews, we have not identified any material issues from our work.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of land and buildings

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 (£2.3 billion) and the sensitivity of this estimate to changes in key assumptions.

Management have engaged the services of a valuer to estimate the current value as at 31 March 2019.

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.

Auditor commentary

We have completed the following work in relation to this risk:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- confirmed the basis on which the valuations were carried out with your valuer;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- evaluating the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that the current value of these assets is not materially different to current value; and
- Testing on a sample basis, revaluations made during the year to ensure they have been input correctly into your asset register and financial statements

We are still in the process of finalising the following work:

- Testing of Gross Internal Floor Areas that the valuers have utilised for the valuation of assets.

We identified that you had obtained valuations for your Council Dwellings as at 28 February 2019 and all your other property plant and equipment as at 31 January 2019. We requested an assessment of valuation movements between the date of the valuations and the balance sheet date be undertaken, and your valuers subsequently updated their valuation.

Management also informed us that they were unable to reconcile the general ledger system to the fixed assets module on Oracle Cloud, and are undertaking a workaround exercise, starting with the prior year audited balances and adjusting for additions, disposals, depreciation and revaluations from the ledger and valuers reports. This delayed our testing on Property, Plant and Equipment (fixed assets) in your balance sheet. Going forward, you will need to fully reconcile your general ledger with your fixed asset register and provide this reconciliation with your working papers at the start of the audit.

As a result of the above your total Property Plant and Equipment balances decreased from £2,517,906k per the draft accounts to £2,500,053k in your re-stated single entity accounts. There is a restatement of the Property Plant and Equipment Group balance from £2,562,149k to £2,544,082k in relation to the Group Property Plant and Equipment balance.

Subject to the satisfactory completion of outstanding work, above, and the work outlined on pages 3 to 5, we have not to date identified any other material issues from our work.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

4

Valuation of pension fund net liability

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.

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.

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.

Auditor commentary

We have completed the following work in relation to this risk:

- updated 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;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out your pension fund valuation;
- assessed the accuracy and completeness of the information provided by you to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the report from your actuary; and
- undertaken 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.

You have contacted your actuary and requested a valuation of the potential impact of McCloud and the Guaranteed Minimum Provision (GMP) on your financial statements and pensions liability. You received detailed analysis from your actuary to enable you to determine the potential financial impact of the ruling on your pension liability on 5 July 2019 and you have updated your financial statements. The actuary have estimated the potential impact on the McCloud judgement as an increase in liabilities of £6.4m for London Borough of Lewisham and £0.9m for Lewisham Homes. In addition, the GMP equalisation impact £5.3m for London Borough of Lewisham and £0.2m for Lewisham homes so in total £12.8m impact on your pension liability.

Subject to the satisfactory completion of outstanding work, above, and the work outlined on pages 3 to 5, we have not to date identified any other material issues from our work.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

- 5 **Incomplete or inaccurate financial information transferred to the new general ledger**

Auditor commentary

We have undertaken the following work in relation to this risk:

- reviewed 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; and
- mapped the closing balances from the redundant general ledger (Oracle) to the opening balance position in the new ledger (Oracle Cloud) to assess accuracy and completeness of the financial information.

We are satisfied that the data transfer of balances from Oracle to Oracle Cloud was materially accurate and complete.

We are still awaiting responses from management to our findings and recommendations arising from our work on evaluating and testing your IT controls operating within the new general ledger system. The recommendations raised are in relation to security and access controls and segregation of duties. These have been assessed as deficiencies that will not lead to a material misstatement in your financial statements.

Subject to the satisfactory completion of outstanding work, above, and the work outlined on pages 3 to 5, we have not to date identified any other material issues from our work.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	
<p>1 Potential impact of the McCloud judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but the permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for fire fighter pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits such as the Local Government Pension Scheme.</p>	<p>You requested an estimate from your actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities and an increase in service costs for the 2018/19 year.</p> <p>The actuary have estimated the potential impact on the McCloud judgement as an increase in liabilities of £6.4m for London Borough of Lewisham and £0.9m for Lewisham Homes. In addition, the GMP equalisation impact £5.3m for London Borough of Lewisham and £0.2m for Lewisham homes so in total £12.8m impact on your pension liability.</p> <p>Management have decided to adjust the financial statements</p>	<p>We have reviewed the analysis performed by the actuary, and are satisfied that the approach to arrive at this estimate is reasonable.</p> <p>You have updated the financial statements for the McCloud judgement. We are satisfied that there is not a risk of material misstatement.</p>

Significant findings – key judgements and estimates

Accounting area	Summary of management’s policy	Audit Comments	Assessment
<p>Land and Buildings – Council Housing –</p> <p>Draft financial statements balance £1,272m</p>	<p>You own 13,957 dwellings and are required to revalue these properties in accordance with DCLG’s Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. You have engaged Wilks Head and Eve to complete the valuation of these properties.</p>	<ul style="list-style-type: none"> • We have no concerns over the competence, capabilities and objectivity of your valuation expert. • No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. • There have been no changes to the valuation method this year. • Disclosure of the estimate in the financial statements was based on 28 February 2019. You engaged your valuers to update the value to a year end balance of 31 March 2019. As a result of your revised valuations, your total Property Plant and Equipment balances decreased from £2,517,906k per the draft accounts to £2,500,053k in your re-stated single entity accounts. There is a restatement of the Property Plant and Equipment Group balance from £2,562,149k to £2,544,082k in relation to the Group Property Plant and Equipment balance. 	<p style="text-align: center;"> Amber</p>

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
<p>Land and Buildings</p> <p>Draft financial statements balance £976m</p>	<p>Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. Other specialist land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head and Eve to complete the valuation of properties as at 31 March 2019 on a five yearly cyclical basis. 91% of total assets were revalued during 2018/19. Management has considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 31 March 2019 to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued initially identified no material change to the properties value.</p> <p>This assessment appears to be materially incorrect.</p>	<ul style="list-style-type: none"> We have no concerns over the competence, capabilities and objectivity of your valuation expert. No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. There have been no changes to the valuation method this year. Disclosure of the estimate in the financial statements was based on 31 January 2019. You engaged your valuers to update the value to a year end balance of 31 March 2019. As a result of your revised valuations, your total Property Plant and Equipment balances decreased from £2,517,906k per the draft accounts to £2,500,053k in your re-stated single entity accounts. There is a restatement of the Property Plant and Equipment Group balance from £2,562,149k to £2,544,082k in relation to the Group Property Plant and Equipment balance 	<p> Amber</p>

Assessment

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Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment																								
<p>Net pension liability – £741m</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 26</p>	<p>The Council's total net pension liability at 31 March 2019 is £741m (PY £640m), comprising the London Borough of Lewisham and the London Pensions Fund Authority defined benefit pension scheme obligations. The Council uses Hymans Robertson to provide actuarial valuations of your assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £148m net actuarial loss during 2018/19.</p>	<ul style="list-style-type: none"> We have no material concerns over the competence, capabilities and objectivity of the actuary used by the Council. We have used the work of PwC, as our auditors' expert, to assess your actuary, and assumptions made by your actuary. See below for consideration of key assumptions in your pension fund valuation: <table border="1" data-bbox="779 523 1937 1069"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.4% to 2.5%</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.5%</td> <td>2.4% to 2.5%</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Salary growth</td> <td>3.2%</td> <td>Scheme specific range in line with other actuaries</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>45: 24 years 65: 22.2 years</td> <td>23.7 to 24.4 years 21.5 to 22.8 years</td> <td style="text-align: center;">● ●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>45: 26.5 years 65: 24.6 years</td> <td>26.2 to 26.9 years 24.1 to 25.1 years</td> <td style="text-align: center;">●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above. We have confirmed that your share of the pension scheme assets is in line with expectations. Disclosure of the estimate in the financial statements is considered adequate. 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.4% to 2.5%	●	Pension increase rate	2.5%	2.4% to 2.5%	●	Salary growth	3.2%	Scheme specific range in line with other actuaries	●	Life expectancy – Males currently aged 45 / 65	45: 24 years 65: 22.2 years	23.7 to 24.4 years 21.5 to 22.8 years	● ●	Life expectancy – Females currently aged 45 / 65	45: 26.5 years 65: 24.6 years	26.2 to 26.9 years 24.1 to 25.1 years	●	<p>●</p> <p>Green</p>
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Assessment

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Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Other accruals and estimates	<p>You continue to apply estimates and judgements in a number of areas, including:</p> <ul style="list-style-type: none"> • accruals of income and expenditure; • recognition of school assets; and • the preparation of group accounts. 	<ul style="list-style-type: none"> • The policies for these items are in line with accounting standards and the requirements of the Code of Practice on Local Authority Accounting. • Disclosure of the estimates in the financial statements is considered adequate. • As part of our testing, we have reviewed the judgements applied by the Council relating to these items, and significant balances within these have been discussed with management in detail. • We have found no material misstatements in the financial statements relating to these balances in our work to date. Our finding are subject to the satisfactory completion of our work and the matters set out on pages 3 to 5. 	 <p>Green</p>

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings - Going concern

Our responsibility

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

Going concern commentary

Management's assessment process

Management's assessment is that there is no reason to consider the Council is at risk of not being a going concern.

Work performed

We have:

- held regular discussions with officers throughout the year; and
- reviewed your financial statements and financial forward planning.

Concluding comments

We intend to issue an opinion that is not modified in respect of Going Concern.

No events of conditions have been identified in the course of our audit that cast doubt on your ability to continue as a going concern.

Auditor commentary

You have sufficient cash, investment and reserve balances to deliver your services for 12 months from the date of your audited financial statements.

Your financial forecasts show that you have sufficient assets available to meet your liabilities for the foreseeable future.

We have considered these forecasts, and your past performance against your budgets, and have no material concerns over your planning process.

Other communication requirements

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

Issue	Commentary
① Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Panel. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit procedures. We are awaiting formal written confirmation from you in respect of this.
② Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	You have not made us aware of any significant (above triviality) incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
④ Written representations	A letter of representation will be requested from you, which will be included in the Audit Panel papers.
⑤ Confirmation requests from third parties	We requested from management permission to send confirmation requests to banking and investment institutions that you had deposits or loans with. This permission was granted and the requests were sent. We are still awaiting confirmation from Toronto-Dominion Bank
⑥ Disclosures	Our review found a few omissions in the financial statements particularly around financial instruments and amending the financial statements to take account of new International Reporting Standards IFRS9 and IFRS15. Management are still responding to the technical review of your financial statements.
⑦ Audit evidence and explanations/significant difficulties	We have had challenges with obtaining all the requested information within a timely manner which has impacted on the ability to progress the audit in the timescales originally envisaged.

Other responsibilities under the Code

Issue	Commentary
1 Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>We have not identified any issues to date and plan to issue an unmodified opinion in this respect, as included in Appendix E.</p>
2 Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
3 Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As you exceed the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with your audited financial statements. We plan to complete this work following the completion of the audit of your financial statements.</p>
4 Certification of the closure of the audit	<p>In the 2016/17 audit, we received two objections from electors in respect of your LOBO loans and PFI schemes. We are still completing our response to these objections. As such, we have not yet certified the closure of the 2016/17 audit.</p> <p>In 2018/19, we received information relating to a procurement issue which management is currently investigating.</p> <p>We will not be able to certify the conclusion of the 2016/17, 2017/18 and 2018/19 audits until we have certified the closure of the prior year audits, and management has concluded its investigation of the above matter raised in 2018/19.</p>

Value for Money

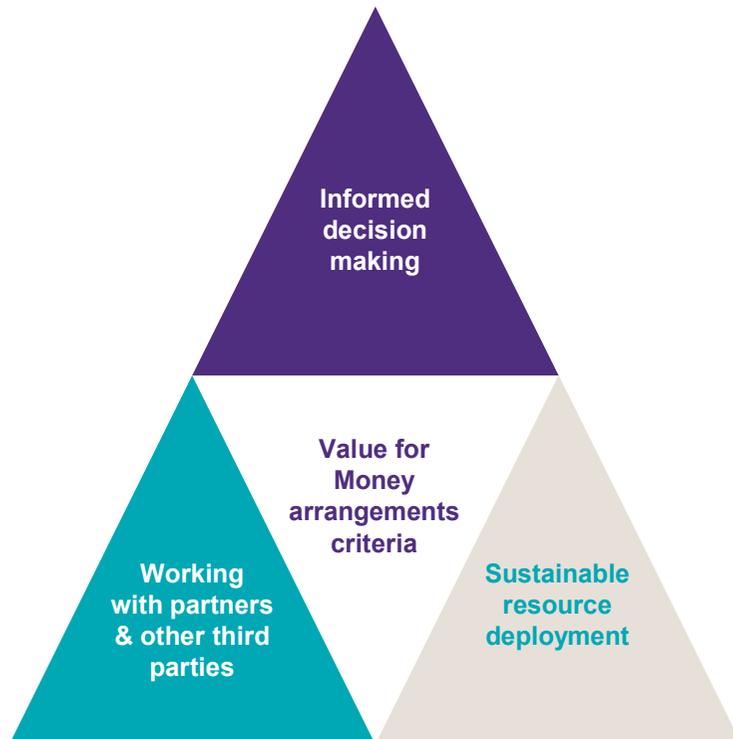
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in 2019 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2019.

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.

Value for Money

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 2018/19
- Whether your Medium Term Financial Strategy is based up a reasonable assumptions
- The appropriateness of arrangements in place in respect of your transformation programmes
- The appropriateness of your arrangements for addressing the potential implications resulting from Brexit.

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

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

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.

Key findings – financial outturn and budget management

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 as per our Audit Plan	Findings and conclusion
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<p>Budget Management</p> <p>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.</p> <p>In response to this risk we will:</p> <ul style="list-style-type: none"> 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. 	<p>Summary findings</p> <ul style="list-style-type: none"> Your 2018/19 outturn position delivered an overall overspend of £9.4m against the directorates' net general fund revenue budget. This is after the application of £6m to support the children's social care base budget. You continue to have overspends within Children's and Young People and required an injection of an additional £6m to the children's social care base budget mid-year in October 2018. This suggests some continued scope for improvement in the accuracy of the assumptions underpinning the original budgets. Work is continuing in this area to manage demand and mitigate future overspends. You have strengthened arrangements over reporting of delivery of your savings programme. Your financial reporting should be enhanced by providing more narrative explaining the key factors for savings that have not been delivered. 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. A number of initiatives are in place to enhance your arrangements, particularly with respect to income generation and managing pressures. These are in the early stages of development and their effectiveness in the long term is yet to be tested.
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2018/19 Financial Performance

You continue to face a challenging financial position with reduced government funding. Your local population continues to increase by approximately 3,000 residents per year. This growth combined with the demographic change being experienced nationally for people to live longer lives, with severe disabilities, is creating pressure on health and social care services. You continue to face increased demands and costs of Children's Social Care, and increases in assessments and high costs for placements.

You set a balanced budget going into 2018/19 and in respect of the General Fund assumed a net revenue expenditure budget of £241.281m. This is made up of provisional Settlement Funding from government of £128.470m (revenue support grant and business rates) and forecast Council Tax receipts including an increase in Council Tax of 3.99% (a 1% increase for the social care precept providing additional funding of £1m, ring fenced for Adult Social Care spend, and a 2.99% increase in the core element). You also assumed a surplus from growth in the Council Tax base as well as distribution of previous year Collection Fund surpluses. Your budget also included increased inflation costs of £4.3m, increased budget pressures and risks of £6.5m and an increased bad debt provision of £5m. To offset some of these costs you proposed utilising the New Homes Bonus (£5.0m) and general reserves of £3.570m.

The Lewisham Future Programme Board was established to determine and progress cross-cutting and thematic reviews to deliver the savings required. You have made savings of £160.6m to meet your revenue budget requirements since May 2010 and you proposed savings of £5.6m in 2018/19. You recognise that there are now no easy efficiencies remaining and you are into identifying greater transformation in culture, ways of working and the infrastructure to support proposed savings. Savings of this nature will take longer to implement, and the outcomes are often more uncertain, and (from the financial perspective) require an element of upfront investment to achieve them.

You have considered the areas in which you want to invest. These are consistent with your Lewisham 2020 priorities set by members and include

- the digital transformation work to assist with more flexible ways of working;
- the refurbishment of Laurence House to rationalise the corporate estate; and
- updates to your key systems to improve efficiencies and control

Key findings

Significant risk as per our Audit Plan

Continuation of risk from previous page.

Findings and conclusions

Your financial outturn position shows a £9.4m overspend on the directorates' net general fund revenue budget, with the most significant overspends in Children and Young People (£9.6m) and Customer Services (£3.5m). These were offset by underspends elsewhere, including £2.8m in the Community Services directorate and £0.9m in Resources and Regeneration. The General Fund balance at year end increased to £20.0m from £13.0m, due mainly to a transfer from earmarked reserves of £11.4m. This level represents approximately 8.3% of your Net Budget Requirement. However, your ratio of General Fund reserve to Gross Service Expenditure at 1.9% remains relatively low. There remains the risk that this level of General Fund Reserves may not be sufficient to cope with the additional pressure of a significant unexpected incident. Your outturn position is summarised below.

Directorate	Gross budgeted spend	Gross budgeted income	Net budget 2018/19	Outturn March 2019
	£m	£m	£m	£m
Children & Young People (1)	71.3	(16.6)	54.7	9.6
Community Services	172.2	(81.3)	90.9	(2.8)
Customer Services (2)	99.7	(57.3)	42.4	3.5
Resources & Regeneration	76.7	(51.2)	25.5	(0.9)
Directorate Totals	419.9	(206.4)	213.4	9.4
Corporate Budgets	27.9	0.0	27.9	0.0
Net Revenue Budget	447.8	(206.4)	241.3	9.4

The Children and Young People's directorate was overspent by £9.6m. The position was consistently reported throughout the year but includes an injection of an additional £6m to the children's social care base budget approved by Mayor and Cabinet on 10th October 2018. This suggests some continued scope for improvement in the accuracy of the assumptions underpinning the original budgets. The main budget pressures in children's social care are in two areas:

- Placement of children looked after: the number of children looked after has increased in Lewisham and across the country, but your rate of looked after children remains higher (statistically) than your neighbouring boroughs. You also have high numbers in residential placements and these are extremely high cost.
- Staffing budget (social workers, managers and business support): This budget has been historically overspent with a mismatch between budgets and staffing establishment which has hampered monitoring. In the previous year additional social workers were taken on to reduce caseloads to acceptable levels, especially in Referral and Assessment.

You have developed a greater understanding of the key cost drivers across the Children and Young People's directorate. The key initiatives that you are working on to try and address your cost pressures are set out overleaf:

Key findings

Significant risk as per our Audit Plan

Findings and conclusion

Continuation of risk from previous page.

- Improving the placement process and commissioning of residential care, leaving care accommodation and semi-independent accommodation and fostering for children looked after.
- Refreshing your Children's Social Care Placements Sufficiency Strategy.
- Clarifying the Children and Social Care staffing establishment, ensuring it is properly costed and establishing a staffing budget and fixed establishment which can be effectively monitored.
- Restructuring the Children's Social Care budget, with a recoding exercise introducing effective budget monitoring at all levels with a budget which reflects activity and for which individual budget holders can be held to account.
- Developing a medium term financial strategy for children's social care reflecting patterns of demand but also a trajectory to the best in class pattern of placements and service activity, in line with your overall Medium Term Financial Strategy.

The overspend in Customer Directorate is in part due to the Tidemill site security costs, which ended the year with a cost of £1.29m. It had been anticipated that these costs could be capitalised, but the nature of these costs are not permissible for capitalisation purposes and so were charged to revenue. The other main driver in the directorate is an overspend of £1.6m on refuse services and a shortfall of income projected for trade refuse of £0.3m.

The Dedicated Schools Grant (DSG) for 2018/19 had a final net balance of £260m. Further grants are given to schools and routed through the local authority including the pupil premium (£14m), Primary PE and Sports Grant (£1.3m), Post 16 funding (£5.6m), the universal free school meals grant (£3.8m) and the teachers' pay grant (£1m), making total spend of £285.7m. There is an on-going review of the High Needs Block (HNB) budget in the DSG. You are unusual in being able to manage to balance the HNB, compared to other boroughs carrying significant overspends. However, it is becoming more challenging for you to balance this position.

The Housing Revenue Account budgeted for a surplus of £4m which was to be transferred to reserves at the year end as part of the 30 year HRA business plan. You have delivered an additional £2.5m surplus due mainly to net increases in rental and service charge income and a reduction in the number of void properties.

Your financial position is reported to members through the quarterly Public Accounts Select Committee meetings detailing your positions as at May, September and December 2018 and January 2019, and monthly to the Executive Management Team. The overspend as at May was anticipated at £14.8m, and July at £17.4m, but decreased to £10.7m as at the end of September due to the £6m application to support the Children's Social Care budget. It then fell slightly to £9.9m as at January 2019, ending the financial year with a £9.4m overspend.

You identified a savings programme of £5.6m going into 2018/19. £3.6m of the programme was reported as being delivered at the year end with £2m (representing 36% of the programme) determined not to have been delivered, albeit you are still anticipating that some of these savings will be delivered in the future. £1m of the anticipated savings that were not achieved related to a review of your balance sheet and accounting policies. You have however completed a revision of Minimum Revenue Provision for 2019/20.

You have strengthened the governance processes around the monitoring of the delivery of your savings programme throughout the year. Explanations are provided within reports to Members when delivery has slipped or has failed, but these explanations would benefit from further narrative that really hone in on the causal drivers that resulted in the anticipated savings not being achieved. In addition, the reports should be strengthened by reporting on the plans and actions to bring delivery back on track and any lessons that have been learnt that you are applying to future savings programmes.

Key findings

Significant risk as per our Audit Plan

Findings and conclusion

Continuation of risk from previous page.

During the year Members raised their concerns about the scale and direction of travel in respect of the Adult Social Care budget and the impact this has on your decisions on future savings. You have undertaken more work to understand the main pressures on the budget and you have been undertaking a review to find more innovative ways of working with other boroughs to improve efficiency and deliver better outcomes for residents. The main pressures affecting the service are increases in unit costs typically adding £3m a year to the budget and demographic changes, especially transition of young people with special educational needs and disabilities (SEND) into the adult social care budget. Lewisham has the 4th highest Autism level in the UK and this is contributing to demand pressures, with the estimated total number of adults with a learning disability aged 18 to 64 in Lewisham estimated at 1,120 projected to rise to 1,190 in 2020. Hospital admission and readmission rates for older people are higher in Lewisham than the overall rate for England, continue to increase, and are currently around 320 per month. To help manage these pressures you have adopted the Local Government association (LGA) framework to achieve efficiencies in adult social care by further refinement to the following:

- your approach to assessment, which is community and asset based, taking into account what a person can do for themselves including the network of support that can be accessed from within the community;
- making use of prevention and short term targeted support to reduce delays and prevent the need for longer term care;
- improving partnership working across health, mental health, social care, housing and with care providers to reduce duplication, be responsive to the needs of your residents at an earlier stage;
- commissioning and developing a robust market place that can respond to a range of needs with services that are of a high standard and are cost effective. You are reshaping some of your provision in order to provide a more personalised offer that supports people to remain within the community wherever possible;
- working on a whole system approach to transition with a focus on improvements and good practice; and
- applying resources proportionately and ensuring accurate charging. There is good oversight in place to compliment the asset based approach to assessment and panels in place monitoring expenditure for care provision.

In addition to your focus on demand management and cost reduction you have identified the need to develop a clear income generation strategy to ensure that vital levels of service delivery are able to be maintained throughout the period of funding reductions. The new income strategy was approved by the Mayor and Cabinet in February 2019 and services are now aiming to align their work to achieve the objectives set out in the strategy. To facilitate income generation, a programme of culture change to move you to a more commercial mindset is required to help embed the strategy. The success of this programme will be key to ensuring that there is sufficient buy in and engagement across all your workforce so that income generation is viewed as being key to supporting protection of front line services.

The organisational development team have begun to review the opportunities, training programmes and communications that will be essential to help address the cultural shift required. The EFQM business model has been proposed as the mechanism to support the embedding of the change culture and ensuring the required processes in the income generation strategy begin to function as required.

In addition, a full programme has been developed to ensure that all fee charging services have established cost modelling and up to date charging levels. This work is still being rolled out more widely across the Council.

Key findings – savings and medium term financial planning

Significant risk as per our Audit Plan

Findings and conclusion

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.

Summary findings

- For 2019/20 you have set a balanced budget (with the planned use of reserves) and have a savings plan of over £9m. This is ambitious: the savings requirement is significantly greater than last year's, which was not achieved.
- The medium term financial risk is significant and increasing. You will need to make savings of around £60m between 2020/21 and 2023/24 – a significant requirement which highlights the need to continue to identify, monitor and deliver savings. Savings required in 2019/20 and 2020/21 are higher than in previous years, when lower levels of savings were not delivered.
- You are awaiting the results of the Government comprehensive spending review (CSR) and fair funding reviews. As a result, your Medium Term Financial Strategy (MTFS) is more uncertain than previous years. You will need to continue to update your MTFS to include any additional funding information together with the impact on your proposed plans.
- There are longer term pressures from demand led services that continue to manifest in 2019/20, particularly in Children and Young People's directorate.
- You have £20m of general fund reserves to cushion you against the on-going financial challenges that you face over the medium term. However, these represent only 1.8% of your annual spend, and should be used to invest in future transformation, rather than offsetting budgetary overspends on a non-recurrent basis.
- The latest financial monitoring report for 2019/20 is forecasting a deficit of £4.6m, with a majority of the overspends again due to the Children and Young People and Customer services directorates. The overspends are in areas similar to 2018/19. This indicates weaknesses in the budget setting arrangements and may indicate further improvements over the accuracy of activity assumptions are required.

2019/20 Budget Setting

You set a balanced budget for 2019/20 in February 2019. In respect of the General Fund, the assumed net revenue expenditure budget is £243.012m. This is financed by provisional Settlement Funding from government of £121.175m (revenue support grant and business rates), forecast Council Tax receipts including an increase in Council Tax of 4.99%, a surplus from growth in the Council Tax base and on collection of Council Tax in previous years from the Collection Fund, and additional income from Business Rates including a share of the growth from the London Business Rates Pool. The budget is based on the following assumptions:

- £9.27m of revenue budget cuts are achieved. Note: you only achieved £3.6m in 2018/19, so there remains risk in this assumption;
- £6.5m of contingency included in the budget for risks and pressures in 2019/20;
- £5.0m use of the New Homes Bonus reserve for revenue purposes for one year with the position to be reviewed for 2020/21;
- One-off reserves are used to fund the current budget cuts shortfall of £2.461m for 2019/20 to balance the budget; and
- A 4.99% increase in Band D Council Tax for Lewisham's services for 2019/20; including the 2.99% increase in the core Council Tax as announced in the Local Government Finance Settlement and 2% increase for the Social Care precept.

Key findings

Significant risk as per our Audit Plan

Findings and conclusion

Continuation of risk from previous page.

The direction of travel for local government finance continues with the Government’s intention to phase out the Revenue Support Grant. Ahead of the Government’s Comprehensive Spending Review this summer, the London Business Rates Pilot Pool operates for another year, and will still include all London Boroughs and the Greater London Authority (GLA). Under the 100% London pilot scheme for 2018/19, there was no central share and rates collected were shared 63% and 37% between Lewisham and the GLA respectively. The main advantage for being part of the pool is that the pool gets to keep 75% of any growth it generates, which is then distributed across all members of the pool. In 2019/20, you expect to receive approximately £3m of growth from the pool.

For each of the past five years you have implemented savings and used reserves, New Homes Bonus and earmarked reserves to set a balanced budget. The Lewisham Future Programme (LFP) was the primary methodology to undertake fundamental reviews of services, identify savings and drive organisational change in order to meet the required reductions in spending needed to set balanced budgets. The LFP was stopped in 2018/19 to enable a review of progress, to ensure alignment to the new administration’s priorities and to facilitate a rigorous ‘back to basics approach’, focusing on the Directorates’ accountability for delivering services to budget. The Acting Chief Executive conducted internal reviews of all services against their business plans to assess performance and progress with ‘invest to save’ initiatives. Officer STAR chamber sessions were then held and Executive Directors and Heads of Service were asked to set out the full range of cuts that could potentially be made (including any investment required) for 2019/20 and 2020/21, setting out the risks and possible mitigations, up to their boundaries with statutory responsibilities. These officer proposals were then subject to Member scrutiny before being taken to Mayor and Cabinet in November 2018. Schemes are reasonably well developed, and have been subject to challenge processes. You will need to continue to monitor savings plans closely on a scheme by scheme basis with a renewed focus on addressing the root causes of savings not being delivered, and applying lessons learned across schemes.

Medium Term Financial Strategy

Together with the comprehensive spending Review the Government is committed to undertaking a Fair Funding Review which would include a full review of the Needs Distribution system and possibly some ‘normalisation’ of council tax. Your current funding levels are based on needs assessments undertaken in 2013, increased annually by the Retail Price Index, which are now outdated. This makes your estimates of funding more challenging as you are still unsure over your funding settlement for 2020-21. This results in a Medium Term Financial Strategy that is more uncertain than in recent years. You will need to ensure that you continue to update your Medium Term Financial Strategy throughout the year as decisions on future funding become clearer.

The Medium Term Financial Strategy (MTFS) 2020/21 to 2023/24 sets out your medium term financial plan for the next four years. Your MTFS forecasts a further reduction in your main funding from £121.2m to £108.7m between 2019/20 and 2023/24. This is based on an

assumption that your Revenue Support Grant will reduce by a further 20% between 2019/20 to 2023/24. Alongside this, the Adult Social Care precept ends in 2019/20 so there is an assumption that this will be nil going forward. At the same time as these reductions spending projections - including pay and prices inflation, provision for budget pressures related to an increasing population and changing demographic needs, and changing responsibilities for local government - mean additional spending of at least £47m will be required to meet those needs over the life of the strategy.

Key findings

Significant risk as per our Audit Plan

Findings and conclusion

Continuation of risk from previous page.

In preparing your latest Medium Term Financial Strategy you have assumed:

- Pay increases of 2% per annum
- Inflation 2.5% per annum
- Council tax increases at 1.99% per annum
- Average fees and charges will increase by inflation
- Increase of concessionary fares £0.5m each year
- No new homes bonus
- Government funding including NNDR continues to decrease

Your Current MTFS covers the four year period from 2020/21 to 2023/24. You have modelled best, worst and most likely case scenarios for this period. Comparing these saving scenarios to the ones in the July 2018 MTFS, you can see the impact the overspends in 2018/19 and the failure to meet savings targets have 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 shown below:

July 2018 MTFS	2019/20	2020/21	2021/22	2022/23	2023/24	Total	2020/21 to 2022/23		
Optimistic	14.75	8.10	10.24	5.22		38.31	23.56		
Main	16.82	12.42	14.55	9.76		53.55	36.73		
Pessimistic	19.05	18.43	18.85	13.38		69.71	50.66		
Current MTFS	2019/20	2020/21	2021/22	2022/23	2023/24	Total	2020/21 to 2022/23	Increase in savings required	
Optimistic	14.75	16.34	11.34	9.57	6.07	58.07	37.25	13.69	58%
Main	16.82	20.67	16.56	12.66	9.85	76.56	49.89	13.16	36%
Pessimistic	19.05	23.69	18.51	15.24	11.50	87.99	57.44	6.78	13%

Taking the main case scenario as the expected position, the MTFS shows the annual measures required to bridge the budget gap from 2020/21 to 2023/24 as £20.7m, £16.6m, £12.6m and £9.8m, in each year, respectively. This is a total of £60m over the four years to 2023/24. This is a substantial budget gap for you, especially as savings agreed to date have totalled £183m and the financial monitoring in 2018/19 identified difficulty and delay in implementing agreed savings as a contributory cause to the reported overspend position.

The optimistic case scenario has been modelled to show the effect that positive changes in the assumptions will have on the overall budget gap. Here the cumulative budget gap to 203/24 reduces to approximately 43m. This is based on lower predicted cuts to baseline funding and higher increases in the Council Tax base. The pessimistic case scenario is the most unlikely scenario projected. The cumulative budget gap to 2023/24 increases to £69m under this scenario.

Key findings

Significant risk as per our Audit Plan

Findings and conclusion

Continuation of risk from previous page.

To address the future budget gap, officers have started work on identifying possible savings proposals to meet the 2020/21 budget gap forecast in this MTFS. Star Chamber review sessions have taken place with the Acting Chief Finance Officer and the Service Directors, with the aim of scrutinising the budget and determining possible areas for further savings. Detailed proposals for those savings identified to be progressed will then be completed over the summer for scrutiny by Members in the autumn. In addition, officers with the support of Cabinet are running sessions for all members on the Council's financial arrangements, budget pressures, and savings gap in July 2019. The intention is to ensure:

- that a full set of proposals to meet the budget gap are presented to members; and
- Members have had input to and are equipped and confident to scrutinise these savings proposals ahead of them being put to Mayor and Cabinet for decision

The first financial forecast for 2019/20 up to May 2019 is forecasting a deficit of £4.6m, with the majority of overspends being in the Children and Young People directorate (£3m) and Customer Services (£3.7m), slightly offset by underspends in community services. The Children and Young People directorate overspend is due to a continuation of the pressures identified in 2018/19 supporting SEND Transport, Early Help (Troubled Families) and the Youth Service. The most significant pressures in the current financial year relate to transport for SEN pupils (£1.9m) and Early Help (£1.1m).

The overspends in Customer services continue to be largely in the Environment division relating to vehicle costs for refuse services as there are still nine hired vehicles in use, which is expected to create an overspend position for this year of £0.6. There is also a shortfall of income projected for trade refuse of £0.3m, which is in line with the income shortfall in 2018/19. IT and digital services are currently forecast to overspend by £1.2m due to anticipated additional costs of the Shared ICT Service (£1m), which includes a settlement for Microsoft licensing.

Overspends are following a similar pattern to the previous years which indicates that either there are weaknesses in the budget setting arrangements as the assumptions that led to prior year overspends have not been taken into account fully in setting 2019/20 budgets, or the actions that management are taking to address overspends are not having the required impact in bringing down costs.

More savings are proposed in 2019/20 than have been in place previously. This is a significant risk, as you have not managed to deliver the lower level of savings proposed in 2018/19. In addition, there are longer term pressures from demand-led services that are continuing to manifest and proving challenging to control.

During the year you commissioned an External Finance Review which concluded in October 2018. The conclusion of the report identifies the following five areas as the most important issues which need to be actioned to ensure effective financial control:

- establishing a realistic budget for children services;
- seeing through the overhaul of departmental and corporate information systems;
- ensuring that savings included in the budget plans are realistic, both in terms of quantity and timescales;
- assessing whether there are cultural issues regarding staff accountability which affects performance; and
- adopting a three year rolling plan with growth, savings, and use of reserves assessed.

You have an action plan that you completed and are in the process of implementing.

Key findings

Significant risk as per our Audit Plan

Findings and conclusion

Continuation of risk from previous page.

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 £20m of general fund reserves, your overall reserves position is relatively healthy, compared to many London Boroughs. As at 31 March 2019, you had total general fund reserves and earmarked reserves excluding schools reserves of £139.4m, compared to £149.9m as at 31 March 2018. Although your reserves have fallen, the average for London boroughs is £106.5m and you have the 9th highest reserves balance in London. The following table sets out a summary of your reserves position and key financial ratios as at 31 March 2019 relative to other London Boroughs as per their draft published financial statements for 2018/19:

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 2019 (£m)	139.465	106.462	9 / 32
Total general fund and earmarked general fund reserves as at 31 March 2019 (£m)	168.700	118.126	8 / 32
General Fund and non-schools earmarked as a percentage of non service revenue expenditure (%)	48%	42%	8 / 32

This analysis highlights that as at 31 March 2019 your reserves level placed you in the top quartile of the 32 London Borough. However, your total general fund and non-schools earmarked general fund reserves as at 31 March 2019 of £139.465m is £10.5m less than last year. The London average has increased by £9.4m. The key ratio of general fund and non schools earmarked reserves as a proportion of non service revenue expenditure of 48% has decreased considerably from 2017/18 where you were ranked first in London; you are now just above the average. Although you remain in a relatively healthy position, your position has declined in 2018/19 compared to the average London borough, and your direction of travel in terms of reducing reserves balances is out of step with the average increase otherwise seen in London as financial uncertainty continues to manifest.

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.

Key findings – transformation and governance

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 as per our Audit Plan	Findings and conclusion
<p>Transformation and governance</p> <p>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.</p> <p>In response to this risk we will:</p> <ul style="list-style-type: none"> 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. 	<p>Summary findings</p> <ul style="list-style-type: none"> You paused elements of the transformation programme as originally constituted and re-designed your overarching governance arrangements. You have continued with elements of the programme that you felt were essential to be delivered and the associated projects have been subject to your revised governance arrangements. You have implemented an overarching board with new arrangements designed to enable your Executive Management Team to have a greater oversight of the programme, facilitating greater challenge and support of programme Boards and enabling business plans to be subject to more robust scrutiny. Your revised structures will help to ensure interdependencies across projects are identified. You still need to implement an overarching strategy that clearly describes how your key transformational projects are designed and interlinked. You will need to demonstrate the costs and future benefits of individual projects and how these are accurately reflected in your Medium Term Financial Strategy. Arrangements are improved in their design but are at the early stages of implementation. Their application in practice, and your ability to ensure sufficient and appropriate skill sets are utilised, will be the true test of your effectiveness in delivering transformational change. <p>In our previous year Value for Money report we qualified our conclusion on the basis of the weaknesses in the transformation governance arrangements; specifically that:</p> <ul style="list-style-type: none"> the arrangements in place 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 <p>You have responded positively to our report and had already started to put in place measures to mitigate these factors. You took the decision to pause elements of the programme and to re-design the governance processes of the programme. A Change and Improvement Board has been established which has oversight of the entire transformational programme and reports into each Executive Management Team meeting. The Executive Management Team have reviewed the Terms of Reference of the Change and Improvement Board and discussed programmes of strategic importance.</p> <p>Reporting into the Change and improvement Board are the operational change boards which are cross cutting which are no longer directorate based and have input across support functions which has helped to identify areas of cross cutting which was lacking in the previous arrangements.</p>

Key findings – transformation and governance

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 as per our Audit Plan	Findings and conclusion
Continuation of risk from previous page.	<p>All projects have been assessed and gateway arrangements have been implemented. All projects were rated as either:</p> <ul style="list-style-type: none"> • Green – In delivery. • Amber – Subject to approval of business cases • Red – Currently not proceeding with plan. <p>EMT are reviewing business cases as part of the programme, requesting further details of funding and identifying cross-cutting issues. EMT have also requested that projects coming to the Board need to be broader than just IT projects, such as Children’s change and improvement work needs. There is early evidence that there is greater senior management oversight of the delivery of transformational programmes.</p> <p>The Change and Improvement Board receives updates of individual projects which includes the current activity, planned activity for the next month and achievements against milestones. Any identified issues and risks are highlighted in the reports together with the potential impact if risks/issues are not mitigated. An overall risk rating is given to each specific programme. Management have highlighted that the summary reports are a work in progress, and need more granular information.</p> <p>IT Enabled Change and support services are implementing a portfolio management programme that Works with Programmes and Projects to address concerns highlighted in last years Value for Money conclusion report such as:</p> <ul style="list-style-type: none"> • Improving the successful delivery of business change initiatives. • Ensuring an organisations strategy and performance requirements are realised via the portfolio, programmes and projects and operational business services. • Helping to determine and achieve strategic goals, manages outcomes and benefits. • Providing an opportunity for a greater structure and strategic management. • Preventing threats to achieve a business required outcome <p>The Digital Change Programme has been presented to EMT with detailed discussions on how to manage change across the organisation. You have decided that a Digital Change Programme update would be reported to EMT on a 6 weekly basis so you can assess the progress of implementation of the more complex programmes.</p> <p>Evidence has been provided to demonstrate that there are detailed discussions on a project by project basis and projects are risk rated. The Change and improvement Board has also requested projects work thematically, grouping projects and programmes by theme rather than by directorate, which would assist with cross cutting issue. Themes include organisational culture change and service improvement.</p> <p>We have viewed minutes of the Liquidlogic and Contocc improvement Programme Board and the CSC Improvement Board which is attended by Members of EMT. The minutes demonstrate that projects are being actively tracked and costs monitored, with concerns raised at the meetings. The minutes demonstrate that actions that are allocated to individuals and followed up at the start of the subsequent meetings. The CSC Board action tracker identifies and references issues with a clear action, responsibility and implementation date to take forward. The actions are risk rated in terms of delivery. There are 26 issues on the tracker, of which nine are complete, nine are on track and eight are late.</p>

Key findings – transformation and governance

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 as per our Audit Plan	Findings and conclusion
Continuation of risk from previous page.	<p>Whilst you have prioritised implementing new governance arrangements and ensuring current programmes have been assessed through the new gateway mechanisms, you still need to develop your overarching strategy that clearly describes to your stakeholders how your key transformational projects are designed, interlinked and implemented to drive future service delivery. The strategy will then need to be fully costed with anticipated future benefits analysed and closely aligned to your Medium Term Financial Plan.</p> <p>Management are fully aware of the need to complete this process, but have prioritised revising the governance arrangements in the first instance.</p> <p>Arrangements are improved in their design but are at the early stages of implementation. Their application in practice, and your ability to ensure sufficient and appropriate skill sets are utilised, will be the true test of your effectiveness in delivering transformational change.</p>

Key findings – Brexit arrangements

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 as per our Audit Plan

Findings and conclusion

Brexit arrangements

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.

Summary findings

- With the delay to the departure of the UK leaving the European Union the risk has not occurred within the year.
- You have established arrangements to identify and mitigate risks associated with Brexit.
- You will need to continue to update your key risk assessments and action plans to take account of the extended Brexit deadline.

You have established an officer Brexit Coordination Group during November 2018. The Group was tasked with planning for Brexit by:

- Undertaking risk assessments for services most vulnerable to the impact of Brexit.
- Developing an action plan to address relevant issues and concerns.
- Reporting regularly to Executive Management Team and Mayor and Cabinet briefing.
- Reporting emerging risks and business continuity issues to central government.

The Brexit coordination Group currently meets fortnightly and members represent each of the council's four directorates (Children and Young People, Customer Services, Community Services and Resources and Regeneration). The Group has representation from key services such as children's social care and adult social care as well as the Chair of the Local Resilience Forum, Emergency Planning, Human Resources, Legal, Finance and Communications. The coordination Group meetings are chaired by the Director of Corporate Policy and Governance who has a direct report line to the Executive Management Team who meet weekly.

Prior to the 29 March 2019, the Group was meeting on a weekly cycle and the Chair was acting as the Single Point of Contact for the council as part of the regional preparation arrangements organised by London Councils and the Local Authorities Panel. Lead officers were submitting a weekly Impact Assessment Tracker to London Councils which set out any emerging risks to Business Continuity and provided weekly data for key service areas. Key issues and concerns were passed onto the Ministry of Housing, Communities and Local Government by London Councils on behalf of the boroughs

Key services have provided risk assessments to highlight potential risks and how these can be mitigated. These risk assessments are currently being updated to take account of the extended Brexit deadline. Priority 1 service areas have been asked to provide a response to a series of "what-if" Brexit scenarios that looks at the impact and implications of a 'no-deal' Brexit on you. The responses from services to these scenarios will be used to support pan-London assessments of the immediate and longer term impacts of Brexit on London local authorities.

A Brexit Action Plan has been developed and the actions taken to address relevant issues and concerns identified by the Group and services have been incorporated into this document. The Action Plan is routinely discussed and updated at the Group meetings. A revised Brexit timetable is being developed to identify and plan activity around key milestones over the next four months, leading up to the UK's planned departure from the EU. Officers are currently refreshing the Action Plan in line with the revised Brexit timetable, incorporating feedback from Directorate Management Teams.

Key findings – Brexit arrangements

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 as per our Audit Plan	Findings and conclusion
Continuation of risk from previous page.	<p>You continue to develop a data log to capture some important data sets, supporting baseline measures for staff numbers and the client profile for specific services. This is especially important in relation to residents and staff from the EU. The data list is a regular item for discussion and updating at the Coordinating Group meetings.</p> <p>You have set up a dedicated webpage www.lewisham.gov.uk/brexit on 16 January 2019 to help local residents understand the implications of Brexit and indicates how EU nationals resident in the borough can apply for settled status. There have been exactly 5,000 visits to the webpage up to 5 July 2019 and the page is regularly updated to keep it relevant. The Lewisham communications team are in contact with the LGA and London Council's communications teams to keep abreast of best practice and ensure consistent messaging.</p> <p>You are also maintaining a page on the internal staff intranet which provides information and updates for staff who are EU nationals. You have held question and answer sessions to support EU nationals who work for you.</p>

Key findings – chief executive recruitment

Significant risk

Chief Executive recruitment
May 2018 to December 2018.

Findings and conclusion

In our previous year Value for Money conclusion we recommended that Members should reflect on potential lessons from the recruitment of your previous permanent Chief Executive and how future recruitment can be undertaken to minimise the risk of recurrence.

You conducted a review and reflected on the previous Chief Executive recruitment process and made a range of changes to support a successful outcome. These changes are summarized below:

- Fundamentally revised the person specification for the role, with feed in from a range of key stakeholders.
- Used a different search and selection organisation and fully briefed them on the candidate profile we are looking for.
- Introduced psychometric and critical reasoning testing at an earlier stage of the process.
- Introduced an experienced ex London Chief Executive into the technical interview process, who has had experience of working at Lewisham and knows our environment, in conjunction with the recruitment consultant.
- Revised the membership of the members Appointments Panel.
- Revised the stakeholder day interview panels to include a panel of Cabinet Members and Scrutiny Chairs.

Your new Chief Executive was appointed by Full Council in July 2019.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to you. The following non-audit services were identified/ which were charged from the beginning of the financial year to current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	3,500	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 2018/19 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	6,500	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	30,370	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.

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. None of the services provided are subject to contingent fees.

Action plan

We have identified 7 recommendations for management 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 2019/20 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		The draft financial statements provided for audit contained more misstatements than previous years. A robust management review may have identified and corrected some of these misstatements prior to submission for audit.	Ensure that sufficient time is built into your closedown processes to enable a robust management and quality review to be completed prior to the financial statements being submitted for audit. Management response
2		You were unable to reconcile your general ledger to your fixed asset register. There is a risk that your assets could be materially misstated. Good practice is that this reconciliation should take place on at least a quarterly basis	Reconcile your fixed asset register with your general ledger on a regular basis. Management response
3		Responses to queries throughout the audit were generally not provided on a timely basis. This has a significant impact on the ability to progress the audit on a timely basis and carries increased costs for you. Obtaining information from the wider organisation has been difficult and external audit requests have not always been prioritised. Your finance team has been extremely supportive in seeking to overcome these issues, and have sought to expedite and resolve audit queries with the wider organisation, working in partnership with us. However, when information is requested from other departments, we encounter significant delays.	All officers of the Council need to be reminded that audit queries need to be responded to in a timely manner. The importance of the financial closedown and external audit process should be communicated from the highest level to the rest of the organisation. Management response
4		Your financial reporting on the progress of delivery of savings does not give sufficient explanations of the underlying causal factors which prevented the savings from being delivered.	Your financial reporting should be enhanced by providing more narrative explaining the key factors for savings that have not been delivered. The lessons learned from these factors should then be applied to the setting and delivery of future programmes. Management response

Controls

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

Action plan

We have identified 4 recommendations for management 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 2019/20 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
5	●	<p>Our sample cut off testing from bank statements in April and May 2019 identified expenditure of £97k that related to the 2018/19 year, but the expenditure had not been accrued. The extrapolated error mounts to £378k.</p> <p>Similarly our sample testing of invoices received in April and May 2019 identified £37k of expenditure that related to 2018/19 that had not been accrued. This error extrapolated to £494k.</p> <p>Your cut off procedures need strengthening to ensure that expenditure is coded in the year in which it relates.</p>	<p>All officers of the Council need to be reminded of the importance of coding expenditure to the year in which it relates. Review processes need to be enhanced to identify any potential unrecorded liabilities.</p> <p>Management response</p>
6	●	<p>The Council requires Members to declare any interests at the beginning of meetings and to update their declarations if there are changes to their existing circumstances. These declarations are held in a central database and the Council's website updated accordingly. However, the Council does not have in place an annual declaration form for Members to complete as part of the accounts process.</p> <p>There is a risk that related party disclosures could be missed</p>	<p>All Members should be required to complete a year end declaration of interest.</p> <p>Management response</p>
7	●	<p>Our testing of IT General Controls identified the following findings which have been reported in detail to management:</p> <ul style="list-style-type: none"> Excessive privileges assigned to default accounts in Oracle Generic accounts inadequately controlled Not all key areas are subject to audit logging. Audit logs for high risk areas and key database tables need to be periodically reviewed There are 11 users who can access SQL forms which could potentially be used for changing bank details and passwords There are 36 accounts where the password has not been updated for 45 days in line with the policy A review of users that have unsegregated access across end to end processes Active Directory user passwords are encrypted rather than hashed making them easily decrypted 	<p>Management should respond to the recommendations raised in the IT General controls report.</p> <p>Management response</p>

Controls

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

Follow up of prior year recommendations

We identified the following issues in the audit of your 2017/18 financial statements, which resulted in 4 recommendations being reported in our 2017/18 Audit Findings report

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	X	Our testing of IT General Controls identified breaches of password policies, users with default responsibilities with excessive privileges and a lack of audit logging in Oracle EBC or the Database. There is the risk that passwords are not strong enough and unauthorised access may be gain to the Council's IT systems. The full details of the control findings have been shared with management.	<p>Management Response</p> <p>Since May 2018, the Council has been using Oracle Cloud for finance and e-procurement. Access to the solution is achieved via a single sign-on and therefore for the most part, access is governed by the policies of the access to the main council's system. This area has also been subject to a recent internal audit review on the post implementation of the new solution. This continues to be under review.</p> <p>Auditors Response</p> <p>Our external audit work on the IT General Controls raised similar issues on access controls.</p>
2	✓	<p>Our testing of creditors identified an old creditor account with no activity for more than 5 years. The creditor was investigated and found not to be valid. Whilst it was not indicative of a material error, there risk is that there are other invalid creditors on the creditors ledger.</p> <p>We recommend you review all creditor accounts that have had no activity for more than 6 months and determine whether the creditor remains valid.</p>	<p>Management Response</p> <p>Prior to migration from Oracle EBS to Oracle Cloud Fusion officers undertook a purge of 'inactive' creditors on the system. The regular and routine purge of the AP database will become routine as part of the support model arrangements for the Oracle Cloud solution once the entire integrated solution (including HR and Payroll) goes live in August 2019.</p> <p>Auditors Response</p> <p>Management have undertaken a review of creditor balances and written back those which are over 6 years old. We have not identified any creditors that are older than 6 years in our sample testing.</p>
3	✓	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>Management Response</p> <p>Directorate Management Teams are responsible for the tracking of progress being made in delivering agreed savings proposals. These are also reported in the financial forecast reports which are presented to Members. Go forward, the improved clarity of savings progress is set out in a clearer way in the new financial forecasts report, the most recent one of which has been considered by M&C and the Public Accounts Select Committee on 10th July 2019</p> <p>Auditors Response</p> <p>Savings programmes are now being directly monitored and reported within budget monitoring reports.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations continued

4



Assessment

Issue and risk previously communicated

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.

Update on actions taken to address the issue

Management Response

The new format for the monthly financial forecast report seeks to improve on the clarity of reporting of the spend position. It seeks to state clearly the reasoning for specific budget pressures and sets out the proposed management action or any other intervention being deployed to alleviate those budget pressures. The beneficial impact, in financial terms, of the management action is made clear on the budget pressure position. In addition, officers have introduced a suite of activity information to illustrate the correlation of activity drivers to costs. These improvements are in line with the recently concluded independent Financial Control Review. The new report format has been expressed as part of the Finance Report – Period 2 for 2019/20, which was considered by M&C and the Public Accounts Select Committee at their respective meetings on 10th July 2019.

Auditors Response

There is more granular information included within budget monitoring reports to explain reasons for overspends. To enhance the reports further you need to focus reporting on the mitigating actions to redress the overspend and balance the budgets.

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Assessment

- ✓ Action completed
- ✗ Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<p>1 You revalued your Council Dwellings as at 28 February 2019. You subsequently obtained a revised valuation as at 31 March 2019. The impact of the updated revaluation on your Council dwellings including other trivial adjustments was a decrease of £17,897k to your Council Dwellings Net Book Value balance.</p>	No overall impact on the General Fund Position	Cr Council Dwellings £17,897k Dr Revaluation Reserve £17,489k Cr Provision of services £408k	No impact on General Fund balances position.
<p>2 You revalued your other land and buildings as at 31 January 2019. You subsequently obtained a revised valuation as at 31 March 2019. The impact of the updated revaluation including other trivial adjustments was a decrease of £1,738k to your other land and buildings Net Book Value balance and an increase of £1,616k to surplus assets Net Book Value balance. We are awaiting documentation from the Council in order to fully document the adjustments here.</p>	No overall impact on the General Fund Position	Cr other Land and buildings £1,738k Dr revaluation reserve £1,262k Cr Provision of services £476k Dr surplus assets £1,616k Cr Revaluation reserve £625k Dr provision of services £991k	No impact on General Fund balances position.

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<p>3 The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented.</p> <p>Discussion is ongoing in the sector regarding the potential impact of the ruling and the application for appeal on the financial statements of Local Government bodies.</p> <p>You have requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary have estimated the potential impact on the McCloud judgement as an increase in pension liabilities of £6.4m for London Borough of Lewisham and £0.9m for Lewisham Homes. In addition, the GMP equalisation impact £5.3m for London Borough of Lewisham and £0.2m for Lewisham homes so in total £12.8m impact on your pension liability</p>	Net impact is nil	Credit Pensions Liability £12,800 Debit Pensions Reserve £12,800	Ni impact
4 You identified an accrual which relates to 2018/9 which was incorrectly coded into 2019/20	Debit Children & Young People Directorate Gross expenditure £1,555k	Credit Creditors £1,555	Impact reduced earmarked general fund reserves by £1,555k
5 Lewisham Homes pensions liability was incorrectly included within the Council's accounts where this should just reside within the group		Cr Liability to defined pension schemes £18,512 Dr Pensions Reserve £18,512	

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Disclosure omission	Detail	Adjustment agreed to be made?
Misclassification	The National Non Domestic Rates Unoccupied Property Relief balance of £1,190k within Note 5 of the Collection Fund was included in Discretionary Relief instead of Mandatory Relief. There is no impact on the total reductions and reliefs balance of £17,083k.	✓
Disclosure	The working paper supporting the Minimal Lease payments for Council as a Lessee contained an error in the formula for leases relating to schools. As a result of correcting the error, the payments no later than one year and not later than 5 years were amended from £3,131k to £3,637k and those later than five years were amended from £16,391k to £15,602k.	✓
Disclosure	The working paper supporting the PFI Note 34e contains a formula error that resulted in the incorrect cells from the PFI Model . The amendments are as follows: <ul style="list-style-type: none"> • Brockley HRA interest cost in 2019-20 amended from £7,894k to £3,756k. • Downham Lifestyles interest cost in 2019-20 amended from £3,208k to £1,576k. • Grouped schools interest cost in 2019-20 amended from £6,368k to £3,139k • BSF1 interest cost in 2019-20 amended from £7,782k to £3,824k • BSF2 interest costs in 2019-20 amended from £3,465k to £1,706k • BSF3 interest costs in 2019-20 amended £5,162k to £2,558k • BSF4 interests costs in 2019-20 amended from £10,132k to £4,957k • Street lighting interests costs in 2019-20 amended from £4,681k to £2,322k 	✓
Disclosure	There was an error inputting the HRA Rent Rebate in note 3 to the HRA accounts. The balance of £37,707k was amended to £35,643k.	✓
Misclassification	Testing identified a classification error in short term debtors between other public bodies which was overstated by £1,156k with a corresponding understatement on general debtors.	✓
Omission	You are applying an accruals de-minimis level in accounting for accruals of £5,000, but this was not disclosed within your accounting policies	✓
Disclosure prior year	Collection Fund Account note 3. The prior year collection fund balance for Non Domestic rates were amended as follows: Greater London Authority original £1,442k amended to £2,328k. Central Government original balance of £3,605k amended to £2,721k.	✓

Audit Adjustments

Misclassification and disclosure changes

Disclosure omission	Detail	Adjustment agreed to be made?
Disclosure	An error in your formula within your debtors working papers led to the prior year Long Term debtors per note 14a being understated by £12,392k. The balance of £44,948k per the prior year balance sheet is correct.	✓
Misclassification	The prior year comparators for Collection Fund note 3 require re-statement. The significant amendments were between non Domestic Rates relating to the Greater London authority of £1,442k amended to £2,328k and Central government £3,605k amended to £2,721k.	✓
Disclosure	Note 27a - there are banding amendments required to the remuneration note, with the number of officers included in the £70,000 to £74,999 being increased to 13.	✓
Misclassification	You misclassified income overstating General Government Grants by £28,856k and understating Non Domestic Rates income by the same amount.	✓
Disclosure	Your accounts and accounting policies were not updated for the new International Financial Reporting Standard 9 (Financial Instruments) and International Financial Reporting Standard 15 (Revenue from Contracts and Customers).	✓
Group accounts	PPE is materially different in the group accounts compared with the single entity – there should therefore be a PPE note in the group accounts but there isn't. Code ref 3.4.2.25	✓
Financial instruments	There were a number of disclosure amendments required in your financial instruments disclosure including: <ul style="list-style-type: none"> disclosing cash as a financial instrument; providing a reconciliation of balances to enable readers to agree the financial instruments disclosures back to the balance sheet; and for your LOBOs enhancing the disclosure on the interest rates, disclosing the triggers and the risks 	✓
Omission	You did not include a capital contractual commitments note in the draft statements. Workings provided showed capital commitments of £19.7m. You have now added an appropriate note.	✓

Audit Adjustments

Misclassification and disclosure changes

Disclosure omission	Detail	Adjustment agreed to be made?
Disclosure	The Housing Revenue Account page 73 shows deficit of £7,197k, but in the MIRS the deficit is £14,246k these figures should match.	✓
Disclosure	Note 38 contingent liabilities McCloud note to be removed as you are adjusting your accounts. You also amended the disclosure relating to schools deficits to agree to your workings. The note has been amended to "There are 10 schools with licensed deficit budgets at the year-end, totalling £2.2m. There are 9 schools with local authority loans with a total balance of £2.5m, 4 of which have licensed deficit budgets. Because of the complexities and future uncertainties over the arrangements for dealing with school deficits / loans, some or all of this total of £4.7m may ultimately fall to be met from the Council's General Fund, either in 2019/20 or a later year".	✓
Disclosure page 57	Note 36 states that "In 2018/19, the Council paid £14.0m to the DfE in respect of teachers' pension costs (£12.9m in 2017/18)". However, our review of the Teachers Pensions Return showed that the employer contributions made were £12,457k.	✓
Disclosure 57	The original note 27 showed the Chief Executive remuneration to January 2019 and the exit payment of £185k separately. Our view is that the exit package note at 27c should show these together for the period from the end of October, rather than separately. This has now been corrected.	✓
Disclosure	The Senior Employee salaries note required amending for the following findings: <ul style="list-style-type: none"> The Director of Children's Social Care and Health incorrect. The post was covered by three officers during year so relevant payments need to be split by individual officers. The Acting Executive Director for Resources and Regeneration remuneration for the period he was in post during the year needs to be disclosed. 	✓
Various	There are other amendments that have been made as a result of the audit process (including errors identified by your officers) which we have not needed to detail individually but have impacted on disclosure and presentation of your financial statements.	✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit Panel is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Reason for not adjusting
1 Council tax discount error value of discount overstated by £428k as Council did not process information from resident. This extrapolates to an error of £1,021k	This is an extrapolated error which is not material and so management have taken the decision not to adjust the financial statements.
2 Our sample cut off testing from bank statements in April and May 2019 identified expenditure of £97k that related to the 2018/19 year, but the expenditure had not been accrued. The extrapolated error came to £378k. Similarly our sample testing of invoices received in April and May 2019 identified £37k of expenditure that related to 2018/19 that had not been accrued. This error extrapolated to £494k.	This is an extrapolated error of £872k which is not material and so management have taken the decision not to adjust the financial statements
3 On the bank statements income cut off testing we identified an error of £7.5k of income that relates to 2018/19 that has been coded to 2019/20. This error has been extrapolated across income received in the bank for April and May 2019 to £1.8m.	This is an extrapolated error which is not material and so management have taken the decision not to adjust the financial statements.

Fees

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

Audit Fees

	Proposed fee	Final fee
Council Audit	£148,789	TBC
Total audit fees (excluding VAT)	£148,789	TBC

The fees reconcile to the financial statements. The proposed fees exclude the Place Analytics subscription from 2016/7 to 2018/19 of £26,000 paid in prior years. The final audit fees will be determined following the completion of the audit.

Non Audit Fees

Fees for other services

Fees

Audit related services:

- | | |
|---------------------------------------------------|---------|
| • Certification of Housing Benefit Claim | £30,370 |
| • Certification of Teachers' Pension return | £6,500 |
| • Certification of Housing capital receipts grant | £3,500 |

Total (excluding VAT)	£40,370
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Audit opinion

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

Independent auditor's report to the members of London Borough of Lewisham

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of London Borough of Lewisham (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

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 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The Executive Director Resources and Regeneration's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The Executive Director Resources and Regeneration has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Section 151 Officer is responsible for the other information. The other information comprises the information included in the Annual Accounts, the Member Preface, the Annual Governance Statement, the Written Statements and the Executive Director's Narrative Report, other than the Authority and group financial statements, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit.

Audit opinion

We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Annual Accounts, the Member Preface, the Annual Governance Statement, the Written Statements and the Executive Director's Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Executive Director Resources and Regeneration and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director Resources and Regeneration. Executive Director Resources and Regeneration is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for

being satisfied that they give a true and fair view, and for such internal control as the Executive Director Resources and Regeneration determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Executive Director Resources and Regeneration is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Panel is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

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, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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.

Audit opinion

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 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 2019.

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

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2019. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2019 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 for the year ended 31 March 2019.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature to be inserted]

Paul Grady, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date to be inserted]



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The Audit Findings for the London Borough of Lewisham Pension Fund

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September 2019



Contents



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Section

1. Headlines
2. Financial statements
3. Independence and ethics

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Appendices

- A. Audit adjustments
- B. Audit Opinion

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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Headlines

This table summarises the key findings and other matters arising from the statutory audit of the London Borough of Lewisham Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements:

- give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work is being undertaken on site during June and July 2019. Our findings are summarised on the following pages. We have identified one adjustment to the financial statements that has resulted in a £1.5m increase in the Pension Fund's reported financial Net Assets position. Audit adjustments are detailed in Appendix A.

Our work is nearing completion. As at the date of writing there are no matters of which we are aware that would require modification of our audit opinion (Appendix B) or material changes to the financial statements. Our anticipated audit report opinion will be unqualified.

The outstanding matters include the following items where we are awaiting information from you as at the date of this report:

- receipt of the amended financial statements.

Our work is subject to the following closing procedures which necessarily take place at the end of the audit:

- final senior management and quality reviews and clearance of any queries that may arise from this final process;
- agreement of your management representation letter;
- review of the final set of amended approved financial statements; and
- review of the final Pension Fund Annual Report (the deadline for this is 1 December 2019)

Acknowledgements

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

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit Panel.

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

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Our approach to 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.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter or change our audit plan, as communicated to the Audit Panel in March 2019

Conclusion

We are nearing the completion of our audit of your financial statements and, subject to the satisfactory completion of outstanding matters and queries, we anticipate issuing an unqualified audit opinion, as detailed in Appendix B. We are unable to issue the audit opinion until we have completed our work on the Council's financial statements, the audit of which is in progress.

Our materiality has been updated from our Audit Plan to reflect the draft financial statements and the increase in Net Assets.

	Pension Fund Amount (revised) (£)
Materiality for the financial statements	13,852,000
Performance materiality	9,697,000
Trivial matters	693,000

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

1

The risk that revenue includes fraudulent transactions

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.

Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of your and the Fund's revenue streams, we determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- 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

Therefore we do not consider this to be a significant risk for the Pension Fund.

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Management override of controls

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.

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.

Auditor commentary

We have completed the following work in relation to this risk:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk and unusual journals ;
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions
- review of large and unusual journal entries for the last few periods of the year and year end journals for testing back to supporting documentation.

we have not identified any material issues from our work at this stage that we need to report to you.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>3 The valuation of Level 3 investments is incorrect</p> <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 (£119 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>Auditor commentary</p> <p>We are in the process of completing the following work in relation to this risk:</p> <ul style="list-style-type: none"> evaluating management's processes for valuing Level 3 investments; reviewing 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; Agreeing the valuations to the fund manager confirmations at 31 March 2019; for a sample of investments, testing 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. We are reconciling 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. <p>We have not identified any material issues from our work at this stage that we need to report to you.</p>
<p>4 Incomplete or inaccurate financial information transferred to the new general ledger</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> reviewed 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; and mapped the closing balances from the redundant general ledger (Oracle) to the opening balance position in the new ledger (Oracle Cloud) to assess accuracy and completeness of the financial information. <p>We are satisfied that the data transfer of balances from Oracle to Oracle Cloud was materially accurate and complete.</p>

Significant findings - Going concern

Our responsibility

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

Going concern commentary

Management's assessment process

Management have reviewed the Fund's funding position and cash flows.

Auditor commentary

- The Pension Fund has sufficient assets to meet its liabilities as they fall due over the next 12 months. Local Government Pension schemes are effectively underwritten by the tax payer with deficits financed by increased contributions agreed with the actuary that are financed through Council, Admitted and Scheduled bodies contributions.
- There is no plan by the Ministry of Housing, Communities and Local Government to wind up the London Borough of Lewisham Council Pension Scheme.
- The Pension Fund continues to operate as usual in 2018/19. Contributions and investment income continue to be received as expected.

Work performed

Detail audit work performed on management's assessment

Auditor commentary

- We have reviewed management's assessment that the financial statements are prepared on a going concern basis.
- We are satisfied that there are sufficient assets to meet liabilities as they fall due. The last triennial actuarial valuation also demonstrated an improvement in the funding level to 78%.
- The Council continue to pay deficit funding contributions into the pension fund in 2018/19.
- The fund continues to operate as usual.

Concluding comments

Auditor commentary

- We are satisfied that it is appropriate that the Pension Fund Financial Statements are prepared on a Going Concern basis.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Level 3 investments Page 71	<p>The Pension Fund has investments in:</p> <ul style="list-style-type: none"> HarbourVest £37.6m & M&G £0.7m - private equity/venture capital. By the nature of these investments, publicly quoted prices are unavailable and there is no active market to obtain comparable prices. Values are not based on observable market data, but price based on manager valuations. J.P. Morgan £80.6m - Infrastructure fund Investments will generally be illiquid, and not publicly traded or readily marketable. The adviser to the fund will not have access to readily ascertainable market prices when establishing valuations and there may be a relative scarcity of market comparables. The fund adviser will appoint external appraisers of valuers to determine the FV of assets on at least an annual basis. 	<p>We have completed the following work in relation to this risk:</p> <ul style="list-style-type: none"> reviewed your assessment of the estimate considering the fund managers latest audited accounts for each fund comparing your capital statements to the values at this date. Where the audited financial statements are for a period ending other than 31 March 2019 we have verified any drawdowns or disbursements from the fund, thereby assessing the reasonableness of estimates used; assessed the Fund Managers as experts and reviewed internal control reports where these are prepared; and reviewed the adequacy of disclosure of estimate in the financial statements. <p>We have not identified any issues that will require reporting to you.</p>	 Green
Level 2 investment	<p>The Pension Fund has investments that in total are valued on the balance sheet as at 31 March 2019 at £1.2bn. The investments are not traded on an open exchange/market and the valuation of the investment is subjective.</p>	<ul style="list-style-type: none"> We have triangulated the values in the pension fund accounts to the Fund Manager valuations and independent valuations from the Fund's custodian. These two independent valuations gives us assurance that the Level 2 investment values are materially fairly stated. Whilst comparing the custodian and the Fund Manager report for Partners Group, we identified that the balance in the financial statements was based on the custodian report which was using an outdated valuation. There is a £1.5m variance to the value of the Partners Group's management report as at 31 March 2019. The Pension Fund's reported financial Net Assets position is therefore understated by £1.5m. 	 Amber

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process and key assumptions to be reasonable

Other communication requirements

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

	Issue	Commentary
1	Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Panel. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures..
2	Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
3	Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	Written representations	A letter of representation has been requested from the Pension Fund, which will be included in the Audit Panel papers.
5	Confirmation requests from third parties	We requested from management permission to send confirmation requests to your custodian, fund managers and banks. This permission was granted and the requests were sent. We have received a response from all third parties.
6	Disclosures	Our review found no material omissions in the financial statements.
7	Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.
8	Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We are awaiting the draft Pension Fund Annual report for review. The Annual Report has a later deadline of 1 December 2019.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are set out in the following table

	Proposed fee	Final fee
Pension Fund Audit	16,170	16,170
Total audit fees (excluding VAT)	£16,170	£16,170

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Audit and Non-audit related services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. There were no other services provided to the Pension Fund.

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019. Management has agreed to adjust the accounts for the below misstatement.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000
1 The Investments for Partners Group within the Pension Fund financial statements of £40,307k were based on the custodian report which was using an outdated valuation. There is a £1.5m variance to the value of Partners Group's Fund Managers report as at 31 March 2019. The Pension Fund's reported financial Net Assets position is therefore understated by £1.5m	Credit Change in Market Value of Investments 1,469	Debit Investment assets (other) 1,469	Increase in Net assets by 1,469
Overall impact	£1,469	£1,469	£1,469

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Disclosure / Omission	Detail	Adjustment agreed?
Disclosure	The Individual Investment assets with a market value exceeding 5% of the total fund value required updating. There is no impact on the Net Assets Statement.	✓
Omission	The salary and pensions contributions of the acting Executive Director for Resources and Regeneration needs to be included within the Related Parties note.	✓
Disclosure	The Actuarial Present Value of Promised Retirement Benefits was updated to take into account the revised actuary calculations to take account of the impact of McCloud and GMP indexation. There is no impact on the Fund Account or Net assets Statement.	✓
Omission	The audit fee of £16,170 was not disclosed within the financial statements	✓

Audit Adjustments

Impact of unadjusted misstatements

There are no unadjusted misstatements above our reporting level.

Impact of prior year unadjusted misstatements

There are no adjustments impacting on the prior year.

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report. This is a draft version that will be updated.

Independent auditor's report to the Members of London Borough of Lewisham council on the pension fund financial statements

Opinion

We have audited the pension fund financial statements of London Borough of Lewisham (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement for the year ended 31 March 2019 and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director for Resources and Regeneration's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Executive Director for Resources and Regeneration has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

Other information

The Executive Director for Resources and Regeneration is responsible for the other information. The other information comprises the information included in the Annual, the Narrative Report and the Annual Governance Statement, other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Audit opinion

In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Annual Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Executive Director for Resources and Regeneration and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director for Resources and Regeneration. The Executive Director for Resources and Regeneration is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, which give a true and fair view, and for such internal control as the Executive Director for Resources and Regeneration determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Executive Director for Resources and Regeneration is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit and Performance Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these pension fund financial statements.

Audit opinion

A further description of our responsibilities for the audit of the pension fund financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

London

July 2019

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Agenda Item 6

AUDIT PANEL		
Report Title	Internal Audit Update Report	
Key Decision	No	Item No.
Ward	ALL	
Contributors	Interim Chief Finance Officer	
Class	Part 1	Date: 19 September 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 for 18/19, and
- Progress of implementation of internal audit recommendations.
- Rolling internal audit plan for 2019-20.

2. Recommendations

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

3. Executive Summary

Progress against the corporate internal audit plan 18/19

- 3.1. There are 12 audits still at draft report stage, but their opinions are included in the accompanying Annual Assurance Report for 18/19.
- 3.2. Three audits were cancelled from the 18/19 audit plan due to lack of progress to draft report stage. Two were IT audits, which will now be included in the 19/20 audit plan, and one was a core financial – Main accounting. Any issues found to date in the Main Accounting audit will be included in the 19/20 annual review.
- 3.3. There were two Limited reports issued, and an additional four Limited currently at draft.

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 no follow up reviews completed since the last meeting.

Management progress against actions agreed

- 3.6. The number of overdue corporate actions increased from 45% to 55 % from the last meeting. However, this may be due to the summer holidays, where officers are away.
- 3.7. The number of actions taking over 12 months to implement, has decreased to 29% from a high of 48% at the previous meeting.

Types of controls for corporate audit actions

- 3.8. Overall for the year, procedures and Compliance / Legal controls are where the most actions required from recommendations are made.

Schools – Progress on the 18/19 plan

- 3.9. All school audits are now finalised for the 18/19. There were four school reports issued since the last meeting, with one Limited report.

Schools – Progress on the 19/20 plan

- 3.10. All 24 school audits fieldwork has been completed and the reports are currently being written up. Two school audits have been finalised and all are expected to be issued as draft by the end of September.

School actions

- 3.11. As previously discussed there continues to be a lack of resources to chase schools on their progress on management actions. As such no updates have been received since the last meeting. The position therefore does not reflect the true status of school management actions.

Audit plan

- 3.12. The audit plan for 19/20 consists of 852 days. This is broken down by 145 days for schools, 472 days of corporate audit, 35 days for follow-ups, and 100 days contingency and 100 days management review time.

Any other business

- 3.13. Recruitment to Head of Internal Audit post is not yet complete.

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 an external service provider.

5. Progress against the corporate internal audit plan 18/19

- 5.1. There are 12 audits still at draft report stage as at 31/08/19 and their opinions are included in the accompanying Annual Assurance Report, including four with a Limited opinion. They are:

- 2018/19-07 - Accounts Payable 18-19
- 2018/19-08 - Accounts Receivable and Debt Recovery 18-19
- 2018/19-13 - Budget Setting and Monitoring 18-19
- 2018/19-15 - ASH - Debt Recovery System
- 2018/19-17 - Banking 18-19
- 2018/19-21 - Non-Current Assets 18-19
- 2018/19-22 - Business Rates 18-19
- 2018/19-31 - Council Tax 18-19
- 2018/19-58 - OracleCloud - Financials - Post Implementation
- 2018/19-59 - OracleCloud - HR and Payroll Implementation
- 2018/19-69 - Icasework IT System
- 2018/19-77 - Payments to Adult Care Providers 18-19

5.2. Those audits that were not at draft report stage by 31st of August have been cancelled and brought into the 2019/20 audit plan. They were:

- Main Accounting 18-19 – Cancelled as not enough work done to complete it to draft report stage to be included in the annual assurance report. Any issues found to date will be included in the 19/20 audit.
- New Phone System and BCP – Cancelled from the 18/19 plan, work completed but not to draft report stage. Will include in 19/20 plan.
- Self Service IT Processes - Cancelled from the 18/19 plan, work completed but not to draft report stage. Will include in 19/20 plan.

5.3. Since the last meeting, seven corporate reports were finalised. The table below shows them with the audit opinion, and number or recommendations.

Audit (Corporate)	Date of Final	Audit Opinion	H	M	L	Follow up due
			Recs made			
2018/19-14 - Capital Expenditure 18-19	13/08/19	Satisfactory	1	3	-	n/a
2018/19-25 - Looked After Children – Case Management	20/08/19	Satisfactory	2	2	1	n/a
2018/19-26 - Payments to Child Care Provider and Foster Carers for Looked After Children 18-19	20/08/19	Limited	2	2	1	Yes
2018/19-27 - Client Contribution for Care Provision 18-19	12/08/19	Limited	4	-	2	Yes

Audit (Corporate)	Date of Final	Audit Opinion	H	M	L	Follow up due
			Recs made			
2018/19-28 - Domestic Waste Management	04/07/19	Satisfactory	1	2	-	n/a
2018/19-56 - Homecare Service	13/08/19	Satisfactory	1	5	1	n/a
2018/19-65 - Pooled Budgets and Section 75 Payments	20/08/19	Satisfactory	-	4	2	n/a

5.4. The executive summaries for the Limited reports issued can be found in Appendix 3.

Additional work

5.5. 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. There were no follow up reviews conducted since the last Audit Panel meeting.

8. Progress against Management Actions

Overdue actions

8.1. This section reports on the status of management actions since the last meeting.

8.2. The cut-off date for management to respond by was the 06/09/19 for those due by the 31/08/19.

8.3. 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.

8.4. The number of overdue actions has increased by 10% to 55%, but should be noted that officers may have been off on annual leave when the reminders went out, so missed the reminder. The current overdue position is set out in the table below with more detail by report at Appendix 2.

Month of meeting	Current no. of open actions	No. of overdue actions	Percentage of overdue actions
Sep 19	191	105	55%
Jul 19	151	68	45%
Mar 19	183	80	44%
Dec 18	170	45	26%
Sep 18	164	50	30%

Aged analysis report

- 8.5. The aged analysis report shows how long actions are taking to implement. This age analysis is worked out by using current due date for the 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
Sep 19	82	43	4	6	27	29	56 / 29%
Jul 19	37	15	19	7	31	42	73 / 48%
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%

- 8.6. 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 has decreased to 29% from 48%. This is positive and as noted at the July Audit Panel we are conducting a review to update the position on all actions still open from the 2017/18 year or earlier years to get the up to date risk position. This will be reported to the next Audit Panel meeting. Please see appendix 2 for details.

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. As agreed at the last meeting, the controls will still be reported on, but the detailed appendix will no longer be included. Compliance / Legal and having up to date Procedures are still currently the main control gaps identified.

Type of control	From April to Nov 19	Mar 19	Jul 19	Sep 19	Running Total
Authorisation	-	2	-	-	2
Compliance / Legal	27	-	1	16	44
Financial / Budget Monitoring	3	1	-	4	8
Governance	5	1	7	7	20
Information Security	6	4	7	3	20
IT	-	-	-	2	2
Policies	2	2	1	1	6
Procedures	11	8	10	23	52
Reconciliations	1	-	-	1	2
Separation of duties	-	-	-	-	-
Other	6	2	2	9	19
Total per month	61	20	28	66	175

10. Progress against schools' internal audit plan 2018/19

- 10.1. All school audits for 18/19 are now finalised. Please see below the last four that were finalised since the last meeting. There were four 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
2018/19-16 - Athelney Primary 18-19	24/07/19	Satisfactory	-	13	9
2018/19-52 - Sydenham Secondary 18-19	05/07/19	Substantial	-	8	7
2018/19-54 - Kilmorie Primary 18-19	19/07/19	Satisfactory	1	2	8
2018/19-55 - Trinity All Through School 18-19	12/07/19	Limited	-	20	3

11. Progress against schools' internal audit plan 2019/20

- 11.1. Fieldwork for all the 24 school audits for 19/20 has been completed, with two reports finalised. The rest are currently being written up, and are expected to be issued as draft during September. Please see appendix 4 for the progress on school audits for 19/20.
- 11.2. Conducting the school audit plan in the first two quarters has worked well. The two school reports that were issued are listed below:

Audits (Schools)	Date of Final	Audit Opinion	Recs. Made		
			H	M	L
2019/20-20 - St Mary's Church of England Primary 19-20	08/07/19	Substantial	-	9	2
2019/20-24 - Torridon Primary 19-20	02/09/19	Satisfactory	-	17	1

School actions

- 11.3. There continues to be a lack of resource to chase schools on their progress on management actions. As such no updates have been received since the last meeting.
- 11.4. The position reported below therefore remains the same plus any new actions. We continue discussion with IT to explore options to enable schools to provide their own updates (such as Office 365 / extranet). In the meantime the lack of updates will continue.
- 11.5. The status of the individual schools where actions are overdue can be found at appendix 5.

Month of meeting	Current no. of open actions	No. of overdue actions	Percentage of overdue actions to open
Sep 19	469	393	84%
Jul 19	307	269	88%

School follow up reviews

11.6. There were no school follow up reviews issued since the last report.

12. Audit plans for 2019/20

- 12.1. As stated in the last meeting a more detailed audit plan for members to approve can be found in appendix 1.
- 12.2. The breakdown of the plans (corporate and schools) for 2019/20 consists of 852 days. The breakdown of these days are as plan is as follows:
- 145 days for schools - all conducted by in-house
 - 254 days for core financials – conducted by in-house
 - 35 days for follow ups – conducted by in-house
 - 80 days for Contracts / Procurement specific – 50/30 split in-house / Mazars
 - 57 days for General 42/15 split in-house / Mazars
 - 5 days for grant certification – in-house
 - TBC days (allow for 60 days) for IT assessment- Mazars
 - 16 days b/f IT days transferred from 18/19 - Mazars
 - 100 days contingency
 - 100 management / review days
- 12.3. There are currently 34 confirmed corporate audits to be conducted. However, there will be more when the IT plan is finalised with the Contractor.
- 12.4. There are 24 schools audits to complete.
- 12.5. The current split between in-house and contractor is 531 to 121 respectively, (not including management time or contingency). Any changes to the plan will be reported to the Audit Panel in the usual way.
- 12.6. The contingency days are being held to focus on contract and project assurance work. In particular, project assurance work to support the new change governance arrangements introduced by the Executive Management Team following the 2017/18 value for money conclusion.
- 12.7. Due to the overrun of the corporate plan in 18/19, the productive days for 19/20 are slightly reduced. However, this also means that going forward, audit planning (days wise) will become more accurately and in line with delivery.

13. Any other business

13.1. Nothing further to report.

14. Legal implications

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

15. Financial implications

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

16. Equalities implications

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

17. Crime and disorder implications

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

18. Environmental implications

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

19. Background papers.

19.1. There are no background papers.

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

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

Appendix 1 – Audit Plan (Corporate and Schools) 2019/20

Type	Audit Name	Scope	Days	Start	Link to Risk Register	Conducted by
Core	Accounts Payable 19-20 (Core Financial Audit)	New Suppliers and Bank Amendments, Payments, Reconciliations, Performance Monitoring, and Information Security and Business Continuity	19	Qrt 3	6. Financial Failure and inability to maintain service delivery within a balanced budget	In-house
Core	Accounts Receivable and Debt Recovery 19-20 (Core Financial Audit)	Raising Invoices, Income and Debt Recovery Write-Off's, Reconciliations, Performance Monitoring, and Information Security and Business Continuity	19	Qrt 3	Loss of income - debt collection (9)	In-house
Core	Banking 19-20 (Core Financial Audit)	Transactions Management, Suspense Accounts, Cheque Printing and Security, Reconciliations, Information Security and Business Continuity, and Prepaid Cards Provider Changeover	12	Qrt 3	6. Financial Failure and inability to maintain service delivery within a balanced budget	In-house
Core	Budget Setting and Monitoring 19-20 (Core Financial Audit)	Budget setting, Budget Loading and Virements, and Budgetary Monitoring and Control	10	Qrt 3	6. Financial Failure and inability to maintain service delivery within a balanced budget	In-house
Core	Business Rates 19-20 (Core Financial Audit)	Business Rate Setting, Billing and Liabilities, Discounts and Relief, Collection and recovery action, Refund Journals and Transfers, VO Amendments, Reconciliations, Information security and BCP	12	Qrt 3	9. Loss of income to the Council	In-house
Core	Capital Expenditure 19-20 (Core Financial Audit)	Project approval governance, Monitoring, Compliance with Project Management Handbook, and Lessons Learnt	15	Qrt 3	9. Loss of income to the Council	In-house
Core	Client Contribution for Care Provision 19-20 (Core Financial Audit)	Financial Assessments, Issuing of Invoices, and Deferred Payment Arrangement Scheme	15	Qrt 3	Loss of income - debt collection (9)	In-house

Appendix 1 – Audit Plan (Corporate and Schools) 2019/20

Type	Audit Name	Scope	Days	Start	Link to Risk Register	Conducted by
Core	Council Tax 19-20 (Core Financial Audit)	Council Tax Setting, Billing and Liability, Discounts and Exemptions, Collection and Recovery Action, Refunds, Journals, and Transfers, Valuation Office Amendments, Reconciliations, Information Security and Business Continuity, performance Monitoring and Performance Monitoring.	15	Qrt 3	Loss of income - debt collection (9)	In-house
Core	Direct Payments (Core Financial Audit) 19-20	Setting up a Direct Payment, Payments, Utilisation Monitoring, reviews and budgeting, and Terminations and Recovery of Payments.	15	Qrt 3	9. Loss of income to the Council	In-house
Core	Housing Benefit and Council Tax Reduction Scheme (CTRS) 19-20 (Core Financial Audit)	Applications and Assessments, Reconciliations, - Appeals, Discretionary HB, CTRS Recipients, Amendments, and HB to UC Transition NB – reduced scope if HB goes to DWP.	20	Qrt 3	6. Financial Failure and inability to maintain service delivery within a balanced budget	In-house
Core	Main Accounting 19-20 (Core Financial Audit)	See previous audit for scope	15	Qrt 3	6. Financial Failure and inability to maintain service delivery within a balanced budget	In-house
Core	Asset Management 19-20 (Core Financial Audit)	Asset management, Disposals, Reconciliations, and implementation of oracle cloud asset register.	12	Qrt 3	6. Financial Failure and inability to maintain service delivery within a balanced budget	In-house
Core	Payments to Adult Care Providers 19-20 (Core Financial Audit)	Set up and Review of support Plans, Payments to Providers, and Budgetary Control.	15	Qrt 3	6. Financial Failure and inability to maintain service delivery within a balanced budget	In-house

Appendix 1 – Audit Plan (Corporate and Schools) 2019/20

Type	Audit Name	Scope	Days	Start	Link to Risk Register	Conducted by
Core	Payments to Child Care Provider and Foster Carers for Looked After Children 19-20 (Core Financial Audit)	Assessments, Payments, Budgetary Control, Exception Reporting, and GDPR / DPA	16	Qrt 3	Unforeseen expenditure/loss of income from funding streams (8)	In-house
Core	Payroll 19-20 (Core Financial Audit)	Starters and Leavers, Benefits - Paternity, Maternity and Sick Pay, Payments Amendments, Honorariums and Petty Cash, Deductions to third parties, Teachers Contributions, and Reconciliations	16	Qrt 3	6. Financial Failure and inability to maintain service delivery within a balanced budget	In-house
Core	Pensions for LGPS 19-20 (Core Financial Audit)	S Pension Payments, Transfers in and out of the Pension Scheme, Contributions and Amendments, Reconciliations, Pension Fund Valuations, and Pension Fund Investments	16	Qrt 3	8. Lack of provision for unforeseen expenditure or loss of income in respect of Council's liabilities or funding streams.	In-house
Core	Treasury Management 19-20 (Core Financial Audit)	Regulatory and Management Requirements, Cash flow forecasting , Investments, borrowing and reconciliations, and Performance Monitoring and Reporting	12	Qrt 3	8. Lack of provision for unforeseen expenditure or loss of income in respect of Council's liabilities or funding streams.	In-house
GEN	Schools' Finance	To review the framework, support and advice of the school finance team. - look at how they work out the funding, create the financial regulations and scheme of delegation, and process returns from schools.	12	Qrt 3/4	Unforeseen expenditure/loss of income from funding streams	In-house
GEN	Rogue Landlords	To review the framework of rogue landlords. Including how to identify them, process of resolving issues including any legal action	15	Qrt 3/4	Respond to legislative change (5)	In-house

Appendix 1 – Audit Plan (Corporate and Schools) 2019/20

Type	Audit Name	Scope	Days	Start	Link to Risk Register	Conducted by
GEN	Planning Control	To review the framework of the planning control department	15	Qrt 3/4	Respond to legislative change (5)	In-house
GEN	VAT Audit	To review the controls around claiming and paying VAT	15	Qrt 3/4	Respond to legislative change (5)	Mazars
IT	IT Assessment	To be confirmed. Meeting to be held with specialist auditor and Head of IT	TBC	Qrt 3/4	ICT not fit for purpose/does not meet business needs (2)	Mazars
IT	Office 365 and SharePoint	To review the security and access to office 365 and SharePoint	7	Qrt 3/4	ICT not fit for purpose/does not meet business needs (2)	Mazars
	Oracle HR and Payroll – Post implementation	To review the post implementation of the Oracle Cloud HR and Payroll system	5	Qrt 3/4	ICT not fit for purpose/does not meet business needs (2)	Mazars
IT	LBL IT Strategy	To review the IT Strategy to ensure it is fit for purpose and achievable	8	Qrt 3/4	ICT not fit for purpose/does not meet business needs (2)	Mazars
IT	New Phone System and BCP	To review the new ACD system that is due to be implemented by April 18	7	Qrt 3	ICT not fit for purpose/does not meet business needs (2)	Mazars
IT	Self Service IT Processes	To review the BCP, ease of access and security of the council's self service systems	8	Qrt 3	ICT not fit for purpose/does not meet business needs (2)	Mazars
CON	Contract Monitoring	Select a number of contracts to review how effective contract monitoring is. NB Currently split into four separate reviews.	50	Qrt 2/3	failure to manage suppliers and procurement programmes. (13)	In-house

Appendix 1 – Audit Plan (Corporate and Schools) 2019/20

Type	Audit Name	Scope	Days	Start	Link to Risk Register	Conducted by
CON	Tendering / Procuring contracts and supplier	To review the controls around the tendering / procuring contracts and supplier resilience	20	Qrt 3/4	Failure to manage suppliers and procurement programmes. (13)	Mazars
CON	Lewisham Gateway Development	To review the allocation of contracts and use of ring-fenced funds / grants.	10	Qrt 3/4	Failure to manage suppliers and procurement programmes. (13)	Mazars
GRANT	Supporting Families Grant (TFP) Grant Verification	MHCLG requirement - sample testing of claims	5	Qrt 1-4	Statutory requirement	In-house
Follow Ups	Follow ups reviews on limited reports	Follow up on Limited and No Assurance Reports	35	Qrt 2-4	n/a	In-house

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Type	Dir	Audit Name	Scope	Days	Start	Conducted by
SCH	SCH	Brindishe Green Primary	Procurement, Income, Asset Management, Governance, Banking, Budget Monitoring, Payroll, HR and Information Governance	6	Qrt 1/2	In-house
SCH	SCH	Brindishe Manor	As Above	6	Qrt 1/2	In-house
SCH	SCH	Clyde Nursery	As Above	6	Qrt 1/2	In-house
SCH	SCH	Dalmain Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	Deptford Park Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	Drumbeat Special School	As Above	7	Qrt 1/2	In-house
SCH	SCH	Good Shepherd Catholic School	As Above	6	Qrt 1/2	In-house
SCH	SCH	Holy Cross Catholic Primary	As Above	6	Qrt 1/2	In-house

Appendix 1 – Audit Plan (Corporate and Schools) 2019/20

Type	Dir	Audit Name	Scope	Days	Start	Conducted by
SCH	SCH	Horniman Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	John Stainer Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	Lucas Vale Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	Marvels Lane Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	Myatt Garden Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	Rangefield Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	Rathern Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	Rushey Green Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	Sandhurst Junior (Primary from April 18)	As Above	6	Qrt 1/2	In-house
SCH	SCH	St Augustine's Catholic Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	St Joseph's Catholic Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	St Mary's CE Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	St Stephen's CE Primary	As Above	6	Qrt 1/2	In-house
SCH	SCH	Stillness Infant	As Above	6	Qrt 1/2	In-house
SCH	SCH	Stillness Jnr	As Above	6	Qrt 1/2	In-house
SCH	SCH	Torridon Primary	As Above	6	Qrt 1/2	In-house

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 17-18	Satisfactory	20/04/18		2		1
Accounts Payable 2016-17	Satisfactory	16/03/17		2		1
Accounts Receivable 17-18	Satisfactory	26/06/18		1		1
Adherence to the FOIA and DPA 17-18	Satisfactory	06/02/18		1		
Adherence to the Local Government Transparency Code	Limited	12/10/18	1		2	9
Adult Social Care System - Back up and BCP	Limited	04/04/16			1	
Apprenticeship Levy Spend including Professional Qualifications	Limited	27/09/18	3	3		
Banking 17-18	Satisfactory	22/02/18	1		3	
Budget Monitoring and Setting 2017-18	Satisfactory	05/12/17		2		1
Capital Expenditure 18-19	Satisfactory	13/08/19	1	2		
Client Contributions to Care Provision 16-17	Satisfactory	24/05/17		1		
Complaints (Corporate)	Satisfactory	06/11/18		3		
Data Breach Management	Limited	18/05/17		2		2

Appendix 2 - Status of corporate actions.

Name of Audit (Corporate)	Opinion	Final Report Date	Actions Overdue		Actions taking over 12mth	
			H	M	H	M
Direct Payments 18-19	Satisfactory	23/04/19		1		
Direct Payments 17-18	Satisfactory	22/03/18		1		
Domestic Waste Management	Satisfactory	04/07/19	2	2		
Expenses Reimbursed by Payroll 16-17	Satisfactory	30/01/17		1		
Fostering Arrangements	Satisfactory	14/03/19		7		
Garden Waste Service 2017/18	Satisfactory	05/01/18		2		
Governor Services	Substantial	05/06/18		1		1
Health Visiting	Limited	29/05/18	1	1	1	1
Homecare Service	Satisfactory	13/08/19		5		
Homelessness Applicants 2017/18	Satisfactory	18/05/18		1		
Housing Benefit and Council Tax Reduction Scheme (CTRS) 18-19	Substantial	14/03/19		1		
IT Helpdesk - Shared Services	Substantial	17/05/19				2
Implementation of GDPR	Substantial	04/06/19		4		
Lewisham Services for Schools Website	Substantial	03/03/19		3		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
Looked After Children – Case Management	Satisfactory	20/08/19	1	1		
Main Accounting 17-18	Satisfactory	06/02/18	1	2	1	1
Mobile Devices Contract 16-17	Satisfactory	07/07/17		1		1
Monitoring of Child Care Providers	Limited	17/10/17	1		1	1
Multi-Agency Safeguarding Hub Arrangements 2017/18	Advisory / Consultancy	28/09/17	1	5	1	5
Oracle Cloud - Migration 17-18	No Assurance	02/07/18	1		1	
Parking Contract 2017/18	Satisfactory	27/11/17		1		
Payments to Child Care Provider and Foster Carers for Looked After Children 18-19	Limited	20/08/19	10			
Payroll 18-19	Satisfactory	08/05/19		5		
Pensions 17-18	Satisfactory	15/01/18		1		1
Performance Indicators and Service Planning 17-18	Advisory / Consultancy	21/07/17		1		
Performance Management Framework for Child Social Care (CSC)	Satisfactory	02/07/19		2		

Appendix 2 - Status of corporate actions.

Name of Audit (Corporate)	Opinion	Final Report Date	Actions Overdue		Actions taking over 12mth	
			H	M	H	M
Pooled Budgets and Section 75 Payments	Satisfactory	20//08/19				1
Prepaid Cards 16-17	Limited	17/03/17				3
Public Sector Network 16-17	Limited	01/02/17				1
Recording of Safe Guarding – Section 42 Referrals	Limited	03/07/17		1		7
Recruitment Process	Satisfactory	04/06/19		1		
Schools' Catering Contract 16-17	Limited	03/03/17		3		3
South London and Maudsley NHS (SLaM)	Satisfactory	14/07/15		1		
Special Educational Needs	Substantial	24/06/19		2		
Synergy Application	Satisfactory	19/06/18	1	1		
		Total	26	79	12	44

Payments to Child Care Providers and Foster Carers for Looked After Children – 2018/19

Overall Audit Opinion - Limited

	Process Areas	High	Medium	Low
▲	1. Assessments of Care Providers	1	-	-
▲	2. Payments	3	-	1
★	3. Budgetary Control	-	-	1
★	4. Exception Reporting	-	-	-
▲	5. GDPR/DPA	1	-	-
	Total	4	-	2

Key ★ Substantial ● Satisfactory ▲ Limited ■ No Assurance

Introduction

The background for this internal audit is included in the Terms of Reference at the end of this report. The findings in this report are by exception. This means only those areas where further management action is required to improve internal control are mentioned. This internal audit is limited assurance due to the contracts with Semi-Independent providers not being in place and the continued issues with the retention of contracts, the monitoring of providers and the recovery of outstanding cost volume discounts.

Assurance Opinion and Recommendations Made

Payments to Child Care Providers and Foster Carers for Looked After Children has been assigned a rating of Limited. (Satisfactory in 2017/18)

To improve controls, recommendation are agreed by management. The number of recommendations and the categories of these were:

- 5 High Recommendations (Three of which are re-occurring)
- 2 Low Recommendations

Key Findings

- Contracts with Independent Fostering Agencies (IFAs) were held as hard copies with the Legal team. When testing not all IFA contracts could be obtained, (Re-occurring.)

Appendix 3 – Limited Executive Summaries

- There is a formal Quality Assurance (QA) sheet that should be completed when providers in the Preferred Provider Framework (PPF) are being monitored. Despite this, providers were not being monitored regularly if at all. When examining five providers it was established that zero QA sheets could be obtained and that these providers were not inspected, (Re-occurring.)
- Limited action had been taken to pursue cost volume discounts (CVD) provided for under the Preferred Provider Framework contract, with only £2,789 being collected on the outstanding £263,113.06 detailed in the 2017/18 audit report. (Re-occurring.)
- The Council was out of contract with semi-independent providers, although an informal agreement could be found in the Invitation to Tender (ITT).
- Some payment decisions are made outside of panel meeting. These payment decisions were not documented, therefore in some cases payment alterations to care providers could not be supported.
- Letters updating care providers on Data Protection Act (DPA) 2018 and General Data Protection Regulation (GDPR) requirements had not been sent to 17 of the 19 IFA providers. Similarly, none of the IFA's had returned the required "Data Processor GDPR Compliance Assurance Statement".

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Areas that worked well

- The constituents of the PPF have been suitably authorised at Mayor & Cabinet.
- The PPF meet the eligibility criteria established in the Business Questionnaire which can be located in the appendices of each contract.

Client Contribution for Care Provision 2018/19

Overall Audit Opinion - Limited

	Process Areas	High	Medium	Low
▲	1. Financial Assessments	1	3	2
▲	2. Issuing of Invoices	1	2	-
▲	3. Deferred Payment Arrangement Scheme	3	3	-

Key ★ Substantial ● Satisfactory ▲ Limited ■ No Assurance

Introduction

The background for this internal audit are included in the Terms of Reference at the end of this report. The findings in this report are by exception. This means only those areas where further management action is required to improve internal control are mentioned.

Basis of Opinion

Audit testing has identified a number processes that puts at risk the service objective of issuing accurate invoices for care provision to all eligible service users. Due to this the audit has been given a Limited Assurance opinion.

The process areas that impacted upon the assurance opinion were the identification of clients that require a financial assessment and the actual issuing of invoices to service users.

Audit testing established that not all service users were having a financial assessment. In addition, financial assessments for non-residential service users took place after they started receiving care.

The Council implemented a new financial management system, Oracle Cloud in May 2018. However, the finance system was not set up with a four-weekly billing function. As a work around, clients assessed contributions are stored on a spreadsheet and uploaded to Oracle Cloud to issue invoices. The approximate value of contributions billed to clients on a four weekly basis is £1,000,000. As client contributions are not stored on a secure software application with daily backups, it puts at risk a large amount of Council revenue.

Client charging is an IT project designed to automate some of the processes involved in conducting financial assessments and issuing invoices to service users. Client charging was due to go live on ContrOCC (Adult social care finance system) on the 28/05/2018. However, the implementation did not go ahead as planned. At present there is no planned date for the implementation of client charging.

Appendix 3 – Limited Executive Summaries

Assurance Opinion and Recommendations Made

Client Contribution for Care Provision 2018/19 has been assigned a rating of Limited.

To improve controls, recommendations are agreed by management. The number of recommendations and their categories were:

5 High recommendations,

8 Medium Recommendations, and

2 Low Recommendations (Of these one was raised in the previous audit).

Key Findings *indicates reoccurring recommendation

- Review of 25 service users with an active care plan on LAS and no financial assessment identified eight were not exempt from a financial assessment.
 - Due to a migration issue with Oracle Cloud in May 2018 approximately 400 service users were not invoiced their assessed four weekly contribution. In addition, as Oracle Cloud does not have a 4-weekly billing functionality, service users assessed client contributions are stored on a spreadsheet instead of being held on a secure software application.
 - Testing of four Deferred Payment Agreements identified that an equity limit had not been calculated, as required by the Care Act statutory guidance. In addition, interest on deferred payments has not been calculated and added to the service user account.
 - Of four Deferred Payment Agreements (DPA) tested, one service user did not meet the eligibility criteria for a DPA.
 - Four weekly invoices sent to Deferred Payment Agreement service users, are not split between their assessed contribution and deferred charges for that period. In addition, two service users with the Money Management team are not having their assessed contributions paid.
 - Of 26 financial assessments tested, the data used for three did not agree to the source documents and/or treatment of capital, income and expenses as documented in the Council policy.
 - Examination of three informal reviews identified the review was not carried out by an officer independent of the disputed financial assessment, as required by Council policy.
 - Review of 14 service users that received care from the Council for the first time identified eight had a financial assessment completed after the start of their care plan.
 - Invoice requests forms are printed on paper and hand delivered to the Income and Payment team instead of being communicated electronically.
 - Of 26 service users tested, two were issued inaccurate invoices.
 - Deferred Payment Agreement service users are not being sent six-monthly statements, as required by the Care Act statutory guidance.
 - Of four Deferred Payment Agreement service users tested, one did not have up to date building insurance on file.
 - Of four Deferred Payment Agreements tested, only one service user was charged an annual administration fee.
-

Areas that worked well

- A comprehensive Charging and Financial Assessment policy has been developed and published on the Council website.

Appendix 3 – Limited Executive Summaries

- Review of 26 client financial assessments identified that financial data was obtained from independent sources including the DWP system (CIS), housing benefit system and council tax system. Where applicable, service users were requested to forward additional information.
- An uplift of client contributions is conducted annually. A sample review identified that service users are notified of the change of contribution in writing.
- Review of 15 one off invoice request forms and 22 periodic request forms identified the amount billed to the service user agreed to the request form and ContrOCC.

Review of four Deferred Payments Agreements established a legal charge was placed on the service user property as security.

Appendix 4 Progress on the Schools' Audit Plan for 2019/20

Audit	Status	Report date	Assurance opinion	H	M	L
2019/20-24 - Torridon Primary 19-20	Final	02/09/19	Satisfactory	-	17	1
2019/20-20 - St Mary's Church of England Primary 19-20	Final	08/07/19	Substantial	-	9	2
2019/20-17 - Sandhurst Primary 19-20	At Review Stage					
2019/20-07 - Good Shepherd Catholic Primary School 19-20	At Review Stage					
2019/20-01 - Brindishe Green Primary 19-20	Fieldwork End					
2019/20-02 - Brindishe Manor Primary 19-20	Fieldwork End					
2019/20-03 - Clyde Nursery 19-20	Fieldwork End					
2019/20-04 - Dalmain Primary 19-20	Fieldwork End					
2019/20-05 - Deptford Park Primary 19-20	Fieldwork End					
2019/20-06 - Drumbeat Special School 19-20	Fieldwork End					
2019/20-08 - Holy Cross Catholic Primary 19-20	Fieldwork End					
2019/20-09 - Horniman Primary 19-20	Fieldwork End					
2019/20-10 - John Stainer Primary 19-20	Fieldwork End					
2019/20-11 - Lucas Vale Primary 19-20	Fieldwork End					
2019/20-12 - Marvels Lane Primary 19-20	Fieldwork End					
2019/20-13 - Myatt Garden Primary 19-20	Fieldwork End					
2019/20-14 - Rangefield Primary 19-20	Fieldwork End					
2019/20-15 - Rathfern Primary 19-20	Fieldwork End					

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Appendix 4 Progress on the Schools' Audit Plan for 2019/20

2019/20-16 - Rushey Green Primary 19-20	Fieldwork End					
2019/20-18 - St Augustine's Catholic Primary 19-20	Fieldwork End					
2019/20-19 - St Joseph's Catholic Primary 19-20	Fieldwork End					
2019/20-21 - St Stephen's Church of England Primary 19-20	Fieldwork End					
2019/20-22 - Stillness Infant 19-20	Fieldwork End					
2019/20-23 - Stillness Junior 19-20	Fieldwork End					

Appendix 5 – Schools' Progress on Recommendations

Name of Audit (Schools)	Opinion	H Actions Overdue	M Actions Overdue
Addey and Stanhope Secondary 18-19	Satisfactory	1	13
Athelney Primary 18-19	Satisfactory		23
Baring Primary School 2017-18	Satisfactory	3	9
Beecroft Garden Primary School 2017-18	Satisfactory		6
Bonus Pastor Catholic College 18-19	Limited	15	28
Brent Knoll School 2017-18	Satisfactory		3
Chelwood Nursery School 2018-19	Satisfactory		7
Conisborough College 18-19	Limited	5	17
Deptford Green Secondary 18-19	Limited	4	13
Edmund Waller Primary 18-19	Satisfactory		16
Elfrida Primary School 2017-18	Satisfactory		12
Fairlawn Primary 18-19	Substantial		1
Forest Hill School 2015-16	Satisfactory		2
Forest Hill Secondary School 18-19	Satisfactory		11
Forster Park Primary 18-19	Satisfactory	4	10
Holbeach Primary School 2018-19	Substantial		8
Horniman's School 16-17	Satisfactory		1
Kelvin Grove Primary School 2017-18	Substantial		2
Kender Primary School 2018-19	Satisfactory	2	13
Kilmorie Primary 18-19	Satisfactory	2	8
Launcelot Primary 18-19	Satisfactory		9
New Woodlands School 17-18	Substantial		2
Prendergast - Hilly Fields 2015-16	Satisfactory		2

Appendix 5 – Schools’ Progress on Recommendations

Prendergast Ladywell 18-19	Substantial		10
Prendergast School (Secondary) 18-19	Satisfactory	4	10
Prendergast Vale School 18-19	Substantial		4
Sandhurst Infants School 16-17	Substantial		2
Sandhurst Junior School 16-17	Satisfactory		1
Sedgehill Secondary 18-19	Satisfactory	3	11
Sir Francis Drake Primary School	Substantial		8
St Augustine's Catholic Primary School	Substantial		1
St James Hatcham CE Primary School 2017/18	Satisfactory		16
St Margaret's Lee CE Primary 18-19	Substantial		1
St Mary Magdalens Primary School 18-19	Satisfactory	3	26
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
Sydenham Secondary 18-19	Substantial		6
Torridon Primary School 18-19	Satisfactory		1
Trinity All Through School 18-19	Limited		25
Watergate (special) 18-19	Substantial		1
TOTAL		33	274

Trinity All Through School 18-19 - 55

Overall Audit Opinion - Limited

	Process Areas	High	Medium	Low
▲	4. Procurement	-	6	-
▲	5. Income	-	3	-
▲	6. Asset Management	-	2	-
●	7. Governance	-	3	2
▲	8. Budget Monitoring	-	2	-
▲	9. Banking	-	2	-
●	10. Payroll	-	1	-
●	11. HR	-	1	1
★	12. Information Security	-	-	-
	Total	0	20	3

Key ★ Substantial ● Satisfactory ▲ Limited ■ No Assurance

Introduction

The background for this internal audit are included in the Terms of Reference at the end of this report. The findings in this report are by exception. This means only those areas where further management action is required to improve internal control are mentioned.

Basis of Opinion

A Limited Assurance opinion has been given since internal controls in key areas were not operating fully. For the first eight months of the financial year 2018/19, bank reconciliations could not be completed due to accounting errors and manual adjustments on the finance system, Wauton Samuel. In addition, there was no evidence that monthly budget monitoring took place as required, since no budget reports (including forecasting) were retained. Bank reconciliations and budget monitoring are significant risk areas which impact the School's financial management.

Trinity All Through School 18-19 has been assigned a rating of Limited. The previous opinion from 2015-16 was Satisfactory.

To improve controls, recommendations are agreed by management. The number of recommendations and their categories were:

20 Medium Recommendations, of these 6 were made in the previous report, and
3 Low Recommendations.

Key Findings *indicates reoccurring recommendation

- * Bank reconciliation for the first eight months of 2018/19 could not be completed due to accounting errors and manual adjustments which were not documented.
- * One new starter had only one reference obtained.
- * Register of Interest forms were not completed by two governors and one employee with financial management responsibilities.
- * Testing of nine purchases with a purchase order identified five were raised and authorised after the invoice date and one was not dated. In addition, one purchase order was raised and authorised by the same officer.
- * There was no evidence that payroll reconciliations for the period January to December 2018 had been completed.
- * Three higher value purchases did not have a sufficient number of quotations as required by the School financial management policy.
- A Debt Recovery policy was not documented.
- Evidence of authorisation for the disposal of one laptop could not be provided. In addition, the asset disposal policy had not been recently reviewed.
- Evidence that budget monitoring was discussed was not provided.
- Of a sample of 15 invoices, four were not paid within 30 days.
- One item of expenditure for £150,000, was not entered under the correct expenditure code on the finance system.
- Review of procurement card purchases identified a number of purchases were not for the benefit of the school or pupils. These included purchases of flowers and alcohol.
- Seven purchases had no evidence of a goods / services received check.
- System reports detailing income and expenditure were not available to evidence the financial information presented to the Resource Committee.
- The 2018/19 budget, was not signed and submitted to the Local Authority until 13/06/18, which is after the Local Authority deadline of 01/05/18.
- The annual stock take of the Asset Register was not carried out in the past year. Inspection of three assets identified they were not security marked as property of the School. Portable attractive items were not included in the Asset Register.
- The lettings procedures do not include an approved schedule of charges.
- There was no evidence of an IR35 assessment for two individuals paid off payroll.
- Three lettings did not have a completed application form, nor did they have evidence of third party insurance on file.
- While the school is intending to move to a new finance system, it was not clear that advice from the Schools' Finance team had been obtained to ensure the figures were correct, due to the accounting issues that occurred during the year.

Areas that worked well

- The Governing Body and Resource Committee met regularly and decisions were recorded.
- Starter and leaver forms were authorised.
- HR documentation evidencing the right to work in the UK, and DBS checks were retained on employee HR files.
- The Schools data is backed up daily through a third party and is encrypted.