



AGENDA AUDIT PANEL

Date: TUESDAY, 6 DECEMBER 2022 at 7.00 pm

**Council Chamber
Civic Suite
Lewisham Town Hall
London SE6 4RU**

**Enquiries to: Claudette Minott
Telephone: 0208 314 3417 (direct line)**

COUNCILLORS

Councillor Eva Kestner (Chair)
Councillor Sakina Sheikh
Councillor James Rathbone
Councillor Rudi Schmidt
Councillor Liam Shrivastava
Councillor Carol Webley-Brown

Members are summoned to attend this meeting

**Kim Wright
Chief Executive
Lewisham Town Hall
Catford
London SE6 4RU
Date: 28 November 2022**

ORDER OF BUSINESS – PART 1 AGENDA

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Agenda Item 1

AUDIT PANEL		
Report Title	Minutes	
Key Decision		Item No. 1
Ward		
Contributors	Chief Executive	
Class	Part 1	Date: 6 December 2022

Recommendation

To approve the minutes of the meeting of the Audit Panel held on the 21 June 2022.

MINUTES OF THE AUDIT PANEL

Tuesday, 21 June 2022 at 7.00 pm

PRESENT: Councillors Eva Kestner (Chair), James Rathbone, Rudi Schmidt, Liam Shrivastava and Carol Webley-Brown

1. Election of Chair and Vice Chair

Councillor Eva Kestner was nominated and elected as Chair of the Audit Panel for the Municipal Year 2022/23.

Councillor was nominated and elected as Vice Chair for the Municipal Year 2023/24

2. Minutes

The minutes of the last meeting were agreed as an accurate record

3. Declarations of Interest

Stephen Warren declared the following interest, stating:

He is a consultant for Public Sector Audit Appointments Ltd that appoints the Council's external auditor, advising on matters relating to the impact of changes in auditing standards. He stated that he has also advised on matters relating to the financial evaluation of tenders and tender documentation- these matters are all of a general nature and not specific to the appointment of Auditors that the Council.

4. Statement of Accounts 2021/22 Update & External Audit

The report provided an update to Member on the preparations for the 2021/22 closing of accounts and statutory external audit processes; provided Members with the management action responses to the auditor recommendations made as part of the 2020/21 external audit; discussed the key risks for the 2021/22 accounts; and discussed the 2021/22 Audit Plan produced by Grant Thornton.

The Chief Accountant presented this item and discussed the report as follows:

Statement of Accounts update

The Council are working to prepare draft accounts by 30 June 2022 and publishing audited accounts by 30 November 2022. Once submitted, they will also be published on the Council website and the statutory public inspection period will be between July and August. The final audit is scheduled to take place between July and November 2022, with publication of the final accounts by 30 November 2022.

Recommendations as part of the Audit Findings Report

This section of the report was summarised in Appendix A. A lot of the actions were proposed to be closed, subject to an external audit review later in the year. the

following recommendations were discussed: the bank reconciliation work done for schools, which had vastly improved this year and the recommendations were met; un-presented cheques-a regular review is required to ensure that all cheques over 6 months are stopped as part of business as usual; section 106 grants- there was an issue last year regarding the classification of those and work had been undertaken to ensure that there is reconciliation between the Section 106 recording system (Exacom) to the ledger on an agreement by agreement basis; starters returning signed contracts; lastly, the set up of the general ledger is not conducive for financial reporting and Northern Trust t have agreed to amend the data they provide so that it is in line with the Oracle coding structure which would result in far less manual adjustments being required.

Audit Risk Assessment and Audit Plan

This section of the report was included in Appendix B. the Grant Thornton representative summarised the report findings highlighting the risks identified for the audit of the financial statements. He discussed the following:

He discussed the two mandatory risks of every audit; the presumed risk of fraud in every revenue recognition which is limited in nature and the risk of management override of controls- the work to be done on the Council's journals, will address this risk in the Audit.

The valuation of land and buildings is an inherently risky item because it is significantly material and subjective in terms of informed estimates. The Plan in the report also covered the pension fund with the biggest risks being the valuation of level 3 investments. They are not publicly listed and therefore more prone to inherent risks of misstatements. Grant Thornton will undertake work to ensure they are materially accurately stated, as they have in previous years.

The value of infrastructure assets within the financial statements was also discussed. There will be a follow-up this year of what the requirements for assessing the significance of this risk and Grant Thornton will document their understanding of the management process for derecognising infrastructure assets.

The materiality for the Council this year is £17.2m, slightly lower than last year. triviality is £0.86m- this means that any error that is under this figure would be considered trivial, but anything between these two figures would be reported to the Panel. The materiality for the Pension Fund remains stable at £16m.

It was asked what Grant Thornton's opinion was on cut-off test, and whether the Council is in a position where they are comparable to other authorities. Grant Thornton responded that they are still a little behind other local authorities but can offer an update after the cut-off testing work in the summer.

RESOLVED the report was noted.

5. Value for Money 2020/21

Grant Thornton presented this report. The report was summarised as follows:

This was the first year that the Council's VFM work had been considered under the new Code of Practice of the National Audit Office. Auditors are to provide comment on financial sustainability, governance and improving economy efficiency and effectiveness. Across these areas, no significant weaknesses in the Council's arrangements had been identified. Some improvement recommendations were identified, which built on the existing arrangements the Council has in place.

In terms of financial resilience, it was said the Council managed its finances well in 2021, reporting a small overspend. The key areas of improvement were, continuing the work in understanding activity and associated costs of general fund placements, and also educational needs and disability costs across the Children and Young People's directorate. Systems used by social care staff are also being improved.

Grant Thornton found good governance arrangements in place that are being properly adapted by the Council as a response to the pandemic.

It is recommended the Council streamline and centralise risk management processes, making it more consistent across the Council. They also recommended more reporting on the actions and progress on the Council subsidiaries, Lewisham Homes and Catford Regeneration Partnerships Ltd.

It was asked that, as we are now at 10% inflation, to what degree does the rise affect the recommendations from Grant Thornton on VFM, particularly around sustainability and the Council's ability to deliver savings, when costs in all areas are going to be increasing. The response was that it would be a part of their considerations that they would like to see a dynamic response from the Council in reprioritising the necessary areas as cost pressures rise and how realistic the plans are in response to that.

It was also asked how does Lewisham's financial resilience compare to other Councils. The response was that there was not too much concern in a period of stability and Lewisham is relatively well placed to weather the increased uncertainty that is coming its way.

RESOLVED the Panel noted the report.

6. Internal Audit Annual Report 2021/22 and Progress Update

The Head of Assurance presented this report which outlined his annual opinion for the year 2021/22 on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control. He summarised the report, stating the following:

He stated he was satisfied that the internal audit service has had complete and unfettered access to people and properties throughout the year so the work has not been restricted. The audit service has acted with independence throughout the year. In the coming year, he will be looking at how this differs to the Head of Audit's role as he undertook this role a lot later. He is also satisfied that the work done this year has met the necessary standard as required.

Internal Control

He was satisfied that during the year ended 31 March 2022 the Council managed its internal controls to offer satisfactory assurance on their adequacy and effectiveness. He noted some persistent control weaknesses in the operation of control account reconciliations, procedural documentation and evidencing control function. He added that these matters were discussed with the Council's EMT and recommended they be included within the Annual Governance Statement along with a plan to improve compliance.

Framework of Governance

He was satisfied with Council's framework of governance for the year. He thanked Members of this Panel and the Council's Executive Management Team for their efforts in supporting compliance with fulfilling agreed actions arising from audit report.

Risk Management

He was satisfied with the risk management arrangements at the Council for the year ended 31 March 2022 are effective and provide satisfactory assurance. He stated there was room to develop the Council's risk approach to include its reporting, comprehensiveness and integration with wider decision-making. He had discussed these matters with the Council's EMT and recommended they be included within the Annual Governance Statement.

There were a relatively high number of process engagements by the year end 2021 but there was nothing underlying that would alter his opinion. The work is progressing well.

Commenting on Quality Assurance and Improvement Programmes in the audit service, the Head of Assurance identified a range of areas to improve both actual conformance and how we document to demonstrate conformance: greater emphasis on planning; shorter, more specific actions; and new reporting templates.

The special investigation work carried out by A-FACT covers allegations involving employees, contractors, business rates, grants, blue badges and financial irregularities within or against the Council. Housing investigation work covers fraudulent applications and the team conduct investigations into subletting on behalf of our partners Lewisham Homes and several RSLs. The team had also supported different teams in setting up and processing the various grants available during the pandemic. The aim was to ensure that while monies were distributed to businesses as soon as possible, it was within the framework of fraud controls. A full account of this work will be available in September as the work is currently still ongoing.

It was asked what structure were in place to ensure prevention of fraud as opposed to reactive reporting of anti-fraud work. Core risk-assessments will continue to be carried out throughout the year ahead of new initiatives and promote whistle-blowing services.

RESOLVED the Panel noted the report.

7. Internal Audit External Quality Assessment

The Head of Assurance introduced this report. The report set out the conclusions of the City of London Corporation-led external quality assessment of the Councils internal audit service's conformance with Public Sector Internal Audit Standards.

The Head of Audit for the City of London presented and summarised the report. The assessment concluded that Lewisham generally conforms to the Standards. He had assessed against 145 criteria and Lewisham's internal audit function conforms to 132 of those.

It was also observed that Internal Audit has good engagement with the Executive Management Team; reporting regularly on the outcomes of Internal Audit work and, from stakeholder consultation, it was established that the function is well regarded. Some challenges around management implementation of Audit recommendations were identified and it was advised that the Head of Assurance may wish to consider introducing a more robust challenge and escalation as part of the Audit follow-up process.

The Head of Assurance stated he will report his self-assessment of conformance with the standards at a future meeting.

RESOLVED the Panel noted the report.

8. Corporate Risk Register Update and Safeguarding Risks Review

The Head of Assurance presented and summarised this report. The following was discussed.

The current Risk Management Strategy runs from 2017-2022. A refreshed Risk Management Strategy is currently being worked on with the key areas of improvements being: Increased currency to risk reporting information; more available information in more useable reporting; easier information management; a comprehensive overview of risk at the Council.

A revised Risk Management Strategy will come to the December Panel meeting.

Referencing the risk register in the appendix to the report, it was asked if there will be some mitigation plan in response to the risks 1B1 and 4A2 which increased from Amber to Red.

The Panel agreed to have these two risks brought to a future meeting (December) to be interrogated further, where the risk owners would issue a response.

The Safeguarding Board Manager presented the Adult Safeguarding Risk Review appendix. He discussed the following:

He highlighted the role of the Adult MASH- to provide a timely and consistent approach to the management of safeguarding concerns relating to vulnerable adults in Lewisham, and the decision to progress to a Section 42 Safeguarding Enquiry. It was created in June 2021 and was the biggest change to adult

safeguarding procedures. They had also been a recent change in management, so it can be said that the MASH team are still settling in.

The report highlighted the several safeguarding enquiries linked to adult mental health in Lewisham and the Council received a higher number of safeguarding enquiries compared to other boroughs. The enquiries are delegated to different teams- Risk Assessment- the MASH will triage to determine whether to refer it for enquiries under the London ADASS safeguarding adult's procedures; Section 42 Enquiry, Neighbourhood, AWLD, Safeguarding Quality assurance Services; and Case closure- the responsible team coordinating the safeguarding enquiries will complete the case closure and making safeguarding personal questionnaire which is completed with the adult at risk at the conclusion of the enquiries.

There is a series of audits delivered within each of the calendar years and a wider programme of audits enacted within a 2 to 3 year period. CQC will recommence inspections of Local Authority Adult Social Care departments which will take place annually.

The annual assessment of overall performance has just been completed. Some work improvements need to be done on the closure stage of safeguarding enquiry work. Training and the amendment of IT systems also needs to be strengthened. All services and workers at all levels are expected to participate in the planning and implementation of a series of thematic audits, aligned with the statutory functions of ASC, and ongoing quarterly audits alternating between practice standards and safeguarding, aimed at promoting a culture of openness and continuous self-assessment and improvement.

Members commented that there was not enough detail about preparation and mitigation work and the impact of when a safeguarding failure occurs in the report. The presenting officer responded that much of that work, including reviewing, is ongoing so they could not be detailed in the report. It was also asked if the audit looks at how the Council communicates with vulnerable adults. The officer responded that individual cases and needs must be taken into account. Equality duty and engagement are key components of adult safeguarding and are reviewed alongside advocacy.

It was asked what recommendations came forward from the internal peer review. As the information was not at hand for the meeting, it was agreed that there would be follow-up from the adult-safeguarding team

RESOLVED the report was noted.

9. Audit Panel Work Programme

The Head of Assurance presented this report.

It was agreed that a report summarising the changes on guidance for auditors from CIPFA would be brought to the next Panel meeting.

It was also suggested and agreed that the work programme shows links to the Panel's Terms of Reference in future.

RESOLVED the report was noted.



Audit Panel

Declarations of Interest

Date: 6 December 2022

Key decision: No

Class: Part 1

Ward(s) affected: All

Contributors: Chief Executive

Outline and recommendations

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

1. Summary

1.1. Members must declare any personal interest they have in any item on the agenda. 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.

1.2. Further information on these is provided in the body of this report.

2. Recommendation

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

3. Disclosable pecuniary interests

3.1 These 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.

4. Other registerable interests

4.1 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.

5. Non registerable interests

- 5.1. 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).

6. Declaration and impact of interest on members' participation

- 6.1. 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 not 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**
- 6.2. 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 6.3 below applies.
- 6.3. 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.
- 6.4. 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.
- 6.5. 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.

7. Sensitive information

- 7.1. 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.

8. Exempt categories

- 8.1. 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).

Report author(s) and contact

For further information about this report please contact:

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Law, Corporate Governance & Elections

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Audit Panel

Report title: Grant Thornton Audit Findings and Annual Reports 2021/22

Date: 06 December 2022

Key decision: No.

Class: Part 1

Ward(s) affected: All

Contributors: Executive Director of Corporate Resources

Outline and recommendations

The purpose of this report is to:

- Note the draft Audit Findings Report 2021/22 from Grant Thornton following the external audit of the Council's Statement of Accounts and Pension Fund Accounts.
- Note the Auditor's Annual Report (VFM) 2021/22 from Grant Thornton
- Recommend delegation to the Chair of the Audit Panel, in conjunction with the Section 151 Officer, to agree the final reports for submission to Full Council.

Lateness: This report was not available for the original despatch date as officers were delayed by the ongoing audit queries and the need to incorporate the latest audit changes into the documents now being submitted.

Urgency: It is important for the Audit Panel to take the report now as it will enable the audited accounts to be approved by Full Council on 18 January 2022.

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

1. Summary

- 1.1. The purpose of this report is to present the draft Audit Findings Report 2021/22 from Grant Thornton, the Councils' external auditors, following their audit of the Council's Statement of Accounts and Pension Fund Accounts 2021/22.
- 1.2. The purpose of this report is also to present the Auditor's Annual Report (VFM) 2021/22.

2. Recommendations

- 2.1. The Audit Panel is recommended to note the contents of the report and approve delegation to the Chair of the Audit Panel, in conjunction with the Section 151 Officer, to agree the final reports for submission to Full Council.

3. Policy Context

- 3.1. The report is consistent with the Council's policy framework, supporting the priorities set out in the Corporate Strategy 2022-26. It contributes towards all Council priorities through effective management of finance.

4. Audit Progress Report

- 4.1. Grant Thornton, the external auditors for London Borough of Lewisham Council and Pension Fund will present their draft Audit Findings Report for 2021/22.
- 4.2. The recommendations, subject to review and agreement by management, will then be added to the action tracker for progress, with their implementation to be reported on as part of the Audit Panel standing agenda item.
- 4.3. This is included within Appendix A.

5. Auditor's Annual Report 2021/22

- 5.1. Grant Thornton, the external auditors for London Borough of Lewisham Council and Pension Fund will present the Annual Report for 2021/22. This covers the Value for Money (VFM) work required as part of the overall audit which was conducted by the auditors alongside completion of the Council's Statement of Accounts, Pension Fund Accounts and Annual Governance Statement audit.
- 5.2. The recommendations, which are accepted by management, will be added to the action tracker for progress, with their implementation to be reported on as part of the Audit Panel standing agenda item.
- 5.3. This is included within Appendix B.

6. Financial implications

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

7. Legal implications

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

8. Equalities implications

- 8.1. There are no equalities implications directly arising from this report.

9. Climate change and environmental implications

- 9.1. There are no climate change and environmental implications directly arising from this report.

10. Crime and disorder implications

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

11. Health and wellbeing implications

- 11.1. There are no health and wellbeing implications directly arising from this report.

12. Report authors and contact

- 12.1. Paul J Jacklin, Senior Manager, Public Services, Grant Thornton UK LLP, 020 7728 3263, Paul.J.Jacklin@uk.gt.com
- 12.2. David Austin, Director of Finance, 020 8314 9114, david.austin@lewisham.gov.uk
- 12.3. Sofia Mahmood, Chief Accountant, 020 8314 3684, sofia.mahmood@lewisham.gov.uk

13. Appendices

- 13.1. Appendix A – Draft Audit Findings for London Borough of Lewisham and London Borough of Lewisham Pension Fund 2021/22
- 13.2. Appendix B – Auditor’s Annual Report on London Borough of Lewisham Council 2021/22

The Audit Findings for London Borough of Lewisham and London Borough of Lewisham Pension fund

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December 2022
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Section

1. Headlines
2. Financial statements
3. Value for money arrangements
4. Independence and ethics

Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinions
- F. Audit letter in respect of delayed VFM work

This Audit Findings 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. Its contents have been discussed with management and the Audit and Transparency Committee].

Name : Paul Grady
For Grant Thornton UK LLP
Date : 6 December 2022

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audits of London Borough of Lewisham ('the Council') and London Borough of Lewisham Pension Fund ('the Pension Fund') financial statements for the year ended 31 March 2022 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 Council and Pension Fund's financial statements give a true and fair view of the financial position of Council and Pension Fund and the Council and Pension Fund's 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.

Our audit work commenced during September 2022 and is due to be completed by end of December 2022. Our findings are summarised on pages 6 to 25.

The overall quality of the financial statements continues to improve and at this stage we have identified less misstatements and presentational changes than the previous year. The Council remain on an improvement journey and the finance team are committed to turning responses to audit queries and requests for information around as quickly as possible. We have noted an improvement in response times from previous years, but delays are still occurring which continue to impact on the efficiency of the audit process.

We have identified adjustments to the Council's Financial position that are reported on page 35. These are immaterial extrapolated errors that are well below materiality levels. The Council has therefore decided not to adjust the financial statements. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is still in progress. At this stage there are no matters of which we are aware that would require modification of our audit opinion Appendix E or material changes to the financial statements, subject to the following outstanding matters;

- The Department for Levelling Up, Housing and Communities will issue an update to the Local Authority Capital Finance and Accounting Regulations to remove the requirement to consider component derecognition for infrastructure assts i.e. the statutory override. This will then allow us to complete our work in this area. This is not expected to become law until 25 December 2022;
- completion of our work on land and building revaluations;
- Completion of our work on group accounts;
- completion of testing on Pension Fund Investments and Journals;
- receipt and clearance of 7 queries on journals testing;
- receipt and clearance of 5 queries on creditors sample testing;
- receipt of and clearance of 5 queries on grant income sample testing;
- receipt and clearance of 2 queries for Property, Plant and Equipment Additions sample testing;
- receipt and review of assurance letters from the auditors of London Pension Fund Authority;
- receipt of the detail for 14 schools bank reconciliations;
- receipt of bank confirmations for 2 schools;
- responses to queries on the Cash Flow statement, the Expenditure and Funding Analysis, Reserves and Capital disclosures;

1. Headlines

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page

Financial Statements

- completion of Senior Manager, Engagement Leader and Review Partner reviews and satisfactory resolution of any residual queries;
- receipt of management representation letter; and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion for the Council and the Pension Fund will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance.

We have completed the our VFM fieldwork and are our report is now with management for discussion. Our findings are summarised on page 27, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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 exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit upon the completion of the Whole of Government Accounts work.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

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 auditors 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 Council and Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Council and Pension Fund's internal controls environment, including its 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 altered our audit plan, as communicated to you on 21 June 2022.

Conclusion

We are progressing with our audit of the Council and Pension Fund's financial statements and subject to outstanding matters set out on pages 3 to 4 being resolved, we anticipate issuing unqualified opinions following the publication of the statutory override relating to the accounting for infrastructure assets.

Acknowledgements

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

2. Financial Statements



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 the disclosure requirements and adherence to acceptable accounting practice and applicable law.

For the Council and the Group materiality levels have reduced from the levels reported in our Audit Plan in June 2022. This is due to expenditure in 2021/22 was lower than the previous year.

For the Pension Fund, we revised materiality levels from those reported in our Audit Plan as a result of significantly increased gross investment asset values as at 31 March 2022.

We detail in the table our determination of materiality for the London Borough of Lewisham and Lewisham Pension Fund.

	Council amount planning (£)	Council amount final (£)	Group amount Planning (£)	Group amount Final (£)	Pension Fund amount planning (£)	Pension Fund amount final (£)
Materiality for the financial statements	17,200,000	16,500,000	17,300,000	16,770,000	16,000,000	17,000,000
Performance materiality	11,180,000	10,725,000	11,245,000	10,900,500	11,200,000	11,900,000
Trivial matters	860,000	825,000	865,000	838,500	800,000	850,000



2. Financial Statements - Significant risks

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

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Relates to	Commentary
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.</p> <p>The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Council, Group and Pension Fund</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • Evaluation of the design effectiveness of management controls over journals. • Analysis of the journals listing and determined the criteria for selecting high risk unusual journals. • Testing unusual journals recorded during the year and the accounts production stage for appropriateness and corroboration. • Gaining an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. • Reviewed and tested transfers between the General Fund and HRA and inter group journals. <p>As detailed on pages 3 and 4, at the time of writing, our audit procedures in response to this risk remain underway. At the time of drafting this report, we have 7 queries remaining on journals. To date, no issues have been identified which require reporting to those charged with governance. This position will be updated to the date of issuing the final version of this report and our audit opinions. Should any material issue arise in the final stages of our work, we will report this to you.</p>



2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Risk of fraud related to revenue recognition	Council, Group and Pension Fund	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>In the Audit Plan, we reported that having considered the risk factors set out in ISA240 and the nature of the Council and Pension Fund revenue streams, we had determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of local authorities, including London Borough of Lewisham, mean that all forms of fraud are seen as unacceptable. <p>Therefore, we did not consider this to be a significant risk for the London Borough of Lewisham or London Borough of Lewisham Pension Fund.</p> <p>There have been no changes to our assessment as reported in the Audit Plan.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
<p>Valuation of land and buildings The Council revalues its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£2.6 billion) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management has engaged the services of a valuer to estimate the current value as at 31 March 2022.</p> <p>We therefore identified valuation of land and buildings, specifically council dwellings, other land and buildings and surplus assets, as a significant risk of material misstatement.</p> <p>On 3 February 2022 CIPFA LASAAC launched a consultation on proposals for an update of the 2021/22 Code relating to the approach to measurement of operational property, plant and equipment. This consultation has now closed and CIPFA have confirmed no changes to the Code in respect of the valuation of PPE.</p>	Council and Group	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Confirmed the basis on which the valuation was carried out to ensure that the requirements of the Code are met. • Challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding, which included engaging our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations. • Tested, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register. • Assessed the value of a sample of assets in relation to market rates for comparable properties. • Tested a sample of beacon properties in respect of council dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group. • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end. <p>As detailed on pages 3 and 4, at the time of writing, our audit procedures in response to this risk remain underway. To date, no issues have been identified which require reporting to those charged with governance. This position will be updated to the date of issuing the final version of this report and our audit opinions. Should any material issue arise in the final stages of our work, we will report this to you.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
<p>Valuation of pension fund liability</p> <p>The pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£564million in the Council's balance sheet at 31 March 2022) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	Council	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • Updating our understanding of the processes and controls put in place by management to ensure that the pension fund net asset is not materially misstated and evaluated the design of the associated controls. • Evaluated the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work. • Assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation. • Assess the accuracy and completeness of the information provided to the actuary to estimate the liabilities. • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the reports from the actuary. • 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. • Gained assurances over the validity and accuracy of assets, membership, contributions and benefits data sent to the actuary by the Fund. <p>We have not identified any material misstatements in response to this risk.</p> <p>We are awaiting receipt of requested confirmations from the London Pension Fund Authority auditor over the LPFA pension fund liability balance. To date, no issues have been identified which require reporting to those charged with governance. This position will be updated to the date of issuing the final version of this report and our audit opinions. Should any material issue arise in the final stages of our work, we will report this to you.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
<p>Valuation of level 3 investments The Fund values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</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 (£154 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 2022.</p>	Pension Fund	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • Evaluated management's processes for valuing Level 3 investments. • Reviewed 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 were met. • Independently requested year-end confirmations from investment managers and the custodian. • For a sample of investments, tested the valuation by obtaining and reviewing the audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2022 with reference to known movements in the intervening period. • In the absence of available audited accounts, evaluated the competence, capabilities and objectivity of the valuation expert. • Where available, reviewed investment manager service auditor report on design and operating effectiveness of internal controls. <p>As detailed on pages 3 and 4, at the time of writing, our audit procedures in response to this risk remain underway. Should any material issue arise in the final stages of our work, we will report this to you.</p>

2. Financial Statements – Other risks

Risks identified in our Audit Plan	Relates to	Commentary
<p>Completeness of non-pay operating expenditure and associated short-term creditors</p> <p>Non-pay expenditure on goods and services represents a significant percentage (55%) of the Council's gross operating expenditure. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>In the prior year our sample audit testing identified payments that have been coded to the incorrect financial year.</p> <p>We identified completeness of non-pay expenditure and associated short-term creditors as a risk requiring particular audit attention.</p>	Council	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • Evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness, including the use of de minimis level set. • Gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls. • Obtained and test a listing of non-pay payments made in April, May and June to ensure that they had been charged to the appropriate year. <p>Our testing identified 2 errors (total value £749k) in our testing where payments were made for capital expenditure for works completed in 21/22, but had not been accrued for. The extrapolated error is £2,170k.</p> <p>In addition, to the above we identified one item value £2,176k where a payment was made in 2022/23 following arbitration of a legal dispute with contractor. The payment relates to the 2021/22 period and there was sufficient information at the year end to have accrued / provided for the payment. The item of expenditure is capital. The Council has amended for this misstatement.</p>
<p>Value of Infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PPE note</p> <p>Infrastructure assets includes roads, highways, bridges and streetlighting. Each year the Council spends circa £5m on Infrastructure capital additions. As at 31 March 2021, the net book value of infrastructure assets was £109m which is over 6 times materiality.</p> <p>In accordance with the LG Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address:</p> <ol style="list-style-type: none"> 1. The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets. 2. The risk that the presentation of the PPE note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced. 	Council	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • Reconciling the fixed asset register to the financial statements. • Considered the reasonableness of depreciation charge to infrastructure assets. • Obtained assurance that the Useful Economic Life applied to infrastructure assets is reasonable. • Documented our understanding of management's process for derecognising Infrastructure assets on replacement and obtain assurances that the disclosure in the PPE note is not materially misstated. <p>Our initial work identified that the Council has not been fully derecognising infrastructure assets upon replacement. This is consistent with other Council's. We are awaiting for CIPFA to issue an update to the Code of Practice on Local Authority Accounting to remove the requirement to report on Gross Book Value and Accumulated Depreciation for infrastructure assets. In addition, the Department for Levelling Up, Housing and Communities will issue an update to the Local Authority Capital Finance and Accounting Regulations to remove the requirement to consider component derecognition i.e. the statutory override. This will then allow us to complete our work in this area.</p>

2. Financial Statements – Other risks

Risks identified in our Audit Plan	Relates to	Commentary
<p>Valuation of Level 2 Investments</p> <p>While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.</p> <p>We therefore identified the valuation of the Fund's Level 2 investments as a risk of material misstatement.</p>	Pension Fund	<p>In response to the risk identified we have:</p> <ul style="list-style-type: none"> • Gained an understanding of the Fund's process for valuing Level 2 investments and evaluated the design of the associated controls. • Reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments. • Reviewed the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and sought explanations for variances. • Independently requested year-end confirmations from investment managers and custodian. • Reviewed investment manager service auditor report on design effectiveness of internal controls. <p>Subject to the satisfactory completion of outstanding matters set out on pages 3 to 4, no findings have been identified in response to this risk which are required to be reported to those charged with governance.</p>
<p>Contributions</p> <p>Contributions from employers and employees' represents a significant percentage of the Fund's revenue.</p> <p>We therefore identified the completeness and accuracy of the transfer of contributions as a risk of material misstatement.</p>	Pension Fund	<p>In response to the risk identified we have:</p> <ul style="list-style-type: none"> • Evaluated the Fund's accounting policy for recognition of contributions for appropriateness. • Gained an understanding of the Fund's system for accounting for contribution income and evaluated the design effectiveness of the associated controls. • Agreed changes in Admitted/Scheduled bodies to supporting documentation and agreed total contributions for each employer to employer contributions reports. • Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence. • Tested relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in member body payrolls and the number of contributing employees to ensure that any unusual trends were satisfactorily explained. <p>Subject to the satisfactory completion of outstanding matters set out on pages 3 to 4, no findings have been identified in response to this risk which are required to be reported to those charged with governance.</p>

2. Financial Statements – Other risks

Risks identified in our Audit Plan	Relates to	Commentary
<p>Pension Benefits Payable Pension benefits payable represents a significant percentage of the Fund's expenditure.</p> <p>We therefore identified the completeness, accuracy and occurrence of the transfer of pension benefits payable as a risk of material misstatement.</p>	Pension Fund	<p>In response to the risk identified we have:</p> <ul style="list-style-type: none"> • Evaluated the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness. • Gained an understanding of the Fund's system for accounting for pension benefits expenditure and evaluated the design of the associated controls. • Tested a sample of lump sums and associated individual pensions in payment by reference to member files. • Tested relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends were satisfactorily explained. <p>Subject to the satisfactory completion of outstanding matters set out on pages 3 to 4, no findings have been identified in response to this risk which are required to be reported to those charged with governance.</p>
<p>Actuarial Present Value of Promised Retirement Benefits</p> <p>The Fund discloses the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represents a significant estimate in the financial statements.</p> <p>The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£2 billion) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a risk of material misstatement.</p>	Pension Fund	<p>In response to the risk identified we have:</p> <ul style="list-style-type: none"> • Updated our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits is not materially misstated and evaluated 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 the Fund's valuation. • Assessed the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability. • Tested the consistency of disclosures with the actuarial report from the actuary. • 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. <p>Subject to the satisfactory completion of outstanding matters set out on pages 3 to 4, no findings have been identified in response to this risk which are required to be reported to those charged with governance.</p>

2. Financial Statements – key judgements and estimates - Council

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Land and Building valuations: Other Land and Buildings £1,105m Surplus Assets £61m</p>	<p>Other land and buildings which were revalued during the year comprise £972m of 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. The remainder of other land and buildings (£132m) are not specialised in nature and were required to be valued at existing use value (EUV) at year end.</p> <p>The Council engaged Wilks Head and Eve to complete the valuation of properties as at 31 March 2022. 99% of total other land and buildings assets were revalued during 2021/22. All surplus assets except for £889k have been revalued in the year. However, the accounting standards require all surplus assets to have been revalued.</p> <p>The total year end valuation of land and buildings was £1,104m, a net increase of £39.4m from 2020/21 (£1,065m). This net increase arises from the valuation process in combination with additions to and enhancements of property assets during the year.</p>	<p>Our work on your property valuations is ongoing.</p> <ul style="list-style-type: none"> We have assessed management's expert, Wilks Head and Eve, to be competent capable and objective. The valuer has correctly prepared the valuation using DRC on a modern equivalent asset basis for specialised properties, and EUV for non-specialised properties. 99% of properties have been valued as at 31 March 2022. We engaged our own valuation specialist, Gerald Eve, to provide a commentary on the instruction process for WHE, the valuation methodology and approach, and the resulting assumptions and any other relevant points. We have carried out testing of the completeness and accuracy of the underlying information provided to the valuer used to determine the estimate and have no issues to report. Valuation methodologies applied are consistent with those applied in the prior year. We have agreed the valuation reports provided by management's expert to the fixed asset register and to the financial statements. 	TBC
		See results from the valuation testing on page 10.	

Assessment

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

2. Financial Statements - key judgements and estimates - Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Council dwellings valuations – £1,413m	<p>The Council owns 13,699 dwellings in the Housing Revenue Account and is 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.</p> <p>The Council has engaged its valuer to complete the valuation of these properties. The year end valuation of Council Housing was £1,413m, a net increase of £20m from 2020/21 (£1,393m).</p>	<p>Our work on your property valuations is ongoing. At this stage:</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. The valuer has correctly prepared the valuation using the stock valuation guidance issued by MHCLG, and has ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH) value disclosed within the accounts. All properties have been valued as at 31 March 2022. 	TBC

Page 32

Assessment

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

2. Financial Statements - key judgements and estimates - Council

Significant judgement or estimate

Summary of management's approach

Audit Comments

Assessment

Net pension liability- £564m

The Council's net pensions liability comprising assets and liabilities relating to the London Borough of Lewisham Pension Fund and London Pension Fund Authority Local Government Pension Schemes together with unfunded defined benefit pension scheme obligations. The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. Barnett Waddingham are used for the London Pension Fund Authority Scheme.

The latest full actuarial valuation was completed as at 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return.

Given the significant value of the net pension fund liabilities, small changes in assumptions can result in significant valuation movements. There has been a net decrease of £207m in the overall net pension fund liability in 2021/22.

- We have assessed the actuaries, Hymans Robertson, to be competent, capable and objective.
- We have used PwC as our auditor's expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.7%	2.7% - 2.75%	●
Pension increase rate	3.20%	3.15% - 3.30%	●
Salary growth	3.90%	3.15 - 4.15%	●
Life expectancy – Males currently aged 45 / 65	22.5 / 21.2	21.4 - 24.3 20.1 - 22.7	●
Life expectancy – Females currently aged 45 / 65	25.5/23.8	24.8 -26.7 22.9 - 24.9	●

- We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.
- We have confirmed there were no significant changes in 2021/22 valuation method.
- We have completed the same testing as above in relation to the Net LPFA pensions asset of £18.4m

Light purple

Assessment

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

2. Financial Statements - key judgements and estimates - Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation- £609m credited to Service Income and £32m credited to Taxation and Non Specific Grants	<p>Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:</p> <ul style="list-style-type: none"> the Council will comply with the conditions attached to the payments, and the grants or contributions will be received. <p>Amounts recognised as due to the Council are not credited until conditions attached to the grant or contribution have been satisfied. The Council has credited £641m of grants to the Consolidated Income and Expenditure Statement in 2021/22.</p> <p>The Council has received a number of Grants and Contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned if not spent. The balances at the year-end for these grants is £26m.</p> <p>The Council acts as an Agent for Central Government in respect of the majority of Business Rates Grants that are used to support business during the current Covid pandemic. These grants are distributed by the Council from central government and therefore do not appear in the Consolidated Income and Expenditure statement.</p>	<ul style="list-style-type: none"> We are satisfied with all the other grants tested that the Council's judgement on whether the Council is acting as the principal or agent which determines whether the authority recognises the grant at all. Our sample testing has concluded that we are satisfied with the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. We are satisfied over the allocation of the grants between specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES. 	Light Purple

Assessment

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

2. Financial Statements - key judgements and estimates - Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £13.7m	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>MRP is required to be charged with respect to borrowing obtained as part of acquiring assets to be held in the General Fund (GF). No MRP charge is made in respect of borrowing for the acquisition of assets held in the Housing Revenue Account (HRA). According to regulations, this is on the basis that HRA assets should be self-financing, with local authorities being required to make an annual charge from the HRA to their Major Repairs Reserve in place of MRP, to maintain functionality of housing assets.</p>	<ul style="list-style-type: none"> The MRP charge for the year has been calculated in accordance with the methodologies permitted in the statutory guidance. The Council's policy on MRP in relation to borrowing taken out for the acquisition of non-housing General Fund assets complies with statutory guidance. The Council's policy on MRP was discussed and agreed with those charged with governance and approved by full council as part of the Treasury Strategy in March 2021. The level of increase in the MRP charge is reasonable in the context that there has been little change in borrowing during the year. 	Light Purple
	<p>The year end MRP charge including the repayment of principal on PFI schemes was £13,639k, a net increase of £580k from 2021/22.</p>		

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **2022 Grant Thornton UK LLP** Under management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates – Pension Fund

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments	<p>The Pension Fund has investments in Overseas Hedge Funds and Overseas Venture Capital that are valued on the net assets statement as at 31 March 2022 at £153m.</p> <p>These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management relies on information provided by the General Partners to the private equity funds, who prepare valuations in accordance with the International Private Equity and Venture Capital Valuation Guidelines, and produce accounts to 31 December 2021 which are audited. The value of the investment has increased by £14m in 2021/22, due to a combination of purchases, sales and changes in market value.</p>	<ul style="list-style-type: none"> We have assessed the appropriateness of the underlying information used to determine the estimate, including fund manager and custodian reports, and audited accounts of the private equity funds as at 31 December 2021. We have assessed the consistency of the estimate against peers and industry practice. We have reviewed the reasonableness of the increase in the estimate. We have assessed the adequacy of disclosure of estimate in the financial statements. <p>Our work on Level 3 valuations is still in progress.</p>	TBC

Assessment

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

2. Financial Statements - key judgements and estimates – Pension Fund

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £1,502m	<p>The Pension Fund has investments in pooled equity, bonds, private equity and property funds that in total are valued on the balance sheet as at 31 March 2022 at £1,502m.</p> <p>The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management make use of evaluated price feeds, with the exception of the valuation of property investments which is based on evaluation of market data. The value of the investments have increased by £150m in 2021/22, largely driven by changes in market value.</p>	<ul style="list-style-type: none"> We have assessed the appropriateness of the underlying information used to determine the estimate. We have assessed the consistency of the estimate against peers and industry practice. We have reviewed the reasonableness of the increase in the estimate. We have assessed the adequacy of disclosure of estimate in the financial statements. 	TBC

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Assessment

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

2. Financial Statements - 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.

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Issue	Commentary
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 significant incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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.
Written representations	A letter of representation has been requested from the Council and Fund, which is included in the Audit Panel papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council and Pension Fund's banking and investment counterparties. This permission was granted and the requests were sent. We have received responses from all counterparties. We are still awaiting responses in relation to two schools bank accounts.
Accounting practices	We have evaluated the appropriateness of the Council's and Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	<p>All information and explanations requested from management were provided, with the exception of those relating to the outstanding matters detailed on pages 3 to 4 which, as at the date of writing, have not yet been provided.</p> <p>Whilst there has been an improvement in the timeliness of responses to audit queries and requests for supporting information, we are still encountering delays which continues to impact on the length of time it takes to deliver the audit.</p> <p>We are also undertaking significant work to follow up the various recommendations and control findings included in last years report.</p> <p>The financial statements were published and a full suite of supporting working papers was provided to the audit team prior to the commencement of the audit.</p>

2. Financial Statements - other communication requirements



Our responsibility

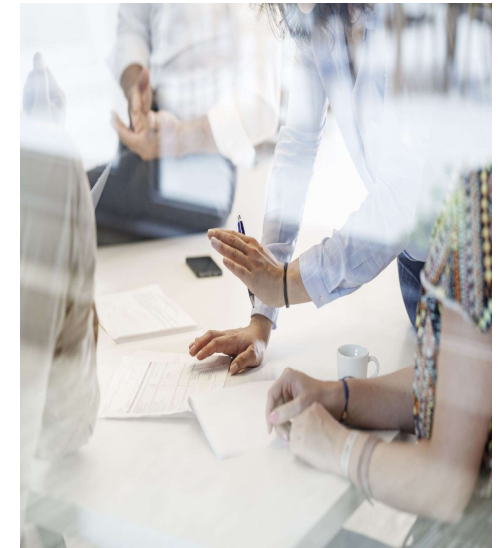
As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability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

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Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council’s financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and Pension Fund and the environment in which it operates the Council and Pension Fund’s financial reporting framework the Council and Pension Fund’s system of internal control for identifying events or conditions relevant to going concern management’s going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
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>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E</p>
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 comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters.</p>
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>Our work is limited as the Council does not exceed the £2billion audit threshold. At the moment we cant deliver this work as HM Treasury guidance has not been issued.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2021/22 audit of London Borough of Lewisham Council in the audit report, as detailed in Appendix E, due to the Whole of Government Account return has yet to be completed. We also need to complete our review of the final Pension Fund Annual Report.</p>



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

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Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

3. VFM - our procedures and conclusions

We have completed the our VFM fieldwork and are our report is now with management for comments. Our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Subject to finalisation, we have not identified any risks of significant weakness We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

4. Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers [and network firms]). In this context, we disclose the following to you:

- We became aware that a former GTUK employee did not inform us of his family connection to Lewisham Council. The individual became a consultant for GTUK on 8 May 2018 and subsequently became an employee of GTUK on 1 July 2021 and left in February 2022. The individual was obliged, under their consultancy terms and as part of their employment contract, to disclose to GTUK any connections they or their family might have with any audit clients of GTUK. However, the individual did not disclose that their partner works, or worked, at Lewisham Council.

We have considered whether this gave rise to any form of independence issue as regards the 2020/2021 and 2021/2022 audit and have concluded that it did not. The Public Sector audit team that conducted the audit of Lewisham Council had no connection with the individual, who only carried out counter fraud investigations on non audit NHS bodies and had no wider connections with the GT London audit team. We are therefore informing you of this as a courtesy and to make you aware of the issue and the fact that it has been resolved.

- 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

4. Independence and ethics

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 the Council. The following non-audit services were identified. We have detailed below the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Housing Benefit Assurance Process	34,926	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 is £34,926 in comparison to the total fee for the audit of £253,289 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 all mitigate the perceived self-interest threat to an acceptable level.
Agreed-upon procedures relating to the Pooling of Housing Capital Receipts	5,000	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 work is £5,000 in comparison to the total fee for the audit of £253,289 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 all mitigate the perceived self-interest threat to an acceptable level.
Agreed-upon procedures relating to the Teachers' Pensions end of year certificate	7,500	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 is £7,500 in comparison to the total fee for the audit of £253,289 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 all mitigate the perceived self-interest threat to an acceptable level.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 5 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2022/23 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
Page 46	Whilst preparing the financial statements officers identified that the balance on the Consolidated Income and Expenditure Statement did not equal the difference in reserves between 31 March 2021 to 31 March 2022. A correction journal of £2,286k was performed to ensure that the accounts balanced.	The Council should investigate the how this initial imbalance arose.
	Our testing identified 2 errors (total value £749k) in our testing where payments were made for capital expenditure for works completed in 21/22, but had not been accrued for. The extrapolated error is £2,170k.	Your cut off procedures need strengthening to ensure that expenditure is coded in the year in which it relates
	The Council has identified 132 assets that have a nil net book value. The Council were unable to locate these assets. The assets are fully depreciated and are years old and have now been written out of the asset register.	The Council should implement processes to ensure all assets are appropriately tracked to ensure they can be located.
	Within our testing of operating expenditure on repairs and maintenance charges on Council dwellings we identified that there is no formal documentation between the Council and Lewisham Homes to confirm the nightly call out capped charge rates.	Implement a formal agreement setting out nightly capped call out charges for repairs and maintenance jobs undertaken by Lewisham Homes.
	The Exacom system used to record and track the Section 106 agreements is not fully reconciled to the general ledger. The overall difference between the Exacom listing and the General Ledger Balance is £2.7m.	The Council need to complete their work on reconciling the Exacom system with the ledger.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of the Council's 2020/21 financial statements, which resulted in 3 recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and note 2 are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<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"> • Insufficient evidence over the completeness and accuracy of data migration of the payroll system. • Absence of formally approved project related documentation. • Lack of formal approval by management on IT policy. • Lack of formal review of audit logs. 	Our It team have followed up the prior year recommendations and were satisfied that they had been implemented.
In progress	<p>Our review of your fixed asset register identified 123 assets that have a Net Book Value of nil. You should undertake an exercise to verify that these assets still exist. If the Council are still using the assets they will need to determine whether the current depreciation policy is appropriate.</p>	<p>The Council has undertaken this exercise and has identified 132 assets that have a nil net book value. The Council were unable to locate these assets. The assets are fully depreciated and are years old and have now been written out of the asset register.</p> <p>The Council should implement processes to ensure all assets are appropriately tracked to ensure they can be located.</p>
✓	<p>The school bank account reconciliations provided to audit were not reconciled to the bank statement as at 31 March 2021. There was a subsequent delay in providing the audit team with appropriate year end reconciliations.</p> <p>Our review of the Eurobank reconciliation also identified a trivial unreconciled difference of £7,082 between the trial balance and the ledger which management have not been able to explain.</p>	<p>The schools bank accounts have been reconciled to 31 March 2022.</p> <p>The Eurobank account had been reconciled as at 31 March 2022.</p>

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Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations continued

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Our review of the bank reconciliation for the image pay bank payment account identified several cheques that are over 6 months old which have not been stopped. These should be stopped and written back.	The number of cheques which are older than 6 months has reduced since last year. However, there are still 6 cheques of total £1,027.19 dated back to 2020 which are appearing in the bank reconciliation as unpresented cheques.
In progress	You had difficulties in providing us with evidence to support the accounting entries within Receipts in Advance and Creditors associated with your Section 106 agreements.	You provided us with sufficient evidence to support the Section 106 agreements selected for sample testing. We were satisfied that the Section 106 agreements had been correctly accounted for. However, the Exacom system used to record and track the Section 106 agreements is not fully reconciled to the general ledger. The overall difference between the Exacom listing and the General Ledger Balance is £2.7m.
✓	During our walkthrough of the schools expenditure process we identified that there is currently no reconciliation between the school finance reports used to journal the data in to the ledger and the source data (i.e. bank reconciliation or the school payroll reports).	Our 2021/22 walkthrough of schools expenditure proved that this reconciliation is now in place.
Work in progress	Our review of 20/21 starters identified that HR were not receiving signed contracts from new employees.	We have requested 13 contracts for officers that started working for the Council during the year. The Council were able to provide 12 contracts, but are currently unable to find the last one.

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Assessment

- ✓ Action completed
- X Not yet addressed

B. Follow up of prior year recommendations Pension Fund

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	The current set up of the general ledger is not conducive for financial reporting. This results in management having to make several significant adjustments each year outside of the ledger to consolidate the pension fund financial statements. This makes the process more time consuming and increases the potential for errors/omissions to occur.	The Pension Fund's Custodian Northern Trust have agreed to amend the data they provide so that it is in line with the Oracle coding structure. Following the resolution of several queries we were able to reconcile the trial balance into the pension fund financial statements.
✓	Our testing of Admitted and Scheduled bodies monies identified an absence of monthly reconciliations of remittances made by admitted and schedule bodies to expected receipts and to posting on the ledger. In addition, there was no reconciliation of monthly payroll contribution data from the Administering Authority (Council) to posting in ledger	The Fund now reconciles remittances and monies received from the Admitted and Scheduled bodies to receipts posted to the ledger. Reconciliations have been undertaken from contributions payable from the payroll system to the ledger.

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Assessment

- ✓ Action completed
- X Not yet addressed

C. Audit Adjustments Council

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 2022.

Detail	Consolidated Income and Expenditure Account £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
Income from Council Tax included £1,000k that was Non Domestic Rates income. This is a classification error on the front of the Consolidated Income and Expenditure Statement.	Dr Income from Council Tax 1,000 Cr Non Domestic Rates Income and Expenditure 1,000	0	0
Business Rates S31 and Growth (from 2020/21) £1,009k was incorrectly classified in Non Domestic Rates Income, whereas it should be part of Recognised Capital Grants and Contributions. This is a classification error on the front of the Consolidated Income and Expenditure Statement.	Dr None Domestic Rate income 1,009 Cr Recognised Capital Grants and Contributions 1,009	0	0
Our bank cut off testing identified one payment of £2,176k made in 2022/23 following arbitration of a legal dispute with contractor. The payment relates to the 2021/22 period and there was sufficient information at the year end to have accrued for the payment. The item of expenditure is capital.		Dr Property Plant and Equipment 2,176 Cr Capital Creditors 2,176	
Overall impact	Nil impact on bottom line of CIES	2,176	0

C. Audit Adjustments Council

Misclassification and disclosure changes

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

Disclosure omission	Management Response	Adjusted?
Paragraph 3.5.5.1 of the CIPFA Code states that the total value of the land, houses and other property which includes assets under construction is a statutory disclosure in the HRA accounts. As such, we have challenged management on their omission of the assets under construction class. Management have agreed that including the assets under construction figure would bring it in-line with the Code. They have agreed to update the table to include balances for Assets Under Construction, being £59,622k and £27,929k respectively.	Management have agreed to amend the disclosure note.	✓
The Housing Revenue Account (HRA) Movement in Reserves Statement (MIRS) is inconsistent with that in the Core Movement in Reserves Statement. Management confirmed that the HRA MIRS will be amended to bring it in line with the core MIRS.	Management have agreed to amend the disclosure note.	✓
In the Collection Fund, the value for Contributions from previous year in NNDR Column for Greater London Authority (GLA) has been shown in the row for Central Government and vice versa. The correct value for GLA is £13,393k and for Central Government is £11,955k.	Management have agreed to amend the disclosure note.	✓
In Note 12a, the amount of Long Term debtors shown is £57,911k and short term debtors shown is £37,386k which is not matching with Note 14 with long term debtors of £59,520k and net Short Term Debtors is £67,505 (including financial instrument of £35,776k and the remaining amount of £31,729k). Adjustment from this also impact on note 12b.	Management have agreed to amend the disclosure note.	✓
In Note 12a, the amount of Short Term Investment of £275,247k and Cash & Cash equivalent of £174k shown under Financial Assets at Amortised Cost needs to be updated to match the balance sheet figures. Similarly, the same needs to be updated in Note 12d as well.	Management have agreed to amend the disclosure note.	✓
Note 31 Related parties transactions with companies. Income from Lewisham Homes needs amending from £10,814k to £12,045 to take into account interest. The Lewisham Homes debtors and creditors figures needed amending to £4,036k and £8,295k.	Management have agreed to amend the disclosure note.	✓
Note 23 There is a classification misstatement of £9m within note 23. Fees and charges decrease by £9m and Government grants and contributions increase by £9m. In note 30 other grants increase from £42,619k to £51,619k.	Management have agreed to amend the disclosure notes.	✓
Narrative report page 13 the prior year pension fund valuation figure states the liability increased by £242.8m during 2020/21" but on the prior year it states "pension reserve shown on the Balance Sheet has increased by £252.6m during the year". The £252.6m is the correct figure.	Management have agreed to amend the disclosure notes.	✓

C. Audit Adjustments Council

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 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	Comprehensive Income and Expenditure		Impact on total net expenditure £'000	Reason for not adjusting
	Statement £'000	Statement of Financial Position £' 000		
Our bank cut off testing identified 2 errors (total value £749k) in our testing where payments were made for capital expenditure for works completed in 21/22, but had not been accrued for. The extrapolated error is £2,170k	0	Dr Property Plant and Equipment additions	0	The misstatement is an extrapolation that is well below materiality levels.
			2,170	
		Cr Capital Creditors		
			2,170	
Our testing of Section 106 payments identified 3 amounts total value £1,314k that were classified as reserves whereby the time limit to use the payment has yet to expire. So this should be included within Receipts In Advance. The extrapolated error was £1,609k	0	Dr Section 106 earmark reserves	0	The misstatement is an extrapolation that is well below materiality levels.
			1,609	
		Cr Receipts in Advance		
			1,609	
Overall impact	0		0	

C. Audit Adjustments Council

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Reason for not adjusting
Our testing from bank payments made identified 3 payments total value £537k made in April and May 2021 that related to 2020/21 had not been appropriately accrued for. The extrapolated error from our testing was £5,078k. This and estimated error and is not material and so management have taken the decision not to adjust the financial statements	Debit Gross Cost of Services 5,078	Credit Creditors 5,078	Amendment is based on an estimated extrapolation and is well below materiality levels.
Our testing of Property Plant and Equipment revaluations identified 3 assets whereby the Gross Internal Area of the assets used in the valuation did not agree to the documentation supplied to substantiate the areas. We extrapolated the misstatement and the impact was to increase Property Plant and Equipment Balances by £1.2m with an associated increase in the revaluation reserve.		Debit Property Plant and Equipment 1,219 Credit Revaluation Reserve (1,219)	This is an extrapolated misstatement and is not material.
Our testing of 16 Receipts in Advance identified the following issues: <ul style="list-style-type: none"> 3 items where insufficient information audit evidence was provided to support the balance 1 item incorrectly contained interest that overstated the receipt in advance 1 item was held as a receipt in advance when the deadline to use the receipt had expired. The amount was due back to the developer so should have been recorded as a creditor. The total impact of these errors is set out opposite	Cr Income (880) (£752k extrapolated and £128k actual)	Dr Receipts in Advance 3,150 (£3,022k extrapolated and £128k actual) Dr Debtors 752 (extrapolated) Cr Creditors (1,745) (actual) Cr Cash (1,278) (extrapolated)	Total Error of £3,902k. £128k is an actual error not adjusted as it is trivial and £3,774k is based on an extrapolation and is not material.

C. Audit Adjustments Council

Impact of prior year unadjusted misstatements continued

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Reason for not adjusting
Our valuation testing of Lewisham Homes Limited dwellings in the group accounts identified two assets where the information provided to the valuer was not used. This has resulted in one asset being understated by £667 and one asset being overstated by £30,971. The total extrapolated error through the valuation of dwellings is £422,565 which is trivial.		Credit Group Property Plant and Equipment (423) Debit Group revaluation reserve 423	This is an extrapolated misstatement and is not material.
From our sampled valuation testing of the Catford Regeneration Partnership Limited investment properties we identified one asset where the information provided to the valuer was incorrect. This resulted in the asset being understated by £48,100. The total extrapolated error is £425,702.		Dr Group Investment Property 426 Credit Group Revaluation Reserve (426)	This is an extrapolated misstatement and is not material.
Overall impact	4,198	4,198	

C. Audit Adjustments Pension Fund

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 2022. There are currently no unadjusted misstatements.

Detail	Fund Account £'000	Net Assets Statement £' 000
Comparing the financial statements to the ledger identified the following misstatements:	Dr Contributions 9,323	Nil impact
<ul style="list-style-type: none"> • Contributions were overstated by £9,323k • Other income was understated by £37k • Transfer values out overstated by £9,273k • Change in market value of investments understated by £14k 	Cr Other income 37 Cr Transfer Values Out 9,273 Cr Change in market value of investments 14	
Overall impact	Nil	Nil



C. Audit Adjustments Pension Fund

Disclosure omission	Management Response.	Adjusted?
The prior year figures for investments on the Net Asset Statement were incorrectly restated to align to investment categories for 21/22. The total investment amount remains unchanged. The Investment balances need to be amended to report the prior year audited figures	Management have agreed to amend the prior year investment balances.	✓
Note 24a: Two scheduled bodies: Rathfern and Rushey Green have been omitted from the pension fund account.	Management have agreed to update the note.	✓

D. Fees

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

The fees reconcile to the financial statements.

Audit fees	Proposed fee £	Final fee
Council Audit	253,289	TBC
Pension Fund audit	38,008	TBC
Total audit fees (excluding VAT)	291,297	TBC

Non-audit fees for other services	Proposed fee £	Final fee
Housing Benefit Assurance Process	34,926	TBC
Agreed-upon procedures relating to the Pooling of Housing Capital Receipts	5,000	TBC
Agreed-upon procedures relating to the Teachers' Pensions end of year certificate	7,500	TBC
Total non-audit fees (excluding VAT)	47,426	TBC

E. Audit opinion Council

Our audit opinion is included below.

We anticipate we will provide the Council 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 on financial statements

We have audited the financial statements of London Borough of Lewisham (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2022, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Comprehensive Income and Expenditure Account, Housing Revenue Account Statement Movement in Reserves Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and 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 2021/22.

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 2022 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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 are responsible for concluding on the appropriateness of the Executive Director for Corporate Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Executive Director for Corporate Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

E. Audit opinion Council

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Executive Director for Corporate Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Executive Director for Corporate Resources with respect to going concern are described in the 'Responsibilities of the Authority, Executive Director for Corporate Resources and Those Charged with Governance for the financial statements' section of this report.

Other information

The Executive Director for Corporate Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and 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 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 the 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 in April 2020 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 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. 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 matters 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, the other information published together with the financial statements in the Statement of Accounts 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 for Corporate Resources and Those Charged with Governance for the financial statements

As explained 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 Corporate Resources. The Executive Director for Corporate Resources 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 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director for Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

E. Audit opinion Council

In preparing the financial statements, the Executive Director for Corporate Resources is responsible for assessing the Authority's and the group'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 and the group 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, the Local Government Act 1972, the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992), the Local Government Finance Act 2012, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.
- We enquired of senior officers and the Audit Panel, concerning the group and Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit Panel, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
 - journal entries posted which met a range of criteria determined during the course of the audit, in particular those posted around the reporting date which had an impact on the Comprehensive Income and Expenditure Statement, and
 - accounting estimates made in respect of the valuation of assets and liabilities in the Balance Sheet

E. Audit opinion Council

- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Executive Director for Corporate Resources has in place to prevent and detect fraud;
 - journal entry testing, with a focus on entries meeting the risk criteria determined by the audit team;
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect of valuation of land and buildings including council dwellings, and the valuation of the defined benefit pensions asset valuations;
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to valuation of land and buildings, including council dwellings and investment property, and the valuation of the net defined pensions asset.
- Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's.
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government sector
 - understanding of the legal and regulatory requirements specific to the Authority and group including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA, LASAAC and SOLACE
 - the applicable statutory provisions.

- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

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

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have nothing to report in respect of the above matter

Responsibilities of the Authority

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

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

E. Audit opinion Council

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We documented our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we have considered whether there is evidence to suggest that there are significant weaknesses in arrangements.

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 for London Borough of Lewisham for the year ended 31 March 2022 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 2022.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

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:

Paul Grady, Key Audit Partner

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

London

Date:

E. Audit opinion Pension Fund

Independent auditor's report to the members of London Borough of Lewisham on the pension fund financial statements of London Borough of Lewisham Pension Fund

Opinion

We have audited the financial statements of Lewisham Pension Fund (the 'Pension Fund') administered by London Borough of Lewisham (the 'Authority') for the year ended 31 March 2022 which comprise the Fund Account, the Net Assets Statement 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 2021/22.

In our opinion, the financial statements:

- **Page 63** give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2022 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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 Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's 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 are responsible for concluding on the appropriateness of the Executive Director of Corporate Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Executive Director of Corporate Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Executive Director of Corporate Resources' use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Executive Director of Corporate Resources with respect to going concern are described in the 'Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements' section of this report.

E. Audit opinion Pension Fund

Other information

The Executive Director of Corporate Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's financial statements. Our opinion on the Pension Fund's 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 Pension Fund's 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's financial statements or our knowledge of the Pension Fund 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 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 the 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 (2020) 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's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Statement of Accounts, for the financial year for which the 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 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 in relation to the Pension Fund.

Responsibilities of the Authority, the Executive Director of Corporate Resources 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 of Corporate Resources. The Executive Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's 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 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

E. Audit opinion Pension Fund

In preparing the Pension Fund's financial statements, the Executive Director of Corporate Resources 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 there is an intention by government that the services provided by the Pension Fund will no longer be provided.

The Audit Panel is Those Charged with Governance for the Pension Fund. 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 Pension Fund's 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Audit Panel, concerning the Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit Panel, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
 - journal entries posted which met a range of criteria determined during the course of the audit, in particular those posted around the reporting date which had an impact on the fund's financial position, and
 - accounting estimates made in respect of the valuation of investment assets

E. Audit opinion Pension Fund

- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Executive Director of Corporate Resources has in place to prevent and detect fraud;
 - journal entry testing, with a focus on entries meeting the criteria determined by the audit team;
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of level 3 investments, including directly-held investments in property and the IAS 26 pensions asset valuations;
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, the significant accounting estimates related to the valuation of level 3 investments, including directly-held investments in property, and the IAS 26 pensions asset valuation.

- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government pensions sector
 - understanding of the legal and regulatory requirements specific to the Pension Fund including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA, LASAAC and SOLACE
 - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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.

E. Audit opinion Pension Fund

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.

Paul Grady, Key Audit Partner

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

London

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Auditor's Annual Report on London Borough of Lewisham Council

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2021/22

6 December 2022



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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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 completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive summary



Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

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Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendations made	No significant weaknesses in arrangements identified, but improvement recommendations made	↔
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendations made	No significant weaknesses in arrangements identified, but improvement recommendations made	↔
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendations made	No significant weaknesses in arrangements identified, but improvement recommendations made	↔

- No significant weaknesses in arrangements identified or improvement recommendation made.
- No significant weaknesses in arrangements identified, but improvement recommendations made.
- Significant weaknesses in arrangements identified and key recommendations made.

Executive summary

Overview

Overall the Council has demonstrated robust arrangements across all three areas of focus of the Value for Money work (Financial Sustainability, Governance and the 3E's). Appendix B highlights the three types of recommendation that can be raised as a result of the findings of the review, statutory, key and improvement recommendations. No weaknesses have been identified in the Council's arrangements which would lead to raising the most serious recommendations. Some improvement recommendations have been highlighted in our work and these represent suggestions of ways the Council may achieve best practice as opposed to correcting poorly performing arrangements. The Council should take comfort from the fact that arrangements are deemed to effectively respond to the challenges the Council has faced in 21/22 including responding and recovering from the pandemic and uncertainty in relation to future funding levels. There is a clear drive for improvement at the Council which has been demonstrated via the greater level of collaboration and communication being observed at all levels of the organisation and therefore although the Council faces future uncertainties, particularly financial, the arrangements in place prepare them well for the challenge.

Financial sustainability

Finance remains at the forefront of both the Sector, and the Council's attention as future funding sources remain uncertain and the impact of Covid-19, the cost of living crisis and inflation is forecast to increase expenditure significantly. The Council reported a small overspend for 21/22 of £0.5m, after the application of Covid-19 funding from central government to fund specific pressures relating to the pandemic. This performance is in line with the prior year where a small overspend was also reported. Within this position Adult Social Care and Children's Social Care continue to be the services with the largest overspends. The Council has engaged external consultants to assist in realising savings and efficiencies in Adult's Social Care with aim of reducing overspends in the medium term, with Children's Social Care likely to be a focus of future years. This work remains ongoing and is expected to complete in 22/23, although it will take time for the actions taken as a result of this work to embed and impact the services financial position.

The Council has set a balanced budget for 22/23 in line with legislation, with a net budget position of £248.610m. The majority of the assumptions used in developing this position are realistic with the exception of inflation which is deemed to be optimistic. The Council has mechanisms in place in order to review the budget and make amendments throughout the 22/23 year. We would expect to observe amendments given inflation has continued to increase in excess of the rates at the time of the budget being set, to ensure the budget remains balanced this may also see changes to savings required or use of reserves unless additional funding is provided by central government to support the cost (currently there are no communications which support this potential solution).

The Council continues to forecast a financial gap in the medium term, which stands at £36m for the period to 26/27. Some savings have already been identified which has reduced the original gap and the Council have already begun acting on a number of initiatives in order to address the remaining gap.

Savings performance remains an area of challenge for the Council. Undelivered 20/21 savings were rolled forward to 21/22 which resulted in a total savings target of £30.7m. 44% of these savings were undelivered, including some of those also undelivered in 20/21. This has resulted in further rolled forward savings into 22/23 and therefore increases financial pressure into future years. The Council relies heavily on the Community Directorate to deliver its savings target, Adult Social Care which sits within this directorate was the overriding cause of the non-delivery, although non-deliver was seen in other services and directorates. Slippage was , in part, due to officers needing to focus on post-pandemic recovery. Work currently being undertaken with external consultants is aiming to address this issue. Although the cause is suggested to be demand led pressures there are some areas of very high comparative unit costs which should be targeted in reducing the costs of this service. The expectation is that the consultant led work will focus on addressing both cost and demand side factors.

Although we have raised some improvement recommendations in our work we have not identified any weaknesses in the Council's arrangements for securing financial sustainability.



Executive summary



Governance

The Council's governance arrangements have remained largely unchanged from the prior year and therefore our work has focussed on gaining a deeper understanding in some specific areas of arrangements – risk management, financial monitoring, budget setting and compliance and regulation. Arrangements reviewed in the prior year continue to be fit for purpose and our work has not identified any weaknesses in existing, or updated arrangements. Some improvement recommendations have been suggested, however these are aimed at developing best practice arrangements as opposed to correcting any significant issues.

In terms of risk management there have been some minor changes to the Strategic Risk Register but further improvements are expected in arrangements in 22/23 with the development of a new Risk Management Strategy currently in progress. The Council continues to be supported by Internal Audit in ensuring risk management is effective. Internal Audit have been unable to complete their Audit Plan for 21/22 however, sufficient work has been completed to enable the Head of Internal Audit Opinion to be provided. This opinion was one of positive assurance and therefore supports our view of the appropriate governance arrangements being in place.

Furthermore the Council took part in the Local Government Association Peer Review in year which assessed the Council's governance, culture and strategic performance. Although this provided some recommendations for the Council to consider in order to demonstrate best practice the review overall was complimentary, particularly in relation to the Senior Leadership Team's management of the Council. Again this supports our conclusion that arrangements in relation to governance for 21/22 are effective.

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Improving economy, efficiency and effectiveness

The Council has demonstrated its commitment to its development journey and has demonstrated this in 21/22 through its focus on Adults and Children's Social Care. The Council has undertaken extensive benchmarking on Adults Social Care and is now starting to look at Children's Social Care in order to identify opportunities for savings and efficiencies. To ensure that these opportunities identified in Adults Social Care can be taken advantage of and translated into tangible actions the Council has sought support from an external consultancy and although that work remains ongoing progress to date on the expected savings is positive. The Council continues to effectively monitor the progress and outcome delivery of that project effectively. The Council will then focus on addressing potential opportunities in Children's Social Care and Special Educational Needs (SEND). Given the success of the deep dive and day-to-day benchmarking in these two services the Council may be able to identify further opportunities by extending their benchmarking activities to other directorates and service lines.

The Council have updated the way in which they monitor operational performance within their directorates, using a KPI dashboard approach, to highlight trends in performance against target for key metrics which allows action to be taken in a timely manner. These updates have been positive and ensure that directorates and Executive staff have good oversight of the operational performance that can directly impact finances. Members still have limited oversight of the KPI dashboard and this would be an improvement going forwards.

Like the governance, there are limited changes from the prior year, but we have not noted any weaknesses in the Council's arrangements to secure economy, effectiveness and efficiency and only improvement recommendations have been made.

Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22

We are still undertaking our audit of your financial statements. At this stage we expect to issue an unqualified audit opinion. Our draft Audit Findings Report will be presented to the Audit Panel on 6 December 2022.

The Department for Levelling Up, Housing and Communities will issue an update to the Local Authority Capital Finance and Accounting Regulations to remove the requirement to consider component derecognition for infrastructure assts i.e. the statutory override. This will then allow us to complete our work in this area. This is not expected to become law until 25 December 2022. We therefore expect to issue our audit opinion early in 2023.

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

No such issues identified

Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

No such issues identified

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

No such issues identified

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

No such issues identified

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

No such issues identified

Securing economy, efficiency and effectiveness in the Council's use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial Sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



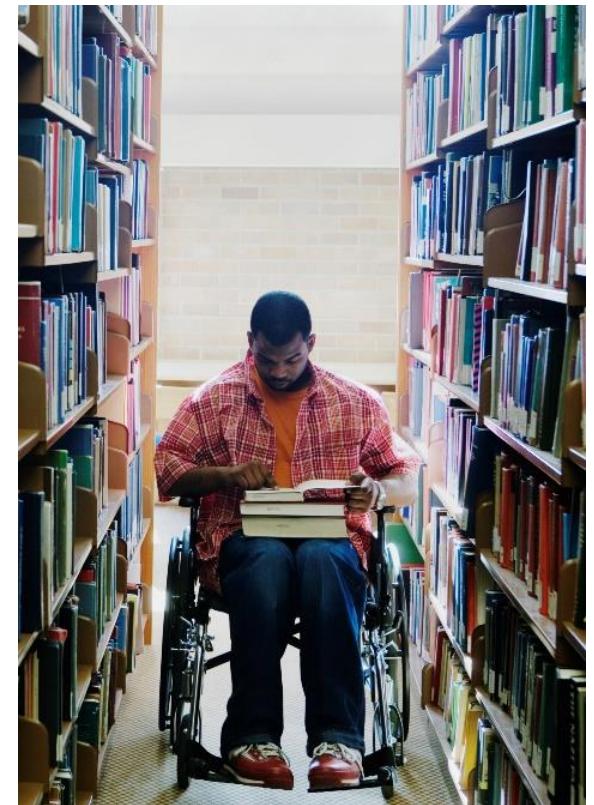
Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 8 to 36

Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

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21/22 Financial Position

For 2021-22, the Council narrowly missed the balanced budget set prior to the start of the financial year. The Council-wide outturn for General Fund activities was an overspend of £25.7m. This position consists of Covid related expenditure or income foregone of £25.2m which was met entirely by Covid grant funding, leaving a business-as-usual remaining overspend of £0.5m. This demonstrates that the Council has been heavily impacted by the pandemic but that it was able to sufficiently fund this through application of the grants received from central government, therefore there is a sufficient level of control of the underlying financial position. The remaining overspend is not deemed to be significant enough to suggest a weakness in the Council budget management arrangements as it represents only 0.2% of the planned net budget requirement of £243.1m for 21/22 and therefore unlikely to exert significant pressure on the future financial viability of the Council.

In line with prior years the largest overspends in specific services within the 21/22 outturn position are in Children's Social Care (£5.2m) and Adults Social Care (£4.5m), this is a common picture across the sector. These services are an area of focus for the Council and having undertaken targeted benchmarking to highlight where potential opportunities for savings and efficiencies can be taken advantage of the Council are now working with an external consultancy to assist in realising the opportunities in Adult's Social Care with work to realise efficiencies in Children's Social Care and updating systems being prioritised in future years. Work remains ongoing but the use of external expertise to support the transformation effectively responds to our recommendation in our prior year VFM work suggesting that the Council should prioritise the completion of reorganising social care work and the system used by those staff.

Resource from the external consultant has been used to provide the necessary capacity and capability to deliver strategic transformation on the scale required to effect the necessary changes. This change programme within Adult Social Care is known as Empowering Lewisham. The Design and Implementation phase of Empowering Lewisham is nearing completion and has included new ways of working, the transformation and reconfiguration of services and the transfer of sustainable skills and knowledge to staff. The IT systems that support Adult Social Care have been upgraded and this has resulted in better oversight of expenditure to date.

Looking forwards the Council will receive additional financial support targeted at these services specifically with the 22/23 Local Government Settlement confirming that all existing funding streams have continued to be provided for 22/23 with two new funding streams announced - the Market Sustainability and Fair Cost of Care Fund and the Services Grant. The government expects these funding streams will support councils to meet the extra cost and demand-led pressures to keep providing services at pre-pandemic levels and therefore are targeted at Adult Social Care and Children's Social Care which are demand-led in nature.

22/23 Budget

For 2022/23, in line with legislation, the Council has set a balanced budget which was made up of a General Fund budget expenditure requirement of £248.610m matched with funding from a variety of expected sources.

The Council developed the 22/23 budget using a 'roll forward' approach utilizing the prior year budget assumptions and updating for known changes in expenditure and funding. This roll forward approach is a well-established methodology applied at the Council and across the sector. An alternative budgeting approach would be zero based budgeting, where the budget is developed from scratch with no prior year information used. As noted in our Governance work although this does provide the opportunity for a full review of costs and could generate additional efficiencies yet to be identified, the approach is significantly more time consuming and resource intensive and therefore is not practical for the Council. Given the overspends reported in Adult Social Care and Children's Social Care this approach could be beneficial if targeted towards those services however, given that work is in progress with Adult's Social Care with external consultants, we believe the outcome of that work may need to embed before any further changes to budgeting are considered so as not to overwhelm staff in those services and allow change to take effect.

We would expect the Council to review and update assumptions in relation to key sources of funding (from Council Tax, Business Rates, fees and charges and grants), key sources of expenditure (inflation, adult social care and pay), savings and efficiencies and reserves each year during the budget setting process. Review of the budget and Medium Term Financial Plan (MTFP) has noted that each of these has been considered and updated in line with expectations.

The funding assumptions were all in line with expectations and deemed to be realistic based on the information available at the time the budget was produced. Council tax was set at the maximum permissible amount of 2.99% (1.99% increase in the core Council Tax as announced in the provisional Local Government Finance Settlement and 1% increase for the social care precept) is appropriate as this remains the most stable and predictable form of income within the local government sector and therefore the Council is seeking to maximise the benefit of this income stream. All grant income included in the budget is as per the local government settlement announcement and fees and charges have been increased between 3-10% as a result of a full review (except for those fees set by statute). The increase in fees and charges to maximize a key income stream has been balanced with Council priorities and the requirements of legislation.

In relation to expenditure assumptions in the budget inflation, pay and social care costs are those area we would expect to have the largest impact to the spending power of the Council, and all have been sufficiently considered and updated. The Council has budgeted for a non-pay inflation rate of 3% per annum to reflect the Council's commitment for contracted goods, works and services and equates to approximately £2.7m (net) in 2022/23. This is lower than the forecast Consumer Price Index (CPI) inflation rates for 2022 of 4.6% available at the time of budgeting, with inflation having continued to increase since the budget was set (Inflation CPI 8.6% at August 22). Therefore, there is a potential budget shortfall as a result of underestimating inflation at the time the budget was set of approximately £1.5m based on the 1.6% difference, this shortfall is expected to be much larger now knowing that inflation has continued to increase. The Council has identified £21.3m of pressures within the 22/23 budget which have been fully funded, this includes £6.5m of risks and pressures including inflation. As such the contingency for inflation within the budget is appropriate based on the inflation figures at the time of the budget being produced but will not cover the ever-increasing rates seen in 22/23. Another topical area of challenge across the sector we would expect to be planned for are rises in energy prices. £1.4m has been set aside within the budget under the 'Greener Lewisham' agenda to address this pressure.

Similarly, the Council has included 2% per annum average pay inflation increase within the budget, which is based on the historic pay increases and the Bank of England's target inflation rate. This is also considered optimistic and therefore our recommendation covers both pay and non-pay inflation. There has been a long-standing real term pay freeze across government, of which many government bodies (including the Council) have received pressured on lifting due to rising costs, this factor along with the rising inflation rates noted causes us to believe that the 2% assumption is not sufficient.

The budget setting process is a 'live' approach, where the budget assumptions are continuously reviewed throughout the year via the budget monitoring reports and informal meetings between Finance and the Directorates and so mechanisms are already in place to make updates for key assumptions in inflation where these have been underestimated during the budget setting. To ensure the budget remains balanced this may also see changes to savings required or use of reserves unless additional funding is provided by central government to support the cost (currently there are no communications which support this potential solution). The budget monitoring reports for 22/23 to date demonstrate that methods such as corporate budgets being released and reserves will be used to fund the additional pay award and inflation pressures identified ensure the year end outturn position can be protected.

The Council have a Public Accounts Select Committee (PASC) whose role is to review and how the Council manages and uses money, having a committee with this specific remit ensures that there is scrutiny of finances throughout the year with advice provided to Mayor & Cabinet as required. Having this specific committee set up for finances then allows the Council's Overview & Scrutiny Committee to focus on a wider range of cross cutting issues without taking away resource from reviewing finances regular, which is a priority for the Council and the Sector. Discussions with officers also confirms that regular informal meetings occur with the Overview and Scrutiny Committee to review financial performance and savings as they are developed at budget setting. Scrutiny and challenge of finances, especially on an ongoing basis, is even more important in 22/23 and beyond given the uncertainty in funding streams and escalating assumptions such as inflation and there is evidence the Council has strong mechanisms in place to support this review.

Medium Term Financial Plan (MTFP)

The Council continues to update its MTFP annually during the budget setting process for the next year. This involves updating for the future funding landscape (known or forecast) and estimating future expenditure forecasts using 22/23 budget as a baseline. In addition, there has been analysis undertaken on expected risks and pressures and these have been incorporated into the budget and MTFP.

The Council has identified an estimated budget gap of £36m over the next four years (2023/24 to 2026/27). The current base case assumptions produce a profile of £10m, £10m, £8m, and £7m in each year. The report also presents the assumptions for an optimistic and pessimistic case which, given the number of variables, moves the four-year budget gap down by £19m or up by £17m from the base case of £36m. In the prior year we recommended that the Council needed to further develop their scenario planning, sensitivity analysis and stress testing, there is a clear increase in the detail and analysis used to develop these scenarios in the MTFP since the prior year and so our recommendation has been effectively responded to.

The Council have already begun acting on a number of initiatives in order to address the medium-term gap. These include the work currently underway with external consultants to realise savings and efficiencies in Adults Social Care. The Council has also undertaken benchmarking with similar Councils to identify other areas where they have comparatively high costs, these have been identified as learning disabilities, younger adults and those with Mental Health challenges. Root cause analysis has highlighted that the Council has not spent enough on prevention such as enablement services, and therefore has incurred additional spending on these areas in the medium-term.

The MTFP includes £11.8m budget cuts for 2022/23 and £3.6m for 2023/24. These were predominantly identified in the 21/22 budget setting process and have been reviewed by officers to confirm they remain deliverable. We have reviewed savings and budget cuts within the budget and reviewed these against the Corporate Plan. We are satisfied that the cuts and savings do not cause the Council to deviate from its priorities and represent delivering services different for the benefit of service users as opposed to removing or reducing services.

Budget reductions are identified each year through the budget process with the £11.8m being made up of £10.4m identified in 21/22 and the remainder identified as part of the 22/23 budget process. We would expect the identification of budget cuts to continue as part of the 23/24 process and MTFP update to close the future gaps. Executive Management Team (EMT) have reviewed the assumptions used and confirmed their intention to continue to use the targeted key service led approach and to seek efficiencies as set out in the report to developing future budget reduction proposals. This will involve EMT and Senior Leadership Team (SLT) working to develop draft officer proposals to be put to Members for scrutiny. All services are a part of this process.

Overall, there is a timely, ongoing and comprehensive approach to the budget gaps identified from our discussion with officers however there is limited evidence of any formal action plan provided to members to detail these actions being taken and allowing them to monitor progress.

Improvement Recommendation – the Council has developed ‘worst case’ scenario forecast as part of the MTFP and would benefit from developing actions that could be taken, at a high level, to respond should that scenario occur and communicate this to members. This will ensure that the Council can respond in a timely manner should any aspects of that scenario materialise.

Given the fact that employees are a significant cost to the Council and inflation, pay awards and National Insurance changes are expected to have an impact on these costs in 22/23 and beyond we would expect that the Council to have developed a Workforce Plan or Strategy that details the future expectation of the establishment based on Council priorities to help inform the budget. We have not been provided with any evidence of any such plan in our work, budget holders do have access to establishment information from the HR and Payroll systems which allows delivery plans and staff costs to be reconciled, however this is based on current establishment and is not forward looking in nature. In addition, the establishment information that the system provides is only one aspect of a workforce strategy and therefore other important aspects such as planning for hierarchy, team sizes, skills and skill mix requirements and demand is not currently available in one forward looking plan.

Improvement Recommendation - We recommend that a Workforce Plan or Strategy is developed covering all aspects of the future workforce required for the Council to fulfill its priorities and that the Council align this framework to the existing 22/23 budget, future budgets and MTFP to ensure they're complementary of one another. This will ensure that the future establishment is affordable and Council priorities are met within budget constraints.

Savings

The savings delivery target for 21/22 included £8.1m of undelivered savings in 20/21 rolled forwards and £22.6m of savings identified in 21/22 therefore bringing the total to be delivered in 21/22 to £30.7m. Almost half of this total was to be achieved by the Community Services directorate and therefore demonstrates that the Council is heavily reliant on this directorate in order to make the efficiencies required to meet the balanced budget set for the 21/22 year.

The Council did not deliver the 21/22 savings target in full with £5.5m of the 20/21 rolled forward savings and £8m of the 21/22 savings target undelivered. This equates to a substantial 44% non-delivery. The undelivered 20/21 savings have been largely covered by Covid-19 grants however this is unsustainable given the uncertainty of this type of funding for the future and therefore cannot be relied upon going forwards. The fact that there are undelivered 20/21 savings rolled into 21/22 which remain undelivered for a second-year running does not demonstrate a strong track record of savings delivery. However, despite the additional pressures from unachieved savings, the Council has still produced an appropriate outturn position of a minor deficit and has not had to rely on reserves to fund the gap. Savings underperformance has been common-place across the sector and is largely attributed to pressures in responding to the ongoing impact of the pandemic and recovery of service following the pandemic.

The non-delivery is largely attributable the Community Services directorate where there are £10m of undelivered savings, the larger ask in terms of delivery is a factor here. Specifically, the under delivery relates to pressures associated with being able to deliver planned adult social care packages. This pressure was flagged via the budget monitoring reporting in year which red rated several savings schemes within the directorate as unlikely to deliver, the most significant of which was £3m in Adult Social Care Demand management. The Council have recognised the ongoing pressure in the adult social care service and have engaged external consultants to assist in delivering transformational changes in the department with their work expected to be complete in 22/23. As such action has been taken but the impact is not expected to be immediate.

Using national returns made by all Councils we have been able to identify where the Council have comparatively very high unit costs which could be leading to the pressures. This analysis demonstrates that for Adult Social Care unit costs as a service overall are in line with other London Boroughs. This suggests that the Council does have control on some specific costs incurred by this service despite the savings issues noted. This indicates that the challenges in savings delivery in this service are likely to be a result of high demand/volume as opposed to costs.

Lewisham Service	Total Costs 2022/23 £000	Units	Unit Cost £	Unit Cost Score
TOTAL ADULT SOCIAL CARE (AGED 18+)	92,342	237,033	389.57	Average
Learning Disability Support – Adults (18-64)	35,486	207,679	170.89	Very High
Social Care Activities (18+)	14,487	237,003	61.12	Very High
Support with Memory and Cognition (18-64)	1,132	207,679	5.45	Very High

Source: RA Returns (Comparator London Borough Councils)

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At a more granular level there are some very high unit costs in specific elements of Adult Social Care, which have been offset by some areas of low cost, where the Council may look to target its savings. These are highlighted as learning disability support, social care activities and support with memory cognition. The work being undertaken between the Council and their external consultants includes a specific workstream in relation to Learning Disabilities and therefore the response to address this service is already in progress and is appropriate to prioritise given it has the highest total cost of the services identified in our analysis.

Improvement Recommendation – following on from the current work being undertaken with external consultants on learning disabilities, the Council could work directly with the Communities Directorate Adult Social Care Team to identify additional opportunities for savings in the remaining two areas. We note that currently the Council is prioritising Children's Social Care as this is experiencing demand led pressures and therefore these high unit cost areas may be revisited in future years

Officers have noted that there are early signs of the impact of work undertaken to both improve productivity and outcomes for people using their Enablement Service and also help to reduce or delay long term care placements. But these improvements come at a time when the NHS recovery plans mean pressure on service remains very high. It is clear that the Council understand the pressure and have acted, it will not be clear until the 22/23 whether actions taken by the external consultants have had a positive impact on improving the savings position.

The total savings plan for 22/23 is £25.2m, this is made up of £11.48m for 22/23, £7.8m undelivered from 21/22 and £5.6m undelivered from 20/21. In 22/23 with £8m is currently expected to be undeliverable in total. Again, the pressure is coming specifically from schemes in Adult Social Care Demand Management and Adult Social Care cost reduction and service improvement programme as a result of the lag expected between the action being taken and the time to take effect and embed.

The Council develops savings schemes to balance the budget each year and therefore does not have additional schemes in place should there be slippage, such as that being seen in 22/23 to date. However, there is clear evidence that the Council includes contingencies and provisions at the outset of the budget. Finance officers work closely with directorates to redesign, pair back or restructure services to respond to savings gaps.

The MTFP includes £36m of further savings needed over the 4 years from 23/24. When the MTFP is developed savings are requested to be developed over the same time frame. The MTFP includes some approved savings already in place for 23/24 and 24/25 but none in the latter years of the MTFP. The schemes that have been identified have reduced the overall requirement still to be identified and demonstrates that the Council effectively use both recurrent and non-recurrent savings schemes to meet their financial targets. This is good practice and ensures that there are already schemes 'laying in wait' in future years and reducing the pressure of identifying additional schemes each year..

Improvement Recommendation – there is an opportunity for the Council to focusing on identifying recurring savings which can impact each of the 4 years of the medium-term financial plan

Savings schemes are developed collaboratively between Finance and the individual directorates with review and scrutiny by Executive management and members throughout the year. Significant savings schemes are also subject to public consultation before being formally approved by Mayor and Council and Full Council within the budget setting process. Public consultation is built into the budget setting process and is targeted at specific areas of the budget each year as a rolling programme. **Some of these consultations are statutory, such as Business Rates and Council Tax, and the Council incorporates additional areas into the consultation process which re specific areas of focus**

Improvement Recommendation – there was no evidence of the consultation process including a review of the full savings programme, and therefore the Council may consider that this could be built into the budget consultation each year, on a recurring basis, given the need to improve savings performance. The Council do consider and undertake consultations on specific savings schemes as they deem necessary but a review of the full programme via this process provides the opportunity for all schemes to be reviewed and therefore maximise the potential efficiencies that could be identified.

Performing post implementation reviews of savings after they have been achieved is a way the Council could ensure lessons are learned and opportunities to make further savings are maximised, we did not identify any instances of these reviews occurring. It is important, given the scale of some of the projects, that this is formalised for the current work on Adult Social Care being performed with the help of external consultants as there may be the opportunity to extend some of these savings and efficiencies to other service lines.

Improvement Recommendation – the Council should perform these reviews, focusing on savings which have had the greatest financial impact.

Savings plans continue to be formally monitored on a monthly basis and presented to Mayor & Cabinet for oversight as part of the budget monitoring report. The monitoring is at an appropriately granular level to demonstrate how the Council is performing by individual scheme and at directorate level. In addition, the monitoring report is RAG (Red, Amber Green) rated which easily highlights to decision makers where issues are occurring which facilitates challenge and discussion on propose actions. However, we do note that Mayor & Cabinet have only had sight of financial monitoring including savings in July, October and December 21 with the outturn presented in June 22, there was also inclusion within the budget setting papers in February 22. Therefore, there are several meetings of Mayor & Cabinet where members do not have sight of the savings progress or financial performance even though monitoring behind the scenes and through Executive is monthly. There is limited discussion and challenge noted in the minutes to the Mayor & Cabinet meeting in relation to those savings which are red rated and expected not to deliver, although challenge of the overall budget and discussion has improved since the prior year. The Public Accounts Select Committee role is to look at how the Council manages and uses money and therefore scrutiny of savings sits within their remit. This committee receive the financial monitoring reporting, which includes the detailed appendix on savings, quarterly. The committee are then able to report to Mayor & Cabinet by exception on areas that require attention at this level of the organisation. The minutes from early 22/23 demonstrate that members are aware that there is under-delivery of savings but discussion on specific underdelivering schemes and action to be taken is limited.

Improvement Recommendation - the Council explore ways to encourage focused discussion by the Public Accounts Select Committee on specifically under delivering savings schemes in 22/23.

Monitoring in the latter half of the year focusses on the savings achieved, unachieved and the gap between the two. However, monitoring of the savings position in the early part of 22/23 is on a forecast basis and shows what is expected to be achieved based on progress to date, taking into account phasing of the schemes. This is an important distinction and provides decision makers with a clear and early indication of performance of savings to, again, allow action to be taken before year end when time may not allow for any positive impact on the financial position.

The delivery risks to savings are managed closely by Finance officers, and issues are communicated clearly to the responsible directors in order for mitigating actions to be put forward. This is primarily achieved through regular and informal 'Budget Management' meetings held by the Section 151 Officer with service leads as a drive to work more collaboratively and support directorates to take ownership of their own savings plans.

In the prior year we noted that the within the budget monitoring reports these should clearly articulate the underlying causes for the under delivery of savings plans. Although the presentation of savings performance is via a detailed appendix to the budget monitoring report there still remains limited information on cause or actions included within this and so our prior year recommendation remains unaddressed.

There is a Project Management Office (PMO) in place for 22/23 who have supported officers in identifying savings proposals and ensuring they are realistic. This new rigour in governance arrangements around savings will continue into 22/23 as the PMO will be monitoring and reporting on programme-wide delivery of cuts, risks and equalities impact. Clear roles and responsibilities (between the PMO and service Directors) have been drawn up in order to ensure there are clear lines of accountability. This is a positive and notable improvement in arrangements from prior years. As at July 22 31% of savings are expected to be undelivered, although some non-delivery is still expected this is an improvement on the 20/21 under-delivery of 44%. It is unclear how much of this improvement is a result of the PMO input specifically.

Cash

Consideration has been given to the level of cash reserves the Council holds. Strong cash reserves are indicative of a sustainable financial position for the future. The financial monitoring, cashflow and accounts of the Council show that the Council will enter 22/23 with £392.8m in cash, cash equivalents and short-term investments. Cashflow forecasting, produced until December 2025, demonstrates that the Council is expecting a net cash outflow in each of the financial years the forecast is produced for, however despite this outflow the Council expects to be left with £178m in cash at December 2025. This remains a substantial balance and therefore it is clear the Council has sufficient cash available for the medium term with which to support its day to day provision of services. The forecast is reviewed regularly, updated for new information and we have not noted any obvious omissions in terms of the sources of funding and expenditure included. Given the level of cash available in the medium term the Council has sufficient time with which to take action should cash balances begin to deviate from the forecast.

Reserves

For 21/22 the Council was able to set its balanced budget without the use of reserves to address any budget gap. Usage of some reserves was noted in the outturn report however these have been reviewed and confirmed to be pre-planned at the budget setting process and in line with the purposes for which those reserves were earmarked. As such this is not indicative of using reserves in a reactive or unsustainable manner. Uses of reserves were for reasons such as providing corporate funding to the Children and Young People's directorate to provide time to allow them to implement overspend reduction measures, planned insurance draw down and to support known high educational needs spend.

The financial statements confirm, that as a result of this planned usage, reserves in 21/22 reduced from £382m to £378m (decrease of £5m or 1.3%). In the context of the overall value of the reserves this movement is not considered to be significant and therefore is not suggestive of unsustainable usage. Benchmarking analysis with other London Boroughs demonstrates that the Council is in a comparatively strong position, and ranks in the top quartile in terms of the level of general fund, earmarked and schools reserves as well as reserves as a proportion of its net cost of services. The strong reserves position reflects the solid financial management arrangements that the Trust has implemented over multiple years and reflects consistent contribution to reserves in order to fund specific future priorities. A specific example is the 'Building for Lewisham' Programme focused on providing social housing. The significant level of reserves reflect the fact that this programme is a multi year programme with reserves being used across the medium to long term having been previously built up for this specific purpose.

The Budget Model for 22/23 is structured around three key phases which are:

1. Budget assumptions (including Budget Reductions, Council Tax, and Inflation)
2. Budget pressures to be funded
3. Risks and other potential budget pressures to be managed.

Therefore, there is evidence that the Council's use reserves as a last resort as it develops budget reductions, provisions and contingencies as part of the budget process as first alternatives.

For 22/23 the Council has identified £11.835m of budget reductions necessary to set a balanced budget, being £10.410m identified in setting the budget for 2021/22 and the further £1.435m identified in 22/23. These budget reduction measures were identified using a thematic approach sponsored by Members and led by the Executive Management Team and enabled the Council to set a balanced budget for 22/23 without using its reserves to do so. The delivery of these budget cuts is monitored, any shortfall will have to be covered, in the short-term by services offering alternative proposals or through the use of reserves. This would represent unplanned usage however as we have noted in our analysis the Council has a sufficient level of reserves to support this as a temporary measure.

In the 22/23 budget the Council has also identified £21.3m of budget pressures and identified funding to allocate to these to ensure key risks can be proactively managed within available resources. It is a matter of good budgeting to make a general allowance for risk and uncertainty, particularly at such a time of rapid change in the local government sector. An allocation of £6.500m in 2022/23 has been set aside for corporate risks and pressures, specifically, that are known at the time of the budget within the £21.3m total. The total has been fully committed to pressures which can be quantified within a reasonable range.

Two key emerging areas of financial pressure across the sector for 22/23 are in relation rising energy costs and pay awards. Within the 22/23 budget funding was allocated for risks associated with rising energy costs, at the same time as the Council looking to reduce energy consumption by becoming carbon neutral by 2030. However, there was an acceptance at the time that the budget was set that above inflationary tariff increases would likely outstrip any consumption savings and require funding. At July 22 this pressure has come to fruition with £1m of budgeted reserves being applied to partially fund the pressure on the General Fund due to energy price rises. Additional energy pressures are being seen in directorates where Finance are working closely with teams to identify measures to reduce this pressure by year end.

An unexpectedly large pay award was agreed via the National Joint Council (NJC) with trade unions which has also caused a pressure within the 22/23 budget. This has led to £4.5m of unbudgeted reserve funding to meet the anticipated pay award over and above the budgeted level for 22/23, this has already been incorporated within the budget setting for 2023/24. It should be noted that both the pay award and energy prices rises are out of the Council's control and they do have sufficient reserves, even where unbudgeted usage has been required, to address the issues. This is not sustainable in the medium term and therefore building these pressures into the 23/24 budget mitigates unplanned reserves usage as far as possible.

There are also several other risks and potential budget pressures to consider which are less easy to quantify with any certainty which may become an additional call on reserves through the year if they arise. These are regularly monitored and reported throughout the year in the budget monitoring reporting and as noted the reserves position is strong with which to address this additional pressure if required.

In 2021/22, the funds set aside in the budget model to meet specific identified budget pressures and potential budget risks was also £6.5m. This was allocated in full to identified risks and pressures and allowed the Council to perform just over budget at £0.5m deficit without the use of reserves, therefore historic performance and track record suggest that the approach for 22/23 remains appropriate. Should pressures such as inflation and energy costs continue to rise exponentially the Council may need to review whether the level of contingency is appropriate since £6.5m was set aside in both 21/22 and 22/23 but with very different rates of inflation in each year.

The budget confirms that the use of reserves will need to be considered in 2022/23 to meet any additional cost of recovery from Covid-19 not funded by government and for 2023/24 if sufficient measures are not found to set a balanced budget each year. Members are made aware use of reserves is a one off and once used cannot be replaced and would need to be rebuilt and thus are a last choice scenario and this message is continually delivered and reiterated through the Section 151 Officer regular meetings with members, budget reports and member briefings and as such the whole organization is aware of the importance attached to effective reserves management.

Conclusion

Overall, although we have identified areas for improvement in arrangements, these represent actions to be taken to ensure best practice in ensuring financial sustainability and do not represent a weakness in current arrangements. The Council's financial arrangements remain fit for purpose and improvements have been evidenced since the prior year, therefore demonstrating a positive direction of travel.

Improvement recommendations



Financial sustainability

Recommendation 1 (priority improvement recommendation)

In the continued efforts to improve savings performance against target the Council should explore ways to:

- encourage focused discussion by the Public Accounts Select Committee on specifically under delivering savings schemes in 22/23
- Undertake public consultation on the savings programme
- learn from successfully delivered schemes via post implementation reviews.
- savings under-delivery historically has been attributed to the Communities Directorate Adult Social Care Team and therefore Finance Officers should work directly with that team, in a targeted and collaborative manner, to focus on specific savings that can be generated from high unit cost services within this directorate that are not currently being addressed
- focus on identifying recurring savings which can impact each of the 4 years of the medium-term financial plan

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Why/impact

Due to the track record of under-delivery of savings in recent year, and expected under delivery in 22/23, close and more frequent attention may be required to the progress of savings schemes in year so that action can be taken in a timely manner to respond to any under-delivering schemes.

To maximise the success and achievability the Council could benefit from additional scrutiny and input in identifying savings in the initial stages of budget setting.

Performing post implementation reviews of savings after they have been achieved is a way the Council could ensure lessons are learned and opportunities to make further savings are maximised.

Although Adult Social Care is a demand led service with high costs being a product of increasing numbers of service users, specific services with Social Care where unit costs are also high could exacerbate the overspends observed in this service.

Ensuring that savings identified cover the full MTFP term maximises potential savings across the medium term and reduces pressure to identify additional savings each year by focussing on identifying those which are recurring.

The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations



Financial sustainability

Summary findings

Although Mayor & Cabinet receive details of the progress of savings within the budget monitoring report, there are several meetings of Mayor & Cabinet where members do not have sight of the savings progress or financial performance even though monitoring behind the scenes and through Executive is undertaken monthly. There is also limited discussion and challenge noted in the minutes to the Mayor & Cabinet meeting in relation to those savings which are red rated and expected not to deliver, although challenge of the overall budget and discussion has improved since the prior year. This role of challenge and scrutiny of savings is fulfilled, instead, by the existing Public Accounts Select Committee whose role is to look at how the Council manages and uses money and therefore scrutiny of savings sits within their remit. This committee receive the financial reporting and savings appendix quarterly and are then able to report to Mayor & Cabinet by exception on areas that require attention at this level of the organisation. There is an awareness of the under-delivery of savings but limited discussion on specific underperforming schemes.

We did not identify any post implementation reviews taking place in relation to successful savings schemes. The Council are undertaking work to identify and realise savings and efficiencies in Adults Social Care with the assistance of external consultants and given this is a large-scale project its important lessons are learned from the efficiencies identified to allow these to be extended or rolled out to other areas of the Council where possible.

The Council undertakes public consultations each year when undertaking the budget setting process. These focus on different topics each year in a rolling programme. This year consultations were focused on rent setting and business rates. There were no consultations with the public in relation to the savings programme as a whole and such consultation may be a given the need to improve savings performance.

Using national returns made by all Councils we have been able to identify where the Council have comparatively very high unit costs which contribute to the pressures. These are highlighted as learning disability support, social care activities and support with memory cognition.

The MTFP includes some approved savings in place already for 23/24 and 24/25 but none in the latter years of the MTFP, which spans to 26/27 . These schemes have reduced the overall requirement still to be identified in each year and therefore are a benefit to the future financial sustainability of the Council.

Management Comments

This recommendation is taken in the spirit of continuous improvement and management action will focus on consideration of doing more of the steps already in place. For example:

- PASC will continue to carefully review and scrutinise the financial budget setting and monitoring reports with particular attention to progress with delivering savings.
- As we do each year, we will continue to consult internally and with the Cabinet Member for Resources and Strategy on the best approach to engagement around Budget proposals, building on the current process of discussing and inviting all Members to contribute to including the option to run a larger public consultation on the savings proposed. Officers will continue to undertake public consultations on specific proposals that directly impact on our residents and the local community.
- The Finance Business Partnering approach will continue to be developed with learning from recent successfully delivery service changes (captured as part of service plan reporting by each Director) and improved with the business intelligence and support using data insights and performance benchmarking to effectively target risk and opportunity.
- Within the constraint of local government only receiving one year settlements at present, officers will continue to work on the potential for more transformational multi-year savings options, building on the work done in the larger social care services in recent years.

The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations



Financial sustainability

Recommendation 2 (priority improvement recommendation)

The Council should develop a Workforce Plan or Strategy covering all aspects of the future workforce required for the Council to fulfill its priorities and that the Council align this framework to the existing 22/23 budget, future budgets and MTFP to ensure they're complementary of one another. This will ensure that the future establishment is affordable and Council priorities are met within budget constraints.

Why/impact

Ensuring the budget, MTFP and Workforce Plan are complementary of one another will ensure that the future establishment is affordable and Council priorities are met within budget constraints

Summary findings

Employees are a significant cost to the Council and inflation, pay awards and National Insurance changes are expected to have an impact on these costs in 22/23 and beyond. We would expect that the Council to have developed a Workforce Plan or Strategy that details the future expectation of the establishment based on Council priorities to help inform the budget. We have not been provided with any evidence of any such plan in our work, budget holders do have access to establishment information from the HR and Payroll systems which allows delivery plans and staff costs to be reconciled, however this is based on current establishment and is not forward looking in nature. In addition, the establishment information that the system provides is only one aspect of a workforce strategy and therefore other important aspects such as planning for hierarchy, team sizes, skills and skill mix requirements and demand is not currently available in one forward looking plan.

Management Comments

In the context of local authority a single plan or strategy would not be appropriate, given the varied nature of services and the skills required. However, we can identify any common themes identified and build these into the overarching People and OD strategy which sets out our vision for our people and identifies the areas we need to focus on to achieve our ambitions.

Detailed workforce planning takes part in the annual service planning process supported by finance, HR and transformation business partners. The Councils service planning framework encapsulates the areas identified within the audit. We can also seek to strengthen the guidance for managers on service planning as well as the working relationships between the relevant business partners to ensure that these three areas are appropriately aligned.

Principles in relation to structural design e.g. spans of control and hierarchy fall outside of service planning, and are covered within the Council's management of change (restructure) policy

Improvement recommendations



Financial sustainability

Recommendation 3 (minor improvements recommendation)

Overall the Council's arrangements to secure financial sustainability are appropriate, the Council may wish explore ways that it can make iterative improvements to demonstrate best practice financial arrangements. These could include developing actions that could be taken, at a high level, to respond should that 'worst case' scenario included in the MTFP should it occur and communicating this to members. This will ensure that the Council can respond in a timely manner should any aspects of that scenario materialise.

Why/impact

The Council made a small deficit in 21/22 and the 22/23 financial landscape is forecast to be challenge for London Borough of Lewisham and the Local Government sector as a result of Covid-19 challenges not matched by additional funding, rising inflation, pay increases and the cost of living crisis which could all potentially negatively impact the year end financial position. As such it is important that the Council has robust arrangements in place to monitor finances closely and respond to issues as they emerge.

Summary findings

See body of the report.

Management Comments

Officers bring the experience of having been consistently involved in making budget reductions each year since 2010 (gross £230m to date; including £92m reinvested to reshape service delivery and meet demand), working closely with partners in the Borough and across London, and effectively managing the Council's financial security and stability, including the use of reserves.

Officers will continue to develop this experience to inform the assessment of the financial risk landscape and update the risk mitigations for these risks quarterly as part of the corporate risk management strategy. The risk register is reviewed by the Executive Management Team and PASC quarterly which will provide the opportunity for actions to be agreed as necessary and scrutinised to ensure lessons and improvements are acted on.

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

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Risk Management – Strategy and Risk Register

The Council's current Risk Management Strategy is unchanged from previous years, the strategy covers the period 2017-22 and a refreshed strategy is due to be reviewed by Audit Panel in December 2022. At the June 21 Audit Panel, the 2017-20 strategy was reviewed and extended to 2022, the Panel have been appropriately updated on progress of the strategy throughout 21/22 and it is clear that the refresh of the strategy is progressing as planned. It is our view that key policies should be reviewed every 3 to 5 years, or as a result of changes in the operating environment or regulation/legislation, to ensure they remain relevant and fit for purpose. The current timeframe for updating the strategy meets this expectation.

We raised a recommendation in the prior year that the Council should streamline and centralise the approach to risk management, which is the purpose of the refreshed strategy. The refresh of the Strategy has been delayed as a result of the diversion of resources due to Covid-19 and the Finance Restructure which has impacted the resourcing of risk management.

The Head of Assurance has expressed satisfaction in the Annual Internal Audit Report that during the year ended 31 March 2022 the Council's management of its internal controls was adequate and effective and positive assurances were provided. This opinion included arrangements in risk management. Therefore, despite the need for a refreshed strategy, the existing risk management arrangements have remained fit for purpose. Some recommendations were raised by Internal Audit which included themes such as ensuring considerable time is allocated to develop the Council's risk approach to include its reporting, comprehensiveness and integration with wider decision-making. The Council has expressed commitment to addressing these as a priority and improvements are expected following the refreshed strategy being implemented in 22/23.

A specific review of the risk management framework was undertaken by Internal Audit and a report issued in June 2021 which gave reasonable assurance (satisfactory). An action plan is in place and was monitored throughout 21/22 with progress being reported to the Executive Management Team (EMT) and Audit Panel. Once the refreshed strategy has been implemented the Council would benefit from a further Internal Audit review to ensure it is fulfilling its purpose and operating effectively, this will be confirmed by the Internal Audit Plan developed after 22/23 as the strategy was not implemented at the time it was developed.

The Council's Audit Panel continues to receive quarterly reports on strategic risk management from the EMT, including the Strategic Risk Register itself for review. EMT provide a pivotal support role which ensures there is a link in the management of risk between the Directorates and the Members of the Audit Panel. Therefore, Audit Panel and EMT are fulfilling their responsibilities as outlined in the Risk Management Strategy. The Strategy also expects that Mayor and Cabinet should receive an annual report to provide assurance that the Council has considered and documented risk in the Strategic Risk Register, however we have been unable to evidence that the Mayor & Cabinet have received the risk register in year or an annual report on risk. Membership of the Mayor and Cabinet and the Audit Panel does not have any commonality and therefore there is a lack of oversight of risk at the top level of the organisation. Risk is inherent throughout Mayor and Cabinet discussions, in particular financial risk in their scrutiny of the budget, and therefore there is some consideration included in other agenda items even through there is no standing item covering risk management.

Improvement Recommendation - The Council should ensure that there is a greater level of oversight of the strategic risks impacting the Council by Mayor and Cabinet. There is effective oversight of risk by EMT and Audit panel, however oversight at the top of the organisation could be strengthened. The risk management strategy needs to be followed consistently.

The format, frequency of review (quarterly by Audit Panel) and intensity of review (there is evidence of member and officer scrutiny at each meeting) of the Strategic Risk Register is appropriate, in line with expectation and reflective of the level of risk the Council faces. In order to ensure that risks can be appropriately assessed by decision makers we would expect the format of the risk register to meet some minimum standards – these include:

- risks being assigned to a specific officer for accountability,
- risk being RAG (Red, Amber, Green) rated to highlight those that require immediate action,
- direction of travel of each risk is clear to highlight any trends where action should be taken immediately or risks removed,
- scoring includes likelihood and impact factors and that risks are linked to the Council's objectives

There have been changes to the format of the risk register over the year which overall has improved its benefit to the users of the document, overall three of the four minimum standards have been achieved. The risk register includes clear mitigating actions being taken to respond to each of the risks although the impact these are having on the risk score is unclear.

Improvement recommendation - following updates to the risk register the Council should ensure that risks are linked to corporate objectives and that there is a clear distinction of risk score before and after mitigating actions so that the full impact of actions can be seen and challenged.

To ensure the number of risks is manageable, reflective of the size and operations of the Council and strategic in nature we would expect the risk register to include between 15 and 30 risks. The Council has 27 risks which is at the higher end of this range. Having compared to large unitary Councils, both in and out of London, we would suggest the Council is also comparatively higher in terms of number of risks. However, there is regular review via EMT, and Audit Panel, and changes are presented at each meeting therefore we are aware there is a continual effort to ensure that risks are relevant, we see additions, changes in risk scoring and removals throughout the year. Therefore, the high number of risks is not having a negative impact on the level of oversight achieved.

Risk Management – Internal Audit

The audit service is delivered by an in-house team of auditors and complemented by technical support for IT assurance from PWC and additional resource from Mazars, each procured through framework agreements. From August 2020 to January 2022 the Head of Internal Audit role was filled by a secondee from PWC, with the current Head of Assurance starting in January 2022.

The 21/22 Audit Plan included 67 engagements, 41 covering the Council's service directorates and 26 covering schools. At year end 21 of these engagements (including 9 schools) did not take place but Internal Audit were satisfied they had sufficient assurance from prior year work and the 6 engagements that had been added to the plan in year to provide a robust annual opinion. The incomplete work is across several different areas of operations and therefore there are no gaps in assurance in any one particular area, the completed work has good coverage across a range of topics.

The Internal Audit function experienced resourcing issues stemming from long-term sickness and redundancies following the Finance review that required adaptations to the plan as originally presented to Members. These changes were raised in good time to the Audit Panel who agreed changes to the plan focusing on high-scoring risk areas, reliance on recent alternative assurance and using more bought-in resources to supplement delivery.

The Internal Audit function has sought to continue to achieve efficiency in further developing its existing Quality & Improvement Plan. This includes actions such as spending more time planning engagements to avoid wasted time at the fieldwork stage, adapting the existing standard reporting templates to save time and improve quality, and seek shorter, more specific actions to ensure follow-up is more focused. Each action is expected to have a positive impact on the progress of the Audit Plan in the 22/23 year.

Improvement recommendation - Although the Internal Audit opinion has not been jeopardised as a result of the resourcing issues, we would recommend that the Council and Audit Panel work with Internal Audit to ensure that the 22/23 audit plan is achievable and review the number of reviews required to provide an appropriate opinion aligns to the time and resource available. The Council should track progress against the Quality Improvement Plan to ensure that Internal Audit are held to account and delivery of the 22/23 plan.

Of the 21/22 reports completed, 4 were issued with a limited assurance rating. Management have accepted the recommendations, following challenge or requesting more information as required, and updates have already been made to arrangements for those limited assurance reports. The Head of Internal Audit has confirmed that none of the engagements, individually or together, led them to qualify their overall opinion.

The Audit Panel receives an annual assurance report from Internal Audit as well as quarterly progress reports which inform the panel on the Council's progress against recommendations and assurance ratings for each review. The format and content of the reports is in line with prior years and other Councils and does not cause concerns about the level of information Audit Panel are receiving and a quarterly review is sufficiently regular.

There has been sufficient review of both Internal Audit and the Audit Panel in year do assess the effectiveness of these functions. The Internal Audit function has complied with the requirements of having an annual external review against the Public Sector Internal Audit Standards (PSIAS) which concludes that Lewisham generally conforms to the Standards. This is the top of a three-point scale used by City of London that also includes 'partially conforms' and 'does not conform' as possible outcomes.

The Audit Panel itself has been subject to a review by the Council's own Public Accounts Select Committee in line with the Constitution which included a self-assessment against its Terms of Reference. The outcome of this raised no concerns with the effectiveness of the Panel.

Improvement Recommendation - the Audit Panel are subject to extensive review in their effectiveness, but we have not identified such reviews for other committees and recommend these could be of benefit to ensure committees remain fit for purpose and operating in line within their Terms of Reference.

Budget Setting

The approach to setting the budget has remained largely consistent with the prior year with the 22/23 budget being finalised and approved by Cabinet 9 February 22. Prior to approval by Mayor and Cabinet the budget is reviewed and challenged by the Executive Management Team and Overview and Scrutiny Committee. Final sign off and approval was then provided by Full Council in March 2022.

There is evidence that there has been effective liaison between budget holders and finance, led by the Section 151 Officer, throughout the year and this has been largely achieved through the newly established Budget Management Meetings. The output from these meetings was an agreed schedule of budget reductions proposals which were approved by Mayor and Cabinet and the Public Accounts Select Committee and incorporated into the 22/23 budget. To support a culture of effective financial management and ownership throughout the Council, a series of workshops have been set up, led by Finance, with all departments to ensure all levels of the organisation are involved in the budget setting process, buy in is achieved and importance of financial management is emphasised.

The development of the budget has been a collaborative process between the Finance team, led by the Section 151 Officer, directorates and members in 22/23 with the Section 151 Officer providing a clear link from the members of the organisation to those directorates delivering the requirements of the budget. This is a clear improvement from the process in prior years which focused on a more 'top down' approach to setting the budget delivered by the Finance Team. Further developments have taken place in 22/23 to increase collaboration, with a member away day held in October 22 to ensure the same collaboration at this more senior level is achieved. In place of this event the Section 151 Officer Officer has liaised with members via member briefing and informal member meetings, to discuss finance and strategy and answer any questions. The success of these meetings is evident in the increased level of challenge and discussion observed in relation to the budget papers at Mayor and Cabinet in February 22.

The Chief Executive meets with members monthly to enable the link between operational matters, financial and non-financial, and strategy to be discussed. Both the Chief Executive and the Section 151 Officer meet every 6 weeks with Finance Scrutiny committee, to promote open and honest discussion on financial challenges and share the monthly financial monitoring report.

The Council aim to establish a "budget manager self-service arrangements" where budget holders for the directorates take ownership for developing financial forecasts and monitoring, which are key components of the budget setting process. There is an awareness at the Council that this approach will require additional training and support for directorates and are seeking to provide that over the medium term. Once this is achieved the aim is to implement a full business partnering approach and therefore achieving a greater level of collaboration. The collaborative approach observed in 21/22 in relation to the budget is an important stepping stone to achieve this approach and demonstrates a positive direction of travel.

The Council took part in the Local Government Association (LGA) Peer Review which was reported in Nov 21. The aim of this review was to assess the Council's governance arrangements and provide recommendations for improvements that could be made to achieve best practice. One of the recommendations suggested that the Council may wish to strengthen budget setting arrangements by undertaking a three-year detailed budget to include transformation of children's and adults, undertake zero based budgeting and work collaboratively with partners. Discussion with the Finance Officers at the Council has noted that although zero based budgeting was considered it has been deemed time consuming and therefore impractical, we agree with this sentiment since the Council is already seeking efficiencies in specific directorates (noted in Financial Sustainability) and implementing a more collaborative approach between finance, directorates and members in the budget setting process. While this is embedding it does seem impractical to also change the budget approach just as members are beginning to understand and engage with the current process.

Financial Monitoring

Financial performance continues to be presented on a quarterly basis to Mayor & Cabinet and this is deemed sufficient based on common practice in the sector, the schedule of meetings which are around every 2/3 months and the financial risk facing the Council. Prior to the meeting of the Mayor and Cabinet performance is sighted by EMT and Public Accounts Select Committee to ensure that there is a good level of scrutiny and discussion and key issues highlighted to decision makers. There is also more informal discussion at Budget Review Meetings between the Section 151 Officer and Directorate leads to ensure that all levels of the organization are involved in monitoring performance and held accountable. This represents a comprehensive level of review of the financial information throughout the year.

The reports are detailed and extensive in their information, using appendices to ensure that decision makers are provided with a full suite of information with which to make informed decisions. We would expect the level of detail in the narrative to reflect the financial risk facing the organization and since there were overspends highlighted in year the level of detail is appropriate to address the risk being faced at the time. The narrative does focus on those sub-services where there are overspends and more detail weighted towards the greater overspends such as Children's Social Care. This is appropriate so as not to overwhelm decision makers with information.

Improvement Recommendation – budget monitoring reports would benefit from shifting the balance away from reasons of overspends and towards the forward look of how performance can be improved.

The Executive summary clearly sets out performance against budget and the impact on the outturn at year end based on current trends. The use of forecasting is appropriate to allow decision makers to effectively see the impact of in year performance on the year end position and act in a timely manner.

We have noted performance being presented for Q1 in October 21, Q2 in December 21 and year-end outturn at June 22 to Mayor & Cabinet and therefore a gap in information for Q3. There is Section 151 Officer, Directorate and EMT involvement throughout the year particularly through Budget Management Sessions and the Public Accounts Select Committee receive the quarterly reporting, including a report to end of Jan 21 to fulfil this Q3 gap. However, given there was a forecast outturn of £8.5m overspend in Q3 we might expect closer and more frequent attention from Mayor & Cabinet.

Improvement Recommendation – upholding quarterly review of information at Mayor & Cabinet on financial performance is important considering in year overspends were noted, the level of reporting should reflect the risk and therefore the Council may also consider increasing the frequency of review of financial information by Mayor & Cabinet if in year overspends are deemed significant.

For information to be relevant to decision makers we would expect no more than a 1-2 month time lag between the period the information relates to, and the meeting being held, evidence suggests that reporting to both EMT and Mayor & Cabinet achieves this and therefore the information they receive is considered timely with which to make decisions.

An area of notable practice in the financial monitoring is the distinction between performance with and without the impact of Covid-19 so that Covid-19 pressures and the associated funding do not mask any areas of performance that may need to be addressed. There is a further drill down on performance within each directorate and extensive narrative to explain the reason for the performance.

The Council have an annual performance cycle as well as a mid-year update which is the key mechanism by which the performance of individuals is assessed. Financial performance is a key objective for senior management, and this is communicated through their job descriptions. However, there is no formal exercise as part of performance appraisals of individuals to hold them to their financial targets and this is an area that could be enhanced to improve accountability and ultimately performance at Council wide level. Currently there is no clear direct impact or consequences on an individual if they or their team doesn't financially perform.

Improvement Recommendation – the Council should explore ways to incorporate assessments of financial performance into the appraisals of budget holders to ensure that they have accountability for performance.

Decision Making

Through our review of documentation and interviews with key officers and it is evident that there is a drive for change in culture being driven by the Chief Executive and Section 151 officer. We have noted instances of this throughout the year and this was most evident from a greater level of collaboration observed between these two senior leaders, members and directorate teams. We have observed a heightened level of discussion and scrutiny at meetings such as the Overview and Scrutiny Committee, Standards Committee, Audit Panel and Public Accounts Committee which demonstrates a good level of challenge. In particular we note that the budget meeting of the Mayor & Cabinet scrutinised the budget on a line-by-line basis which we believe was possible due to the ongoing liaison and face to face meetings between the Section 151 Officer and members in the build up to the final budget being presented.

We have observed less challenge at Council with minuted discussion being limited, particularly on the budget. Given that there is appropriate challenge on the budget/savings at the other committees noted, including Mayor & Cabinet, we do not believe an improvement is needed to arrangements as the role of these committees is to support Council in their decision making and escalate issues on an exception basis for further discussion or approval.

As noted previously the Council took part in the LGA Peer Review which, although it generated some improvement recommendations, overall, the results were positive with recommendations being aimed at best practice as opposed to correcting existing arrangements. In particular, in relation to decision making culture, this review noted that the Council has strong political and executive leadership, and the direction of travel is well understood in the organisation. The refresh of the Senior Leadership Team (SLT) has been welcomed and there is clarity and commonality of purpose. This demonstrates a positive culture at the Council which has been achieved as a result of the increased collaboration and openness in discussion observed.

The Council aims to involve a range of stakeholders in its key decisions. There is evidence of involvement of Members, Finance, Directorate Leads/Budget Holders and the public being involved in the budget setting process. In addition, the Council extensively consults, both internally and externally, before implementing any significant change in services. The Council consults across a wide range of service changes and has a dedicated section for this on its website. We have noted consultations in year in relation to planning, schools, grants, Borough of Culture, health and pharmacy. The website is clear on how residents can take part and clearly published the responses and how they have been used.

Although the council has good mechanisms in place for obtaining service user feedback, unfortunately some areas see a trivial response rate. For example, Business Rates Payers consultation was open for 20 days to all businesses registered in Lewisham (>10,000). In total there were 18 responses, with only 13 responses appropriate for consideration. Although the Council assessed these 13 responses and identified two main themes which were considered as part of the budget, the feedback pool is not statistically proportionate of the population and therefore not a reliable source of information. Many of the service-related consultations have low response rates in comparison to the population. There is an opportunity for the Council to learn from and make improvements from more successful surveys, such as the Waste Management Strategy Consultation which garnered around 1,700 responses.

Improvement Recommendation - The council should investigate ways of increasing feedback response, options include direct contact, extending the window of response or increase awareness of the request so that responses increase and therefore the results are more accurate.

A judicial review was raised against the Council in 21/22 in relation to the Mais House Development. The City of London Corporation, who own the Sydenham Hill estate, planned to build 110 new social homes on the estate, for which the Council granted planning permission for a 100% social housing development at Mais House to allow this scheme to go ahead. Campaigners appealed the High Court's decision to back the Council's approval of 110 council homes next to the Sydenham Hill Wood nature reserve.

In May 21 a High Court judge ordered that Lewisham Council's planning permission for the new homes be quashed over "significant errors" in its decision-making. It was ruled amongst other things that a conservation officer's advice should not have been withheld from the planning committee when it approved the redevelopment. The planning committee at Lewisham Council subsequently granted permission for a second time in June 2021 following lesson learned.

A second Judicial Review was raised which concluded in July 22 with the Council winning the review and therefore confirming there was no unlawful decision making in granting the permission. The cause of the second judicial review has been investigated thoroughly by the Council and confirmed as an isolated human error in exceptional circumstances from a missed consultation letter. Given we have noted extensive consultations in our work and are not aware of any other incidents being raised against the Council we are minded to agree with this statement. The team responsible for the consultation have been made aware of the cause to ensure lessons are learned and all letters checked by the Council with no further missed letters noted.

Compliance and Regulation

There have been no changes to arrangements in place to monitor compliance with regulation and legislation in year and we have not identified any acts of misconduct, breaches of the constitution, legislative breaches or regulatory non-compliance, therefore indicating that arrangements remain fit for purpose.

The Monitoring Officer (MO) takes a lead role at the Council in ensuring these arrangements remain effective. The MO has been an interim role for much of the 21/22 year however this has not caused any issues in arrangements or evidence of non-compliance. A permanent Monitoring Officer was appointed from March 22. The Monitoring officer ensures compliance with the rules and procedures set out in constitution which requires councillors to follow formal procedures when taking decisions to make sure that decisions are made transparently and openly. The Monitoring officer attends Mayor & Cabinet and Council meetings and regularly briefs the EMT, Councillors and relevant staff on corporate legislative developments.

Legal advice is incorporated in every council report with each report including a standing item on legal and financial implications of the decision being discussed, this is completed and reported consistently throughout the year across all committees.

The Council has a newly established Assurance Board, chaired by the Chief Executive and attended by the Monitoring Officer and Section 151 Officer, as well as the Head of Internal Audit. This adds an additional layer of assurance in 21/22 that was not previously present with its aim being to ensure statutory duties are effectively discharged, complied with and share good practice. To date this has resulted in an observed greater level of understanding of members around the financial challenges and budget setting process at the Council.

There has been no evidence of any data security breaches or significant cyber incidents in year. An invoice dispute in year with a financial software provider did result in the deleting scripts and data used by the Council to process interface files from the Adult's and Social Care systems and the rent payments for landlords. This issue occurred between early May and late June 22. The Council reacted immediately following notification from the supplier. Actions included implementing an interim manual payments solution which included reconciliation controls to limit errors and ongoing liaison with the supplier to resolve the contract issue and find a permanent solution.

Each department issued payments in advance to carers who had claimed for financial hardship funds to ensure that quality of service was not hindered during this time. Reporting has included clear lessons learned from the incident which includes what worked well and what could be improved, it is clear what further action is needed and who is responsible. The ongoing response is being led by the Section 151 Officer who communicated with Mayor and the Cabinet Member for Finance and Strategy at the outset of the incident and with the specifically impacted Cabinet Members for Housing, Adult Social care, Children and Young People and Finance twice weekly via email during the incident itself. The Public Accounts Select Committee members received informal verbal updates during this period also.

Updates also included information on discussions with the incumbent supplier and potential new suppliers and the manual payments being made to ensure these can be scrutinized for any issues or errors. At the height of the issues informal meetings became more frequent, and therefore effectively reflect the changing risk of the incident. The actions taken have clear involvement from Mayor, Finance Portfolio Holder and Members in solving the problem, liaising with the supplier and reviewing the new manual processes.

We have not noted any reports provided to members via Mayor & Cabinet meetings during the incident and understand this is due to the dynamic nature of the issue and the need to act and update in a reactive way more frequently than the reporting schedule of Mayor & Cabinet would allow. There were no meetings in May 22 and the one at June 22 was towards the end of the incident.

Improvement Recommendation - to ensure that all members are fully sighted on the issues and in particular lessons learned, in relation to the financial software IT critical incident, although this impacted specific service lines lessons learned from the response may be able to be applied to future supplier or IT challenges and therefore shared knowledge of the process would be beneficial

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Conclusion

Overall, although we have identified areas for improvement in arrangements, these represent actions to be taken to ensure best practice in ensuring robust governance and do not represent a weakness in current arrangements. The Council's governance arrangements, where unchanged from prior year, remain fit for purpose and improvements have been evidenced since the prior year, therefore demonstrating a positive direction of travel.

Improvement recommendations



Governance

Recommendation 4 (priority improvement recommendation)

The Council should continually review its risk management procedures to ensure they remain effective and fit for purpose. This could include:

- ensuring that there a greater level of oversight of the strategic risks impacting the Council by Mayor and Cabinet
- updating the format of the strategic risk register.
- working collaboratively with Internal Audit to ensure that the 22/23 audit plan is achievable within the time and resource available.
- tracking progress against the Quality Improvement Plan developed by Internal Audit.

Why/impact

The Strategic Risk Register is a key mechanism for managing risk to the achievement of the Council's strategic objectives and therefore it is important that there is a clear link between those objectives and the risk being faced.

To ensure that the risks within the register, supporting actions and scoring remain appropriate it is important it undergoes regular scrutiny at the top tier of the organisation and is included in Mayor & Cabinet meeting papers for transparency to the entire organisation.

The Internal Audit Plan is key in ensuring an appropriate number and coverage of assurance reviews are undertaken in year to be able to provide an effective opinion on the strength of the Council's controls. The Audit panel plays a key role in holding Internal Audit to account for their performance.

Summary findings

The Risk Management Strategy expects that Mayor and Cabinet should receive an annual report to provide assurance that the Council has considered and documented risk in the Strategic Risk Register. We have been unable to evidence that the Mayor & Cabinet have received the risk register in the year or an annual report on risk.

The Strategic Risk Register has been updated in year and as a result has improved in its benefit to the users have the document. However best practice would ensure that the risks are linked to the Council's corporate priorities and that it is clear how the actions being taken to respond to each risk are impacting the risk score by confirming the score before and after these actions. We did not identify these two element in the Strategic Risk Register, although all other elements of the register were within expectation of an effective risk management tool.

The Internal Audit function completed an amended audit programme due to resourcing issues resulting from long-term sickness and redundancies following the Finance review. The revisions to the plan deferred some engagements for consideration in future years, and others where the function obtain alternative assurances from prior years and work added to the plan. The function has responded effectively to the issues by continuing to develop its Quality & Improvement Plan. The ability to provide a Head of Internal Audit Opinion for the 2021/22 year has not been impacted by the challenges

Management Comments

The refreshed risk management strategy was approved by EMT in November 2022 and will be rolled out in the new year. It includes biannual reporting to the Mayor & Cabinet of the highest risks.

Following the publication of the new Corporate Strategy in November 2022 we will refresh the risk register content in 2023 to link to objectives and align with formats in the new Risk Management Strategy.

Members approved the 2022/23 Internal Audit plan in March 2022 which includes a resource analysis and flexible options on delivery to support the achievement of sufficient breadth and quality of coverage to deliver a robust audit opinion for 2022/23

Improvement recommendations



Governance

Recommendation 5 (minor improvement recommendation)

Overall the Council's governance arrangements are strong and operating consistently in line with Council policies. The Council may wish explore ways that it can make iterative improvements to demonstrate best practice governance arrangements. These could include:

- updating financial monitoring reports to include details of actions being taken on overspending services throughout the year .
- ensuring that presentation of financial performance to Mayor & Cabinet is sufficiently regular.
- undertaking effectiveness reviews of their committees to ensure that they are performing effectively against their Terms of Reference.
- incorporating assessments of financial performance into the appraisals of budget holders.
- investigating ways of increasing feedback response to consultation exercises.
- ensuring that members are sighted on the lessons learned from the Financial Software IT Critical Incident.

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Why/impact

Strong governance is the backbone of any organisation and ensuring arrangements are as robust as possible maximises the Council's ability to make well informed decisions.

Summary findings

See body of the report

Management Comments

In relation to each point noted:

1. The financial monitoring reports which now flag the variances for key services with detail on service financial performance supported with activity details will be reviewed to include more clarity on next steps being taken.
2. The Council will continue to report on the financial position at least quarterly and keep open the option to report by exception to M&C outside of this cycle if necessary, as was done through the Covid pandemic.
3. The Audit Panel, by the nature of the internal audit standards, is under a specific expectation to review its performance and report on this annually. The second phase of the Constitution review being led by the Monitoring Officer will consider whether a similar approach might be appropriate for the Council's other Committees.
4. The staff appraisal forms currently have fields for identifying what is being done well and what could be improved based around key objectives. The guidance will be reviewed to assess the benefit of being more specific on financial management, to supplement the detailed expectations set out in the financial regulations and procedures.
5. The low response rate in relation to the Business Rates consultation is due to there being a statutory requirement for the Council to consult businesses on Council Tax, which does not directly impact on businesses. Due to the requirement to set a balanced budget by the 11th March and to issue papers well in time of the committee cycle, it would not be practical to extend the consultation period. The expectation is that extending the consultation period will not yield additional responses. We will look at direct contact if this is feasible within the resources we have available. The Council did use direct contact via our the Economic Forum partners for the 22/23 budget and still did not get many more responses.
6. Feedback on the Budget and monitoring of the risk registers is part of the quarterly PASC work schedule but, as set out else where we will continue to look to enhance the focus and value of these discussions to generate improvement and delivery more value.

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
 - evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Non-Financial Performance Reporting

The Council's operational performance is monitored via a suite of Directorate Management Reports, a separate report is produced for each Directorate at the Council. These are presented monthly to each directorate and quarterly to the Executive Management Team (EMT) for their review. This frequency is appropriate and is reflective of the overall performance being viewed for which there are no significant issues noted.

Since last year the quarterly EMT reporting format has been updated to include a dashboard alongside an executive summary report. This has initiated the response to our recommendation to consider adopting a balanced scorecard approach. The council is in the process of developing a new performance framework which will include a full balanced scorecard approach, support Senior Leadership Team in their role in managing performance and include mechanisms to review performance with respective Cabinet Members routinely.

In the prior year we recommended that the council continue to develop and support the creation of a centralised intelligence hub, the Council has responded to this by establishing a Corporate Insight Team which was created as part of the Support for Leadership restructure in July 2021. The team has been in place since October 2021 and have been integral in improving the format of the KPI reporting.

The dashboard includes a suite of Key Performance Indicators (KPIs) across numerous metrics, the reports are sufficiently detailed to assist in making informed decisions and the metrics included are closely aligned to the services and priorities of the directorates. The reports use a RAG rating system and 'red rated' exception reporting to focus attention on underperforming or high risk areas and is a critical tool for supporting decisions across the Council. This is important given that the volume of KPIs in many cases is deemed quite significant although we would not recommend removing these as all are deemed relevant and specific to the services being provided. Each metric is assigned to a responsible officer and there is a clear method of holding the relevant directorate or service lead to account should performance fall below target.

These reports are shared with Cabinet Leads, giving them direct line of sight to current and emerging performance issues. The appropriateness of Directorate performance measures is reviewed annually. However, we have not been provided with any evidence of this KPI reporting being shared with Mayor & Cabinet who are key decision makers at the Council.

Improvement Recommendation – the Council should increase oversight of the non-financial performance of the Council's services and directorates by members to help them make informed decisions and take action where specific services may be underperforming. This could be achieved via a summary KPI report alongside financial reporting so that the potential impact of non-financial performance on the Council finances can be observed and that financial and non-financial performance are given equal attention by members.

This recommendation builds on our recommendation from the prior year that a quarterly performance monitoring report should be provided to members to monitor and review.

The Council recognises that further developments are required to improve the impact of operational performance reporting and is committed to ensuring that quarterly performance is discussed with the Mayor and Cabinet members and considered with Scrutiny Members when setting their work programmes going forwards.

The quality of services for users is also measured through satisfaction surveys and information from the complaints management resolution processes. Reporting to EMT is done on a quarterly basis and is deemed sufficient in terms of frequency and in line with the prior year.

To support the KPI reporting in year the Council has also taken part in the LGA Peer Review. The review is aimed at reviewing governance, culture and other more strategic performance areas as opposed to detailed operational targets that the directorate reports monitor. Therefore it is a complementary view of performance as opposed to duplicating reporting already in existence. The report overall was positive in terms of the Council's performance and 11 recommendations were raised to assist the Council in working towards best practice arrangements. The report has been published on the Council website for transparency but there is a lack of evidence of the findings or any action plan being reported to Mayor & Cabinet.

Improvement Recommendation - the Council should develop and action plan from the findings of the LGA Peer Review to monitor success of the response to the recommendations with oversight from a relevant committee or Mayor and Cabinet. There may be scope to incorporate the findings into existing KPI reporting as those structures are already in place

Currently a data policy does not exist at the Council which would provide guidance and assurances over the data quality of the Council's performance reporting. Creation of such a policy is in progress and is expected to be completed by Q4 22/23. A draft policy has been developed and therefore progress to date suggests that this should be able to be finalised in 22/23 as expected. In the meantime directorate leads, Cabinet Leads and Executive Management have sight of and review the reports to identify any potential issues, including those highlighted due to inaccuracies. This is separate to data policies covering data protection and GDPR which are effectively in place and information available through the public website.

Improvement Recommendation - the Council should ensure that a data policy is finalised as soon as possible and that the terms of references of sub committees are updated so that the Mayor & Cabinet are able to take assurance of the quality of the data that feeds the board packs. Any delay to developing this policy will potentially impact data quality of non-financial performance reporting which can directly impact reliability of savings and financial performance at year end.

Benchmarking Analysis

Review of the Directorate level KPI reporting demonstrates that there is inconsistent use of benchmarking in these reports. We noted evidence of the Council comparing to its own internal performance by demonstrating the direction of travel of KPIs and also comparing itself to national performance within the Children's' and Young People's Directorate metrics and some of the Adults Directorate metrics. There was no evidence of comparison with national performance or similar organisations within the KPI reports of other directorates. This suggests that the Council focuses its resources on benchmarking in those directorates where it is felt most beneficial or reflective of the risk. These directorates are those facing recurring overspends each year and therefore focusing efforts in these areas is appropriate where capacity is a restriction.

The Council's approach to learning from other organisation through benchmarking is undertaken on an ad-hoc basis. The Council has benchmarking tools available such as LG Inform but does not subscribe to any benchmarking clubs per se. In year benchmarking 'deep dives' have been undertaken using the LG Inform tool, specifically in Children's and Adults Social Care. The results of this have been used, in conjunction with engaging external consultants, to develop and action plan to realise the opportunities in Adult Social Care specifically highlighted in the data. The work to realise these benefits is ongoing and expected to complete in 22/23 and work to realise opportunities in Children's Social Care will be prioritized in future years.

We raised an improvement recommendation in the prior year which stated that the Council should take a corporate approach to identify benchmarking good practice and co-ordinate its use within the services to challenge performance. We believe the ad hoc deep dives, KPI reports, use of LG Inform and engaging external consultants in year effectively respond to this recommendation for 21/22 but given that these have focused on specific services a Council-wide strategy still needs to be developed.

Improvement recommendation – the Council should introduce benchmarking into all directorates KPI reports to ensure that comparative performance is observed consistently and opportunities that this highlights can be maximised. The Council would benefit from a Council-wide benchmarking strategy as opposed to an ad hoc approach, although the targeted approach has been effective in year.

Additional improvements have been implemented behind the scenes to ensure there is a more structured approach to benchmarking going forwards. As part of the Support for Leadership restructure, the role of the corporate Performance Team is to become more focused on strategic reporting, forward planning, benchmarking and good practice. The team is currently in transition towards moving to this model, working with service areas to take ownership over operational performance reporting so the corporate team can focus on strategic reporting and benchmarking. The team will work closely with the wider service areas and Strategic Transformation & Business Partners to support services in making use of performance and benchmarking information to identify and improve areas for change.

The Senior Leadership Team uses reports from regulators to improve and strengthen services. In 20/21 there was an appointment of an experienced Director of Children's Services and consistent use of the social work practice model in response to the improvements made by a previous Ofsted inspection in 2019. Since then, Ofsted has revisited the council in 2021. The report concluded that senior leaders and partner agencies have worked well together to deliver an effective response to mitigate the impact of the pandemic in Lewisham. Despite the ongoing pressures this has put on services, leaders have continued to prioritise improvements to children's services, underpinned by corporate and political support. Ofsted recognise the progress made by the Council in recent years in the report and this evident in the reduction in the volume and significance of the recommendations made by Ofsted. The Council have welcome the feedback, reviewed the content of the report in detail through the Children and Young People Committee and confirmed that action is already in hand to tackle the new recommendations.

Using Grant Thornton internal benchmarking tools, which makes use of the annual RO and RA return forms sent by each Council nationally to Department for Levelling Up, Homes and Communities (DLUHC), we have compared unit costs of Council services with other London Boroughs to identify those services with very high comparative unit costs which are also material areas of expenditure for the Council.

Service	Total Cost 21/22 £000	Units	Unit Costs £	Unit Cost Score
Education – Primary Schools	186,517	21,703	8,594.07	Very High
Education – Secondary Schools	108,557	9,790	11,088.56	Very High
Education – Special Schools and Alternative Provision Age 4-18	48,261	54,361	887.79	Very High
Children's Social Care – Looked After Children Age 0-17	41,160	68,276	602.85	Very High

Source: RA Returns (Comparator London Borough Councils)

The Council is already responding effectively to these areas as they have been highlighted as areas of focus through their own internal analysis. In relation to the Education Services the expenditure is monitored on a monthly basis as part of the budget monitoring process and finance are working with the service and the Department for Education to reduce expenditure in this area as part of the 'Delivering Better Value Programme'. For Children's Social Care, the service have a sufficiency strategy focussed on prevention and therefore is proactive rather than reactive in its approach. Currently this service is seeing a reduction in Children Looked After from 483 in April 22 to 453 in September 22, as a result of the actions being taken however the needs of the Children receiving a service are more complex and therefore work continues. The spend on Children's Social Care continues to be a high focus area with regular scrutiny at Senior Officer and Member level.

As noted the Council has undertaken its own benchmarking in year through its KPI dashboards for each directorate and identified Children's and Adults Social Care as areas to undertake deep dives on via the LG Inform tool. The KPI dashboard also includes clear information on areas of performance which impact high costs such as referrals, contacts and caseloads in the Children and Young People Directorate. This has prompted the piece of work with external consultants to identify any further cost saving and efficiency opportunities and to assist in putting tangible actions in place to realise the opportunities identified from their own benchmarking, with a focus on adults initially and children's opportunities to be explored following the completion of the adult services based work. The current consultancy work is focusing on savings and efficiencies overall in relation to the demand for services, however our benchmarking suggests that that it is also important that unit cost is addressed alongside volume to have the largest impact on the financial position. We are aware that the discussion, engagement and work with external consultants is ongoing and expect cost reduction will form part of the conversation. We have also reviewed the project management arrangements in place between the Council and the consultants. These include formal monthly meetings to review the consultants progress, reporting provided to the Council sufficient to allow challenge of the savings being made and savings delivered to date are in line with expectation. As such arrangements to manage the project and maximise success are appropriate.

Subsidiaries

The Council has two key subsidiary interests in Lewisham Homes Ltd and Catford Regeneration Partnerships Limited (CRPL) which have been in existence for several years. Several reports in relation to Lewisham Homes have been observed as being reviewed by Mayor & Cabinet throughout the year, with the 'Building for the Future' programme (managed by the company, being a regular agenda item. KPIs of this subsidiary are reported to the Housing Committee quarterly and therefore there are effective and sufficiently regular reviews of the company's performance in place. There is evidence within the budget setting reports of the subsidiary also being considered as part of this process.

In the prior year we noted that for Lewisham Homes Limited and Catford Regeneration Partnership Limited, a report on progress against action plans and mitigation strategies should be presented to Mayor and Cabinet on a more regular basis. This has been addressed for Lewisham Homes however there is no evidence of performance reporting being provided to Mayor & Cabinet for Catford Regeneration Project in the 21/22 year (we note the business plan has since been reviewed by the committee in September 2022).

To support the formally documented review of performance via the KPI reports there are also informal arrangements in place to ensure the Council receives the assurances it needs to on the performance of Lewisham Homes. These arrangements include a 6-weekly strategic client meeting between the Director for Housing, Council Section 151 Officer and Senior Leadership Team covering performance, expenditure, risks and all the key elements of the contract with the subsidiary. A separate session is held specifically for the "Building for Lewisham" programme which includes how Lewisham Homes add value through their contract, looks at financial viability of the scheme and the contracts within this - this meeting is held on a monthly basis. The Chief Finance Officers of the both the Council and the subsidiary meet on an ad-hoc basis as required and have a good working relationship in place.

Various Lewisham Council directors sit on the CRPL Board and therefore there is a mechanism by which information in relation to the company can be relayed to members and Council Officers although fewer formal and informal meetings and discussions have been observed. The newly established Assurance Board aims to include the subsidiary companies reporting monthly/bi-monthly as an extra layer of operational oversight going forwards and this will further strengthen the arrangements in place provided both subsidiaries are represented.

Improvement recommendation - the Council should ensure quarterly reporting of KPIs in relation to Catford Regeneration Partnership Limited is presented to Mayor & Cabinet or another relevant committee.

Lewisham Homes Ltd accounts demonstrate that the company made a £1.266m loss in 21/22. The Council overall made a loss of £0.5m and from review of the outturn report this was predominantly due to pressures in adult social care which is unrelated to Lewisham Homes activities. As such despite the company's loss in year they have not significantly impacted the Council's financial performance. The Council is exploring the option to bring the housing service provided by Lewisham Homes back in house as a means of aligning to the Council priorities which includes effective use of resources. As such the Council is already exploring solutions to remedy the possible future impacts of further financial losses. There were no concerns identified in the financial performance of CRPL which would require any adjustment to arrangements in place.

Digital

In the 2017/18 VFM conclusion a qualification was raised in relation to poor governance arrangements in managing digital programmes. As a result of this qualification, and the impact of Covid-19 on the Council resource, digital transformation programmes were paused for the past few years. The Council's website and Corporate Plan confirm that digital is once again a priority and the Council has a vision for becoming a truly digital Council and Borough. Specifically, this includes delivering an improved digital infrastructure which will empower residents, businesses, community and voluntary sector and public services, and contribute to Lewisham's economic growth. Lewisham published its first creative and digital industries in 2017 outlining how the council and its partners plan associated industries within the borough which is now outdated. The 2023 digital strategy, addresses how the council will deliver key digital services and infrastructure to residents to thrive and live happy, healthy lives. The overarching ambitions of the strategy are the development of a modern, sustainable borough that harnesses the latest in digital technologies and infrastructure. At present, the Council are in the process of developing the 2023 Digital strategy with this anticipated to be released in mid-2023.

Improvement Recommendation - In order to build on the previous VFM conclusion, once the digital strategy is developed and released, the should Council identify how the existing governance arrangements can support delivery of the programme.

The Council has an Overview and Scrutiny and Task and Finish Group (TFG) structure already in place which, if the scale of the programme dictates, could be adapted to ensure ongoing monitoring of the programme. Currently the Council has TFGs for Digital inclusion in Education and Adults with Learning Disabilities which have met twice in the year, with the former having produced a year end report. As such there is the scope to develop another specific TFG for any significant resulting elements of the strategy.

Conclusion

Overall, arrangements to secure economy, effectiveness and efficiency are appropriate. Improvement recommendations have been made but these are suggested as methods of achieving best practice as opposed to correcting underperforming arrangements at the Council.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 6 (priority improvement recommendation)

The Council should explore ways to ensure the maximum benefit is achieved from the non-financial reporting of the Council's directorates. This could be achieved via increased oversight of the non-financial KPI performance of the Council's services and directorates by members and introducing benchmarking into all directorates KPI reports. The Council would benefit from a Council-wide benchmarking strategy as opposed to an ad-hoc approach.

Why/impact

Paying equal attention to financial and non-financial performance assists members in making informed decisions since, in most cases, non-financial underperformance directly impacts the Council's financial position.

Comparing performance to similar organisations provides important information to assess if certain services are outliers in terms of their financial and non-financial performance, therefore identifying potential opportunities for improvement. This information is of maximum benefit if applied consistently across the Council.

Summary findings

Operational performance is reported via Directorate Management Reports which include a KPI Dashboard. These are reviewed by Directorate Leads and the executive Management Team however there is limited evidence of members having sight of these performance metrics.

The Council includes benchmarking against national data within the KPI reports of the Adults and Children's Directorate reporting on operational performance metrics, however there is no evidence of benchmarking in the reports of other directorates. In addition the Council has undertaken 'deep dives' using benchmarking in year but these have also been focussed on Adults and Children's Social Care. These are areas of overspend therefore this targeted approach is appropriate however it would be of benefit to identify opportunities, from benchmarking, Council-wide.

Management Comments

The Council is reviewing its performance reporting to support the new Corporate Strategy adopted by Full Council in November 2022. This will develop relevant non-financial indicators to assess progress on delivery of the corporate objectives.

As recognised, Finance and Service teams have been developing more data insights. This work will continue to ensure it is aligned for financial and non-financial data and include benchmarking where there is consistent and reliable data available.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 7 (minor improvement recommendation)

Overall the Council's arrangements in securing economy, effectiveness and efficiency are positive. The Council may wish explore ways that it can make iterative improvements to demonstrate best practice in arrangements. These could include:

- developing an action plan from the findings of the LGA Peer Review to monitor success of the response to the recommendations with oversight from a relevant committee or Mayor and Cabinet. There may be scope to incorporate the findings into existing KPI reporting as those structures are already in place.
- ensuring that a Data Policy is finalised as soon as possible.
- exploring ways that equal attention could be paid to monitoring the performance of both of its key subsidiaries.
- identifying how the existing governance arrangements can support delivery of the digital programme, once the 2023 Digital Strategy is developed and released.

Why/impact

Paying equal attention to financial and non-financial performance assists members in making informed decisions since, in most cases, non-financial underperformance directly impacts the Council's financial position.

Comparing performance to similar organisations provides important information to assess if certain services our outliers in terms of their financial and non-financial performance, therefore identifying potential opportunities for improvement. This information is of maximum benefit if applied consistently across the Council.

Summary findings

See body of the report.

Management Comments

The Council welcomes the assurance that its arrangements for securing economy, effectiveness and efficiency remain positive.

The Council did develop an action plan in response to the LGA peer review. Progress against these actions is currently being updated and will be reported on to Members. This is being coordinated by the Cabinet Member for Resources and Strategy.

Digital and data strategy and policy improvements – both for services to the Borough and internally for officers' ways of working are being reviewed and improved, including the operation of the Council's leading shared service with the London Boroughs of Brent and Southwark.

The reporting and monitoring of the Council's subsidiaries, which includes the main one of Lewisham Homes, will be reassessed as part of the strategic decision currently before M&C on the options for the future of the company with the potential for it to be insured.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	Financial Sustainability - The Council should continue its work in enhancing the understanding of the costs of general fund placements and Education Dedicated Support Grant related Education Health & Care Plans and Special, Educational Needs and Disability costs across the Children and Young People Directorate. This work should lead to more accurate financial forecasting as well as assisting with developing interventions that benefit children to live more independently in the longer term.	Improvement	March 2022	The largest overspending service in 21/22 (Children's Social Care Services) sits in the Children and Young Peoples directorate. Essentially, in the prior year, we suggested the Council should focus on understanding and responding to the underlying cause of the overspend in this directorate. Members of the SEND service are currently working with finance colleagues on developing a more sophisticated tools and data to enable the Council to identify profiles of spend and numbers of children receiving support, to identify biggest impact areas based on opportunity for improvement and feasibility. Therefore, this internal collaboration demonstrates good progress on the recommendation has been made but is ongoing, the direction of travel is positive.	Yes	No
	Financial Sustainability - Budget monitoring reports should clearly articulate the underlying causes for the under delivery of savings plans. Actions taken to address under delivery or proposed alternative plans should also be detailed within the report.	Improvement	March 2022	<p>Although the presentation of savings performance is undertaken via a detailed appendix to the budget monitoring report there still remains limited information on cause or actions included within this and so our prior year recommendation remains unaddressed.</p> <p>Despite the actions not being documented in the reporting where services are struggling to deliver savings, finance and the services work collaboratively to find ways to mitigate/deliver them in alternative ways. Any undeliverable savings which cannot be mitigated are included within the reported financial position for each service area with an explanation of what is causing them to not be delivered. A further section in the report covers financial risks which are not within the reported position but may materialise over the forthcoming financial year.</p>	No	Yes – to be reviewed in 22/23 although the fact this is unaddressed is not a weakness in arrangements since the actions are being taken the improvement is simply needed to the documentation of these actions reported to members.

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
3 Financial Sustainability - Complete the re-organisation of social care work and focus on continuing to improve the systems used by Social Care staff.	Improvement	March 2022	The Council have established a change programme within Adult Social Care, known as Empowering Lewisham, and is being supported by external consultants. The Design and Implementation phase of Empowering Lewisham is nearing completion and has included new ways of working, the transformation and reconfiguration of services and the transfer of sustainable skills and knowledge to staff. The IT systems that support Adult Social Care have been upgraded allowing all payments to providers to go through the ContrOCC system. This has resulted in better oversight of expenditure and the system. This is being used to track activity and savings of the directorate already. As such, although it is too early to tell the impact of the consultancy work, the recommendation is considered closed given that actions have been taken to address the issue.	Yes	No
Financial Sustainability - The Council will need to continue to work with schools and benchmark the number of Special Educational Needs and Disability provisions in mainstream schools made available compared to neighbouring boroughs.	Improvement	March 2022	There has been an overspend in Education Services of £1.5m for 21/22 which includes spend on SEND. Although there has been an overspend it is not significant in terms of the Children's & Young People Directorate budget of £59m and therefore not seen as a specific pressure. Work continues on the High Needs Mitigation Plan, overseen by Schools Forum and the local area partnership board, with increasing SEND provision capacity as a key focus. We have reviewed the meeting minutes of the Schools Forum and note that the mitigation plan is not a standing agenda item however the Forum is supported by the High Needs Sub-Group who normally meet 7 – 10 days before the Schools Forum meeting. Therefore the sub-group feed into specific agenda items on the provision and use of DFG, as such there is a sufficient response to our recommendation and the direction of travel is positive in terms of progress. Plans are also in place to increase specialist SEND places in Lewisham primary and special schools by 90 during the 2022/23 academic year.	Yes	No

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
5	Financial Sustainability - Management have undertaken some sensitivity analysis when setting the 2021/22 budget. Management acknowledges that sensitivity analysis and scenario planning in terms of 'worst case' and 'stress testing' is an area which will need additional work going forward, to model the financial impact of Covid in the longer-term and ensure that plans are in place to make appropriate operational decisions to maintain financial sustainability.	Improvement	March 2022	The Council has updated its MTFP as part of the 22/23 budget setting process which includes base case assumptions which produce a profile of £10m, £10m, £8m, and £7m gap in each year. The report also presents the assumptions for an optimistic and pessimistic case which, given the number of variables, moves the four-year budget gap down by £19m or up by £17m from the base case of £36m. This is a direct response to our recommendation as the analysis is deemed to be more comprehensive and developed than the prior year with the scenarios being applied on a line by line basis to the MTFP.	Yes	Yes – we have extended this recommendation to suggest the Council consider applying scenario planning to the annual budget as well as the MTFP. See recommendations
	Financial Sustainability - The Council is developing longer term solutions to meet the medium term financial challenge, but would benefit from building up a longer term reserves strategy. The strategy should set out principles on the levels of reserves demonstrating how reserves are aligned with priorities and be agile enough to allow the Council to respond appropriately to changes in economic conditions.	Improvement	March 2022	A review is being undertaken of the reserves strategy and this will initially be included within the Budget Report for 2023/24 and therefore expected in February 2023. Going forward this will form part of the MTFS report each year. This effectively responds to our recommendation, the delay of this not being included in the 22/23 process is accepted as this process was already underway when our 21/22 work was released.	Yes	No
7	Financial Sustainability - Revisions to the governance structure are required to ensure: <ul style="list-style-type: none"> • A more comprehensive oversight over the capital programme • There is a clear alignment of capital resources with corporate priorities • A robust approach to programme management • Formal oversight of re-profiling change requests 	Improvement	March 2022	The following actions are being undertaken to address these recommendations: <ul style="list-style-type: none"> • Review of Regeneration Capital Board and Regeneration Capital Programme Delivery Board (RCPDB) Terms of Reference and reporting to ensure oversight. • Review and update of the project manager handbook guidance. • Standardisation of twice yearly capital budget re-profiling in alignment with the budget setting process. Although these are in progress the direction of travel in response to the recommendation is positive	Yes	No

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
8	Financial Sustainability - Given the uncertainty of the pandemic and current economic environment a routine re-profiling of the capital programme would be required. This needs to be complemented by detailed reporting on a scheme by scheme basis with detailed explanations explaining slippage that will assist with holding delivery managers to account for meeting project timescales.	Improvement	March 2022	Revised project highlight summary reporting will provide clearer detail of the performance of capital projects against time, cost and quality. Slippage against profile will be reviewed on a quarterly basis by Regeneration Capital Board and Regeneration Capital Programme Delivery Board (RCPDB). The in year 21/22 Capital Monitoring in the finance reports include an appendix with the capital programme detailed in the medium term and quarterly monitoring at scheme level, but still with limited information on causes of slippage for each scheme and as such in 21/22 our recommendation was not implemented and remains open. The first 22/23 capital monitoring in the monitoring reports shows that capital schemes are included on a scheme-by-scheme basis in the appendix but there is no detail of spend to date or any forecast slippage. The reporting explains that at this stage these were being revised as part of the year end processes for 2021/22 and an up-to-date budget considering any slippage will be presented in the next report.	No	Yes – to be followed up in 22/23 to ensure the actions the Council describes have been taken.
9	Governance - The Council should streamline the approach to risk management to ensure it is dynamic and there is more consistency and robust centralised risk management.	Improvement	March 2022	The Council are in the process of developing a refreshed Risk Management Strategy with components currently in consultation. The timeline expects EMT approval of the new Strategy in late autumn 2022 with presentation to Members of the Audit Panel in December and full adoption to start in 2023/24. The revised strategy incorporates the findings discussed in the prior year VFM work.	Yes	No – Strategy will be reviewed as part of 22/23 work but it being in development is sufficient to respond to our recommendation.
10	3E's - The council continue to develop and support the creation of a centralised intelligence hub, which will ensure clarity around data and insight for a more strategic reporting approach.	Improvement	March 2022	A new corporate Insight team was created as part of the Support for Leadership restructure in July 2021, and has been in place since October 2021.	Yes	No

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
11	3E's - A quarterly performance monitoring report should be provided to members to monitor and review. The Council should also consider integrated reporting using a balanced scorecard approach, that will better enable management and members to understand the interrelationship between different sources of information.	Improvement	March 2022	Quarterly Directorate reporting has moved from word documents to a dashboard approach which is an important stepping stone in achieving the balanced scorecard approach. The council is in the process of developing a new performance framework which will consider a balanced scorecard approach, support SLT and review performance with respective Cabinet Members routinely. In addition, quarterly performance will be discussed with the Mayor and cabinet members and considered with Scrutiny Members when setting their work programmes.	Partially	No
12	3E's - The Council should take a corporate approach to identify benchmarking good practice and coordinate its use within the services to challenge performance.	Improvement	March 2022	As part of the Support for Leadership restructure, the role of the Corporate Performance Team is to become more focused on strategic reporting, forward planning, benchmarking and good practice. The team is currently in transition towards moving to this model, working with service areas to take ownership over operational performance reporting so the corporate team can focus on strategic reporting and benchmarking. The team will work closely with the wider service areas and Strategic Transformation & Business Partners to support services in making use of performance and benchmarking information to identify and improve areas for change. There have been benchmarking deep dives in Adult and Children's Social Care, national benchmarking is included within the performance reporting of these directorates and other benchmarking activity is undertaken on an ad hoc basis. As such there is evidence of an increased level of benchmarking in year, with this being used to develop tangible outputs with the support of external consultants in relation to Adults Social Care. Therefore we have updated this recommendation to suggest that benchmarking is undertaken on a more consistent basis across the Council.	Partially	See recommendations
13	For Lewisham Homes Limited and Catford Regeneration Partnership Limited, a report on progress against action plans and mitigation strategies should be presented to Mayor and Cabinet on a more regular basis.	Improvement	March 2022	As noted in the body of the report we have noted appropriate reporting of performance information for Lewisham Homes and therefore have re-raised the recommendation in 21/22 for Catford Regeneration Project Limited to be paid equal attention by committees.	Partially	See recommendations

Opinion on the financial statements



Audit opinion on the financial statements

We are still undertaking our audit of your financial statements. At this stage we expect to issue an unqualified audit opinion. Our Audit Findings Report will be presented to the Audit Panel on 6 December 2022.

The Department for Levelling Up, Housing and Communities will issue an update to the Local Authority Capital Finance and Accounting Regulations to remove the requirement to consider component derecognition for infrastructure assets i.e. the statutory override. This will then allow us to complete our work in this area. This is not expected to become law until 25 December 2022. We therefore expect to issue our audit opinion early in 2023.

Audit Findings Report

More detailed findings can be found in our Audit Findings Report, which is reported alongside this report at the Council's Audit Panel on 6 December 2022.

Whole of Government Accounts

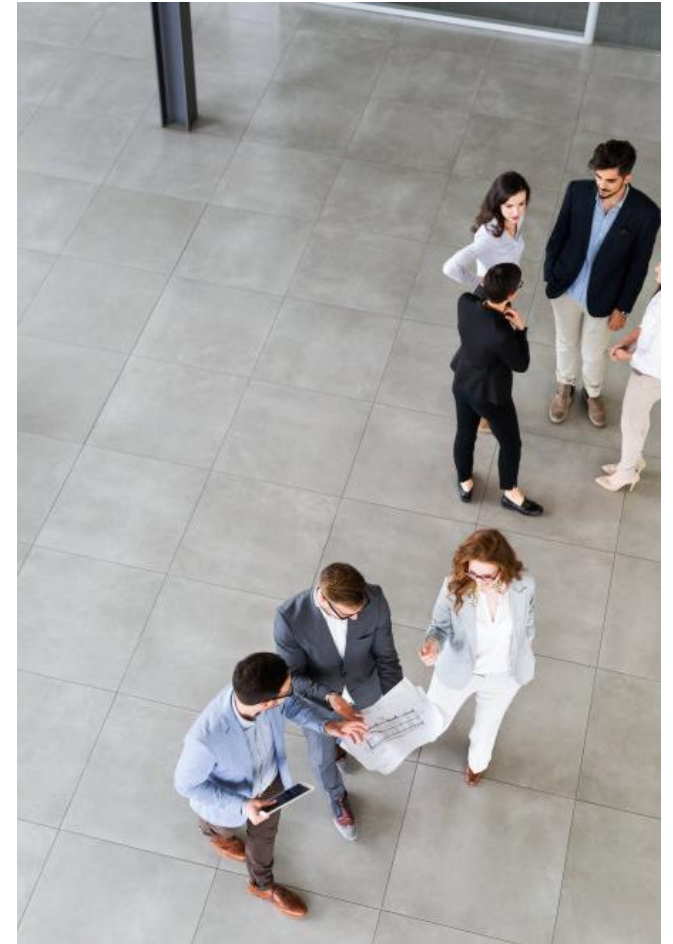
To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office. This work will be completed following the audit of the financial statements. The Council's expenditure and assets are below the £2bn threshold for a detailed audit of the return.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation



Appendices

Appendix A – Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

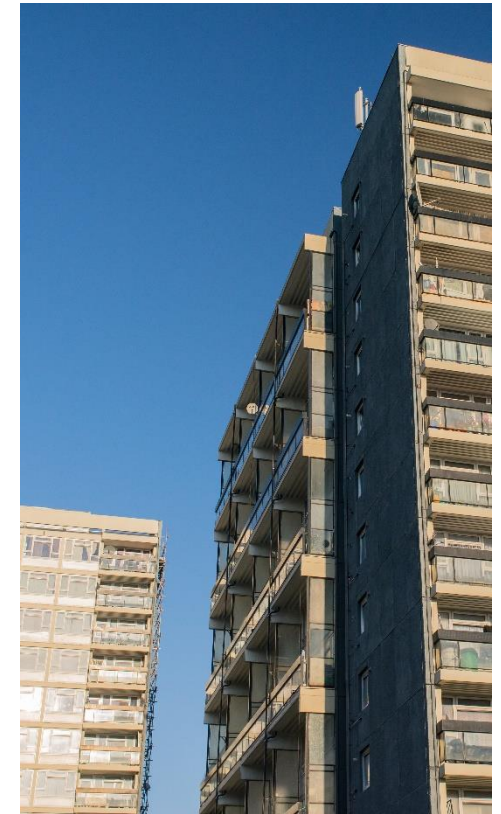
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

Local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare 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. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

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



Appendix B – An explanatory note on recommendations

A range of different recommendations can be raised by the Council’s auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	No	N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council’s arrangements.	Yes	See relevant sections proceeding Financial Sustainability, Governance and 3E’s narrative



Audit Panel

Internal Audit Charter and Internal Audit Progress Update

Date: 6 December 2022

Key decision: No.

Class: Part 1

Ward(s) affected: All

Contributors: Rich Clarke, Head of Assurance

Outline and recommendations

The Internal Audit Charter is a formal document that translates the principles and objectives of the Public Sector Internal Audit Standard into their local application. It is a key document in providing internal audit with the authority to conduct its work and so requires annual endorsement from Members.

The 2022 Charter is a complete refresh of the document reflecting the broader role of the new Head of Assurance. In particular, the Charter discusses arrangements for ensuring continued independence and objectivity in providing assurance on areas where the Head of Assurance has a direct managerial role.

The report also includes an update on progress of the internal audit service.

We ask that Members **approve** the Internal Audit Charter.

We ask that Members **note** the Internal Audit Progress Update.

Timeline of engagement and decision-making

23 June 2021: Existing Internal Audit Charter approved.

24 August 2022: Updated Charter discussed in Directorate Management Team.

6 December 2022: Updated Charter presented to Audit Panel for approval.

1. Summary

- 1.1 To conform with Public Sector Internal Audit Standards (the “Standards”) each internal audit service must have a Charter. This document sets out how certain questions of Standards application that are left to individual organisations to determine will function, as well as providing a high-level statement on the position and authority of internal audit. The Standards require that the Charter undergoes periodic review and approval by Senior Management and Members.
- 1.2 The current Internal Audit Charter was approved by this Panel in June 2021. That document was a brief overview that omitted some Standards requirements and did not fully address how to maintain the service’s independence. In part this will have been due to the then Head of Audit being seconded from an external firm, which presents those independence and organisational questions in a different context. Now, the Chief Audit Executive role is held by the Head of Assurance, who also has operational responsibility for insurance, risk management, counter fraud and corporate health & safety. The role being a permanent post with a wider responsibility creates an opportunity to revisit the Charter entirely to ensure Standards compliance and fit with the permanent structure of the service.
- 1.3 This report also provides an update on the work of the Internal Audit service.

2. Recommendations

- 2.1 The Audit Panel **approves** the Internal Audit Charter.
- 2.2 The Audit Panel **notes** the Internal Audit Service Progress Update.

3. Policy Context

- 3.1 This report is consistent with the Council’s policy framework, supporting the priorities set out in the Corporate Strategy 2018-22. It helps towards all the Council’s priorities through supporting efficient and effective governance.

4. Background

- 4.1 The Standards (Standard 1000) require that each internal audit service must have an approved Charter:

“The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter consistent with [Standards]. The [Head of Audit] must periodically review the charter and present it to senior management and the board for approval.”

- 4.2 There are a number of specific requirements particular to the public sector:

Define the terms ‘board’ and ‘senior management’ for the purposes of the internal audit activity (see Charter Section 9)

Cover the arrangements for appropriate resourcing (see Charter Sections 3.3, 3.4 and 6.1)

Define the role of internal audit in any fraud-related work (see Charter section 5.5), and

Describe safeguards to limit impairments of independence or objectivity if internal audit or the chief audit executive undertakes non-audit activity (see Charter Section 4)

- 4.3 The [existing Charter](#) approved in June 2021 describes a service led by a secondee from an external firm, as was then the case. This meant the Charter left out a number of crucial requirements, most especially the arrangements to handle situations where the wider role of the Head of the service provides a challenge to its independence and objectivity.

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5. Revised Internal Audit Charter

- 5.1 The full proposed Charter is at **Appendix A**. The need for a new Charter was identified in the Annual Report for 2021/22, presented to Members in [June](#) this year. Below extracts the relevant section from that report.

The seconded Head of Internal Audit until January 2022 was completely free of operational responsibility for any service which was (or could be) subject to audit review. The position is slightly more complex after January 2022 as the new Head of Assurance has, as well as internal audit, operational responsibility for the Anti-Fraud and Corruption Team, the Insurance and Risk Management service and (from June 2022) the Corporate Health and Safety Team.

For 2022/23 onwards we will address any independence conflicts through a revised Internal Audit Charter that will come to this Panel for approval in the Autumn. It is likely that Charter will seek independent reviews for areas also within the Head of Assurance's purview, including potentially peer-group arrangements set up by the London Audit Group.

- 5.2 Aside from providing comprehensive Standards conformance, the refreshed Charter has some specific additions and amendments to draw to your attention.
- Section 3.4: Which sets out the role of the Audit Panel. These roles are consistent with the Panel's terms of reference and the Standards and are, in essence, tasks designed to ensure Internal Audit can maintain appropriate status within the organisation and independence from management. This includes contributing feedback about the performance of the Head of Assurance and the internal audit service.
 - Section 3.5: Which sets out the right for independent meetings between the Audit Panel and internal audit.
 - Section 4. Which describes a range of possible measures to address independence threats caused by examining areas where the Head of Assurance has operational responsibility. Broadly, the Charter sets out a case-by-case approach with specific approaches to be endorsed by the Audit Panel as part of the audit plan. Examples might be commissioning work from a third party firm at cost, from another local authority on an exchange basis or having internal work overseen or peer reviewed by another Head of Audit.
 - Section 5.5. Which clarifies the principal counter-fraud role in the Council sits with the Anti-Fraud and Corruption Team.
 - Section 6. Which sets out the responsibilities of the Head of Assurance. This includes keeping the plan responsive to changing risks, communicating any significant plan changes to the Audit Panel. Also to ensure the service maintains appropriate procedures and quality standards.
- 5.3 The Charter does not propose any significant changes to the service's current operations. Rather, this document codifies those arrangements, setting out clearly internal audit's purpose, authority and responsibility.

6. Internal Audit Service Update

Concluding 2021/22

- 6.1 In September, we reported that the only remaining outstanding engagements were a few school-based audits which were awaiting the resumption of the school year to finalise plus some finance-based audits held back to allow focus on the external audit. These are now all complete. In all cases we had completed the fieldwork and so had full oversight of the issues raised by the audit, but were typically awaiting a few items to conclude or responses to a draft report. The table overleaf sets out the final conclusions of this work.

Beginning 2022/23

- 6.2 We have started work towards completing the 2022/23 Audit Engagement plan. Mindful of upcoming changes to the team's structure (see below) our focus has been on planning out audits so new starters have work to begin immediately. Therefore we are not expecting to bring any engagements to full conclusion until later in the year. However, the following 2022/23 engagements are underway:

- Contract Procurement
- Contract Management
- Section 106 / Community Infrastructure Levy Payments
- Flood Management
- Elections
- Parking & Moving Vehicle Enforcement
- Bereavement Services
- IT Asset Management
- Wearside Depot Operations
- Key Financial Controls (part contracted to PWC)
- IT Network Infrastructure (contracted to PWC)

School Audit Approach

- 6.3 Following the experience of 2021/22 we have brought the school's audit programme back in-house for 2022/23. We have been able to do so largely thanks to taking on two new Apprentices, who started with us in September. We have also taken the opportunity to substantially revise the audit approach, working more closely with schools upfront and drawing more heavily on documents already held by the Council such as payroll records and Schools' Financial Value Standard self-assessments.
- 6.4 We recently completed the first pilot of this new approach, which has enabled us to go from beginning fieldwork to issuing a draft report of findings in less than two weeks. This compares to a more than three-month gap between fieldwork and report in the 2021/22 outsourced work.
- 6.5 We will update Members on findings from School audits alongside other work once we have concluded final reporting.

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Internal Audit Engagements 2021/22

Ref	Title	Findings Summary	Assurance Rating	Report Date	Notes
2021/22 Engagements Not Yet Finalised in September 2022 Update					
21/22-17	New Woodlands Special School	3 x Med , 5 x Low	Satisfactory	Sep-22	
21/22-19	Sir Francis Drake Primary School	1 x Med , 6 x Low	Satisfactory	Sep-22	
21/22-10	Gordonbrock Primary School	6 x Med , 6 x Low	Satisfactory	Sep-22	
21/22-09	Eliot Bank Primary School	2 x Med , 3 x Low	Substantial	Sep-22	
21/22-25	St Winifred's Catholic Primary School	8 x Med , 5 x Low	Satisfactory	Sep-22	
21/22-44	Banking	3 x Hi , 1 x Med	Limited	Sep-22	See Note 1
21/22-04	Brent Knoll Special School	5 x Med , 2 x Low	Satisfactory	Oct-22	
21/22-15	John Ball Primary School	10 x Med , 6 x Low	Satisfactory	Nov-22	
21/22-46	Budget Mgmt – Community Services	6 x Med , 2 x Low	Satisfactory	Nov-22	
21/22-26	Our Lady and Philip Neri Catholic Primary	1 x Hi , 3 x Med , 3 x Low	Satisfactory	Nov-22	See Note 2

Note 1: We originally completed the fieldwork on the Banking review in the Spring, but the finalisation of the report was delayed while the finance team dealt with, first, issues with Oracle Systems and then with the external audit of the financial statements. The high-risk findings concern:

- Limited supporting documentation to support fund transfers. While we were able to support the transactions following further investigation, the documentation was not accessible or held with the reconciliations. The finance team have since revised their procedures to ensure documentation is held with transactions.
- Bank reconciliations being reviewed a considerable time after month end (up to four months late in our sample). Our rating for this finding also reflected it being a recurrence of similar issues reported back to 2018. The finance team have responded by streamlining their reconciliation approach across the board to ensure they have adequate capacity to undertake timely and accurate reviews.
- No up-to-date review of access permissions to the banking system. The service has now completed a review and included an annual update in its revised procedures.

Note 2: The High-Risk finding at Our Lady and Philip Neri Catholic Primary School concerned the school not holding an asset register to record and track high-value (over £1,000) property and equipment. The school agreed to develop a full register before the end of 2022.

7. Agreed Action Follow Up

- 7.1 Earlier in the Autumn we undertook a substantial quality assurance exercise on outstanding agreed actions. This resulted in a significant number (slightly more than 50%) being written off either for quality reasons, because they had been resolved by other means or due to changes in the service making them irrelevant.
- 7.2 This review has left **95** open High (36) and Medium (59) priority actions. When compared with their original due date (that is, the date agreed when publishing the final report) these break down as:
- **28** are not yet due (5 high, 23 medium)
 - **2** are overdue by 3 months or less (0 high, 2 medium).
 - **4** are overdue by 3-6 months (1 high, 3 medium)
 - **46** are overdue by 6-12 months (28 high, 18 medium)
 - **15** are overdue by more than one year (2 high, 13 medium). There are no agreed actions older than originally due September 2021.
- 7.3 For some context, the total number of actions raised with a due date on or after September 2021 was 397, with (113 high) and (284 medium). This means that 82% of actions due on or after September 2021 are now complete, excluding those not yet due (72% high, 86% medium).
- 7.4 We have reported on outstanding actions linked to high risk findings to the Executive Management Team. In each instance we are satisfied that remedial work is underway and interim controls are mitigating current risk. So there are no outstanding actions currently we wish to draw to Members' attention.

8. Financial implications

- 8.1 The Internal Audit Charter proposes no new work. All safeguards proposed will work within agreed budgets.

9. Legal implications

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

10. Equalities implications

- 10.1 There are no equalities implications arising direct from this report.

11. Climate change and environmental implications

- 11.1 There are no climate change or environmental implications arising direct from this report.

12. Crime and disorder implications

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

13. Health and wellbeing implications

- 13.1 There are no health and wellbeing implications arising direct from this report.

14. Background papers

- 14.1 There are no relevant background papers not otherwise referenced direct in the report.

15. Report author and contact

15.1 For any queries on the report please contact Rich Clarke, Head of Assurance on 020 8314 8730 or by email at rich.clarke@lewisham.gov.uk.

16. Appendices

Appendix A – Full revised Internal Audit Charter.

Internal Audit Charter

1. Purpose and Mission

- 1.1 The purpose of Lewisham Council's (the "Council") internal audit service is to provide independent, objective assurance and consulting services designed to add value and improve the Council.
- 1.2 The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.
- 1.3 The internal audit service helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management and control processes.

2. Standards for the Professional Practice of Internal Auditing

- 2.1 The internal audit service will govern itself by adherence to the mandatory elements of [The Institute of Internal Auditors' International Professional Practices Framework](#) (the IPPF). This includes the Core Principles for the Professional Practice of Internal Auditing, the [Code of Ethics](#), and the *International Standards for the Professional Practice of Internal Auditing*, and the Definition of Internal Auditing. The **Head of Assurance** will report periodically to the **Executive Management Team** and the **Audit Panel** regarding the internal audit service's conformance to the Code of Ethics and the *Standards*.
- 2.2 Specifically, the internal audit service works to the [Public Sector Internal Audit Standards](#) (the "Standards"). These *Standards*, which are based on the mandatory elements of the IPPF, exist to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. The internal audit service further adheres to [CIPFA's Application Note](#) which includes additional requirements specific to the Local Government Sector.

3. Authority

- 3.1 The principal authority for internal audit at the Council comes from the [Accounts and Audit Regulations 2015](#). In particular [Regulation 5](#) which demands:

"A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".

- 3.2 The **Head of Assurance** will report functionally to the **Audit Panel** and administratively to the Executive Director for Corporate Resources.
- 3.3 To establish, maintain and assure that the Council's internal audit service has sufficient authority to fulfil its duties, the Executive Director for Corporate Resources will, on behalf of and in consultation with the **Executive Management Team** as required:

- Approve the internal audit service’s Charter.
- Approve the risk-based internal audit plan.
- Approve the internal audit service’s budget and resource plan.
- Receive communications from the **Head of Assurance** on the internal audit service’s performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the **Head of Assurance**, after consultation with the **Audit Panel**.
- Conduct performance appraisals of the **Head of Assurance**, after consultation with the **Audit Panel**.
- Make appropriate enquiries of the **Executive Management Team** and the **Head of Assurance** to determine whether there are inappropriate scope or resource limitations.

3.4 To establish, maintain and assure that the Council’s internal audit service has sufficient authority to fulfil its duties, the **Audit Panel** will:

- Approve the internal audit service’s Charter.
- Approve the risk-based internal audit plan.
- Approve the internal audit service’s budget and resource plan.
- Receive communications from the **Head of Assurance** on the internal audit service’s performance relative to its plan and other matters.
- Respond to requests for information from the Executive Director of Corporate Resources to inform performance appraisals or other personnel decisions regarding the **Head of Assurance**.
- Make appropriate enquiries of management and the **Head of Assurance** to determine whether there are inappropriate scope or resource limitations.

3.5 The **Head of Assurance** will have unrestricted access to, and communicate and interact directly with, the **Audit Panel**, including in private meetings without management present.

3.6 The **Audit Panel** and the Executive Director of Corporate Resources on behalf of the **Executive Management Team** authorise the internal audit service to:

- Have full, free and unrestricted access to all functions, records, property and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information. Noting that this power also derives from [Regulation 5\(2\) of the Accounts and Audit Regulations 2015](#).
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of the Council, as well as other specialised services from within or outside the Council, to complete the engagement.

4. Independence and Objectivity

4.1 The **Head of Assurance** will ensure that the internal audit service remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope,

procedures, frequency, timing, and report content. If the **Head of Assurance** determines that independence or objectivity may be impaired in fact or appearance, they will disclose impairment details to appropriate parties.

4.2 Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgement on audit matters to others.

4.3 Internal auditors will have no direct operational responsibility or authority over audited activities. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgement, including:

- Assessing specific operations for which they had responsibility in the previous year.
- Assessing any operations for which they had any managerial responsibilities at the Council.
- Performing any operational duties for the Council or its affiliates, save those associated directly with the internal audit service.
- Initiating or approving transactions external to the internal audit service.
- Directing the activities of any Council officer or contractor not employed by the internal audit service, except to the extent that such people have been appropriately assigned to auditing teams or otherwise to help internal auditors.

4.4 Where the **Head of Assurance** has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

4.5 Currently, aside from the internal audit service, the **Head of Assurance** has oversight of the following areas:

- **Anti-Fraud and Corruption Team.**
Prevention, detection and investigation of fraud & corruption within and against the London Borough of Lewisham. Prevention, detection and investigation of social housing fraud on behalf of Lewisham Homes and a number of local RSLs. Pre-employment vetting for potential employees of Lewisham Council & Lewisham Homes. Monitoring of Declarations of Interest for Council employees.
- **Insurance & Risk Management Team.**
The Insurance & Risk Management Team is responsible for arranging and administering all of the Council's insurance and managing all claims made by or against the Council under the insurance arrangements. The Team is also responsible for leading and coordinating the Council's enterprise risk management processes.
- **Corporate Health & Safety Team.**
The Corporate Health & Safety team help the Council meet its legal obligations in keeping people safe and healthy at work.

4.6 The following additional and alternative steps will feature in the audit approach to maintain independence and objectivity for these areas:

- At Audit Planning stage, other officers within the audit service will complete risk assessments. There will be a general assumption that, where planning risk criteria are met, engagements in these areas will be longlisted in the audit plan and, at minimum, form part of the consultative plan shared with the **Executive Management Team**.
- At Audit Engagement stage, various approaches will be considered depending on the nature of the engagement. These may include having work undertaken by officers of the internal audit service overseen by a Chief Audit Executive of another London borough or assigning the work entirely to auditors from an external body or professional audit firm.

4.7 The specific safeguards will be disclosed in the annual audit plan and subject to agreement of the **Audit Panel** before implementation. Where the safeguards rely on assistance from another London Borough, the Council will offer similar (but not reciprocal) services that will also be disclosed in the annual audit plan.

4.8 Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the examined activity or process.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their interests or others in forming judgements.

4.9 The **Head of Assurance** will confirm to the **Audit Panel**, at least annually, the organisational independence of the internal audit service.

4.10 The **Head of Assurance** will disclose to the **Audit Panel** any interference and related implications in determining the scope of internal auditing, performing work and/or communicating results.

5. Scope of Internal Audit Activities

5.1 The scope of the internal audit activities encompasses, but is not limited to, objective examinations of evidence to provide independent assessments to the **Audit Panel**, management and outside parties on the adequacy and effectiveness of governance, risk management and control processes for the Council. Internal audit assessments include evaluating whether:

- Risks relating to achieving the Council's strategic objectives are appropriately identified and managed.
- The actions of the Council's officers, directors, employees and contractors comply with the Council's policies, procedures and applicable laws, regulations and governance standards.

- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Council.
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

5.2 The **Head of Assurance** will report periodically to **Executive Management Team** and the **Audit Panel** regarding:

- The internal audit service's purpose, authority and responsibility.
- The internal audit service's plan and performance relative to its plan.
- The internal audit service's conformance with The IIA's Code of Ethics and *Standards* and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including any fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Panel.
- Results of audit engagements and other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to the Council.

5.3 The **Head of Assurance** also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit service may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit service does not assume management responsibility.

5.4 Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

5.5 The internal audit service adheres to *Standards 1210.A2* in having an awareness of fraud when undertaking its work. However, the primary responsibility for preventing, detecting and investigating fraud at the Council rests with the Anti-Fraud and Corruption Team.

6. Responsibility

6.1 The **Head of Assurance** has the responsibility to:

- Submit, at least annually, a risk-based internal audit plan for review and approval to senior management and the **Audit Panel**.
- Communicate to the **Executive Management Team** and the **Audit Panel** on the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in the Council's business, risks, operations, programs, systems, and controls.

- Communicate to senior management and the **Audit Panel** any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including establishing objectives and scope, assigning appropriate and adequately supervised resources, documenting work programs and testing results, and communicating engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to **Executive Management Team** and the **Audit Panel** any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit service collectively possesses or obtains the knowledge, skills and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact the Council are considered and communicated to senior management and the **Audit Panel** as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures to guide the internal audit service.
- Ensure adherence to the Council's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or communicated to senior management and the **Audit Panel**.
- Ensure conformance of the internal audit service with the *Standards*

7. Quality Assurance and Improvement Program

- 7.1 The internal audit service will maintain a quality assurance and improvement program that covers all aspects of the internal audit service. The program will include an evaluation of the internal audit service's conformance with the *Standards* and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the internal audit service's efficiency and effectiveness and identify improvement opportunities.
- 7.2 The **Head of Assurance** will communicate the **Executive Management Team** and the **Audit Panel** on the internal audit service's quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Council.

8. Approval Signatures

CHIEF AUDIT EXECUTIVE

AUDIT PANEL CHAIR

EXECUTIVE DIRECTOR OF CORPORATE RESOURCES

9. Definitions

The Head of Assurance fulfils the role of “Chief Audit Executive” as set out in *Standard 1000*.

The Executive Management Team fulfils the role of “Senior Management” as set out in the Public Sector Requirement of *Standard 1000*.

The Audit Panel fulfils the role of the “Board” as set out in the Public Sector Requirement of *Standard 1000*.



Audit Panel

Report title: Corporate Risk Register Update Q2 2022/23

Date: 6 December 2022

Key decision: No

Class: Part 1

Ward(s) affected: All

Contributors: Rich Clarke, Head of Assurance - Karen Eaton, Group Manager, Insurance and Risk

Outline and recommendations

1. This report updates Members of the Audit Panel on the Council's Strategic Risks, as detailed in the Strategic Risk Register for the quarter ending 30 September 2022.
2. The report further advises Members on progress towards developing a refreshed Risk Management strategy, replacing the current 2017-22 edition last seen by this Panel in June 2021.
3. Audit Panel are recommended to:
 - (i) note the Strategic Risk Register
 - (ii) note and comment on plans for developing the Risk Management Strategy

1. Recommendations

1.1 The Audit Panel are recommended to:

- (i) note this strategic risk register
- (ii) note and comment on plans for developing the Risk Management Strategy

2. Policy Context

2.1 The contents of this report are consistent with the Council's policy framework. It supports the priorities set out in the Corporate Strategy 2018-2022:

- Open Lewisham
- Tackling the housing crisis
- Giving children and young people the best start in life
- Building an inclusive local economy
- Delivering and defending: health, social care and support
- Making Lewisham greener
- Building safer communities

2.2 It supports all of the Council's priorities generally through effective risk management for all of its activities and duties.

2.3 We plan to completely refresh the risk register in early 2023 following adoption of the revised Corporate Strategy in November 2022.

3. Background

3.1 Risk continues to be identified and managed in accordance with the Council's Risk Management Strategy (2017-22) as reported to Audit Panel in June 2021.

3.2 EMT have received papers discussing options for the future management of risk in October 2021 and February and June 2022. The outcomes of these high-level discussions will shape the outcome of the review of the Risk Management Strategy and progress will continue to be reported to this Panel ahead of a planned full update in early 2023.

3.3 EMT last reviewed and approved the Strategic Risk register in September 2022 and will continue to work to the existing Strategy until approval of its replacement. For this period, following the comprehensive review in June, updates were on request. Consequently, updates only took place for time-relevant items such as action updates.

3.4 This report summarises the risks identified at the end of September 2022, along with an update on actions to present.

4. Developing a New Risk Management Strategy

4.1 The current Risk Management Strategy, last seen by this Panel in June 2021, runs from 2017-2022. We are working currently on developing a refreshed Risk Management Strategy that aims to improve how the Council identifies, reports and manages its risks. The key improvement aims are:

- Increased currency and dynamism to risk reporting information,
- Better organised, more available information in more useable reporting,
- Easier administration and information management, and
- An approach that provides a comprehensive overview of risk at the Council.

4.2 We have already begun developing the approach with workshops with the Executive Management Team earlier in the year, the Strategic Leadership Team in July and the Extended Leadership Team in September. The full planned timetable for development is below.

4.3 A full version of the revised Risk Management Strategy was approved in November 2022. We will now undertake a limited period of consultation with staff to help refine and shape some of the supporting tools and help draw up a complementary training package.

5. Summary & Conclusions

5.1 The Council manages risk in accordance with its Risk Management Strategy 2017 – 2022 but are in the process of reviewing these arrangements.

5.2 The risk registers have been reviewed for the period ending 30 September 2022 and the Strategic Risk Register has been updated to reflect the assessment of risk to the Council at that time.

5.3 The Strategic Risk Register was reviewed and approved at EMT in November 2022 and is appended to this report at Appendix A.

6. Financial Implications

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

7. Equalities Implications

7.1 There are none arising directly from this report.

8. Legal Implications

8.1 The Authority has a duty to safeguard Council services and assets and seeks to meet that duty by having appropriate risk management arrangements.

9. Climate change and environmental implications

- 9.1 There are none arising directly from this report however the impact of climate change (e.g. air quality, extreme weather, flooding, compliance with new requirements/standards for service delivery) is included in the Strategic Risk Register as a risk that is currently rated as amber.

10. Crime and disorder implications

- 10.1 There are none arising directly from this report however some of the risks recorded within the Strategic Risk Register have crime and disorder implications (e.g. 3.B.1 Multi-agency Governance).

11. Health and wellbeing implications

- 11.1 There are none arising directly from this report however some of the risks recorded within the Strategic Risk Register have health and wellbeing implications (e.g. Multi-agency Governance, Failure to agree with partners integrated delivery models for local health and care services) and others could impact indirectly.

Report Author

If there are any queries on this report, please contact Rich Clarke, Head of Assurance, on extension 48730.

Appendix A: Strategic Risk Register

Risk Matrix – Q2 2022/23

CURRENT RISK						
Risk Impact	5	2.A.4	5.B.1	2.A.3 2.B.2		2.A.2 2.A.5 5.A.1
	4		3.B.1 3.B.2 1.A.2 1.B.2	1.B.3 4.B.2 3.A.3 5.A.2 4.A.1 2.A.1	1.B.1	
	3		<u>5.B.2</u> 3.A.2 1.A.1 2.B.1	3.A.1 4.B.3	5.A.3	<u>4.A.2</u>
	2			4.B.1		
	1					
		1	2	3	4	5
Risk Likelihood						

Larger font bold indicates movement from previous quarter

Arrow indicates where risk has moved from

Risk Listing – Q2 2022/23

Risk Listing									
Ref	Title	Owning Directorate	Current Score			Target Score			Notes
			Imp	Lik	Score	Imp	Lik	Score	
Current High Risks									
2.A.2	Failure in child safeguarding	Children & Young People	5	5	25	5	4	20	
2.A.5	Serious adult safeguarding concerns	Community Services	5	5	25	5	4	20	
5.A.1	Unable to maintain delivery within balanced budget	Corporate Resources	5	5	25	4	1	4	
1.B.1	Non-compliance with health & safety	Chief Executive's	4	4	16	2	3	6	
2.A.3	Non-delivery of transformational change	Chief Executive's	5	3	15	5	2	10	
4.A.2	Global commodity price increases/supply chain shortages	Corporate Resources	3	5	15	3	2	6	Current impact down from 4
2.B.2	Serious cyber security breach	Corporate Resources	5	3	15	5	1	5	
Current Moderate Risks									
1.B.3	Respond to climate change	Housing, Regeneration & Public Realm	4	3	12	3	2	6	
3.A.3	Pace of change negatively impacts service delivery & morale	Chief Executive's	4	3	12	4	3	12	
4.A.1	Failure to manage suppliers & procurement programmes	Corporate Resources	4	3	12	2	2	4	
4.B.2	Delivery of Building for Lewisham fails	Housing, Regeneration & Public Realm	4	3	12	4	2	8	
5.A.2	Unforeseen spending/loss of income from funding streams	Corporate Resources	4	3	12	3	2	8	
2.A.1	Adequacy of internal control	Corporate Resources	4	3	12	4	2	8	
5.A.3	Loss of income - debt collection	Corporate Resources	3	4	12	3	1	3	

Risk Listing									
Ref	Title	Owning Directorate	Current Score			Target Score			Notes
			Imp	Lik	Score	Imp	Lik	Score	
5.B.1	Failure to contain impacts of emergency	Corporate Resources	5	2	10	4	2	8	
3.A.1	Loss of constructive relations	Chief Executive's	3	3	9	3	2	6	
4.B.3	Failure to meet Housing standards	Housing, Regeneration & Public Realm	3	3	9	3	2	6	
3.B.1	Multi-agency governance leads to ineffective partnership work	Chief Executive's	4	2	8	4	1	4	
3.B.2	Integrated delivery models for local health & care services	Community Services	4	2	8	3	2	6	
1.A.2	Governance failing in service change	Chief Executive's	4	2	8	4	2	8	
1.B.2	Unresponsive to legislative change	Chief Executive's	4	2	8	4	2	8	
4.B.1	Failure to manage performance leads to service failures	Chief Executive's	2	3	6	2	2	4	
5.B.2	Contain impacts of COVID-19 and deliver service	Chief Executive's	<u>3</u>	2	<u>6</u>	3	2	6	Reduced current from 4 x 2
3.A.2	Maintain sufficient management capacity & capability	Chief Executive's	3	2	6	3	2	6	
1.A.1	Information governance failure	Corporate Resources	3	2	6	3	2	6	
2.B.1	ICT not fit for purpose/does not meet business needs	Corporate Resources	3	2	6	4	1	4	
Current Low Risks									
2.A.4	Elections not conducted efficiently or effectively	Chief Executive's	5	1	5	4	1	4	

Bold underline = change from previous report

Risk Descriptors				
Likelihood (Horizontal 'X' Axis)				
Rating	Probability	Description 1	Description 2	
Very High (5)	>50%	More likely to occur than not	Regular occurrence. Circumstances frequently encountered - daily/weekly/monthly	
High (4)	21-50%	Likely to occur	Likely to happen at some point within the next 1-2 years. Circumstances are occasionally encountered (few times a year)	
Medium (3)	6-20%	Reasonable chance of occurring	Only likely to happen every 3 or more years	
Low (2)	1-5%	Unlikely to occur	Has happened rarely	
Very Low (1)	<1%	Exceptional circumstances	Very low probability/never before	
Impact (Vertical 'Y' Axis)				
Rating	Individual Impact	Service Impact	Reputational Impact	Finance Impact
Very High (5)	Death of an individual or several people	Complete loss of services, including several important areas of service. Service disruption 5+ days. Service resource diversion up to 80%	Adverse and persistent national coverage. Adverse central govt. response, inc. poss. removal of delegated powers. Officer(s) and/or Members resign.	£5m+
High (4)	Severe injury to an individual or several people, requiring immediate hospitalisation	Major loss of an important service area. Service disruption 3-5 days. Service resource diversion up to 60%	Adverse publicity in professional/municipal press, affecting perception/standing in professional/local government community	£2.5m - £5m
Medium (3)	Injury to an individual, requiring immediate hospitalisation	Major effect to an important service area. Service disruption 2-3 days. Service resource diversion 40%	Adverse local publicity/local public opinion	£1m - £2.5m
Low (2)	Minor injury to an individual or several people requiring hospital treatment	Major effect to an important service area for a short period. Service disruption 1-2 days. Service resource diversion up to 30%	Negative local publicity of a persistent nature	£500k - £1m
Very Low (1)	Minor injury to an individual requiring hospital treatment	Significant effect to non-crucial service area. Service resource diversion less than 20%	Negative local publicity	£250k - £500k

As set out in Risk Management Strategy 2017-2022

Risk & Action Listing – Q2 2022/23

Ref	Risk Title	Current Risk & (Target Risk)	Current Impact (Target)	Current Likelihood (Target)	On Target? Travel	Risk Owner	Major Current Controls	Future Measures	Future Measures Date
COMPLY WITH THE LAW: Governance									
1.A.1	Information Governance Failure	6 (6)	3 (3)	2 (2)	YES ⇒	Executive Director of Corporate Resources	New data protection training rolled out to all staff	(none required, risk on target)	n/a
							Regular Directorate Reporting and revised policy		
							Information asset & security environment audits		
1.A.2	Governance in service change	8 (8)	4 (4)	2 (2)	YES ⇒	Director of Law, Governance & Elections	Corporate Programme Management Office	(none required: risk on target)	n/a
							Finance training for members & officers		
							Themed budget approach		
COMPLY WITH THE LAW: Regulatory									
1.B.1	Non-compliance with Health & Safety regulations	16 (6)	4 (3)	4 (2)	NO ⇒	Chief Executive	Directorate & Corporate working groups	Revise corporate H&S manual	Q3 22/23
							H&S training programme	Review buildings compliance programme	Q3 22/23
							Risk assessment & audit programme	Revised policies on water, fire, asbestos	Q3 22/23

Ref	Risk Title	Current Risk & (Target Risk)	Current Impact (Target)	Current Likelihood (Target)	On Target? Travel	Risk Owner	Major Current Controls	Future Measures	Future Measures Date
1.B.2	Failure to anticipate & respond to legislative change	8 (8)	4 (4)	2 (2)	YES ⇒	Director of Law, Governance & Elections	Data observatory established	(none required: risk on target)	n/a
							Engagement with professional bodies & govt departments		
							Regular policy briefings		
1.B.3	Impact of climate change	12 (6)	4 (3)	3 (2)	NO ⇒	Executive Director for HRPR	Climate Emergency Strategic Action Plan	(No major measures scheduled before risk register update)	n/a
							Borough Resilience Forum Flood Plan		
							Air Quality Management plan and monitoring board. Flood risk management strategy.		
SECURE SERVICES FOR USERS: Process									
2.A.1	Internal control framework adequacy	12 (8)	4 (4)	3 (2)	NO ⇒	Executive Director of Corporate Resources	Internal audit & assurance, with supporting policy and reporting framework	Revising approach to control account reconciliations to incorporate overall review dashboard	Q3 2022/23
							Oracle project		
							Liquid logic control processes		

Ref	Risk Title	Current Risk & (Target Risk)	Current Impact (Target)	Current Likelihood (Target)	On Target? Travel	Risk Owner	Major Current Controls	Future Measures	Future Measures Date
2.A.2	Child safeguarding failure	25 (20)	5 (5)	5 (4)	NO ⇨	Executive Director of Children & Young People	All cases risk assessed & thresholds for access linked to statutory requirements	Improvement programme including embedding Signs of Safety	Q3 2022/23
							LCS system redesigned to improve management		
							Weekly critical safety panel reviewing Quality Assurance and performance framework		
2.A.3	Strategic programme for transformation does not deliver	15 (10)	5 (5)	3 (2)	NO ⇨	Director of IT & Digital Services	Organisational Development Strategy & Project Mgmt Office (PMO)	Portfolio approach in line with corporate strategy & recruiting programme management resource.	Q3 2022/23
							Strategic change boards		
							Building focus and capacity		
2.A.4	Elections not conducted in line with law	5 (4)	5 (4)	1 (1)	NO ⇨	Director of Law, Governance & Elections	Overall project plan Extensive staff training and engagement	(None)	(N/A)

Ref	Risk Title	Current Risk & (Target Risk)	Current Impact (Target)	Current Likelihood (Target)	On Target? Travel	Risk Owner	Major Current Controls	Future Measures	Future Measures Date
2.A.5	Failure in Adult Safeguarding	25 (20)	5 (5)	5 (4)	NO ⇒	Director of Adult Social Care	LSAB provided with regular reports, including monthly case audits		
							Safeguarding adults policy and procedures ensuring Care Act compliance		
							SAR Board with governance arrangements and referral process in place		
SECURE SERVICES FOR USERS: Technology									
2.B.1	IT not fit for business need purpose	6 (4)	3 (4)	2 (1)	NO ⇒	Executive Director of Corporate Resources	Directorate participation in corporate PMOs. IT Triage process	<u>Rolling capital investment programme to replace infrastructure</u>	<u>Annual updates, next Q4 2022/23</u>
							Dedicated support for key line of business systems		
							Review BCPs with Emergency Planning team		
2.B.2	Cyber security breach corrupts or locks down Council systems or data	15 (5)	5 (5)	3 (1)	NO ⇒	Executive Director of Corporate Resources	Improved controls on admin-level access	Cloud-based authentication through MS365	November 2022
							Cyber Strategy & response policy approved		
							Online backups and disaster recovery testing		

Ref	Risk Title	Current Risk & (Target Risk)	Current Impact (Target)	Current Likelihood (Target)	On Target? Travel	Risk Owner	Major Current Controls	Future Measures	Future Measures Date
DEVELOP STAFF & PARTNERS: Workforce									
3.A.1	Loss of constructive employee relations	9 (6)	3 (3)	3 (2)	NO ⇒	<u>Head of HR</u>	Refreshed people management including employee assistance	<u>Staff survey action planning</u>	<u>Dec 2022</u>
							Extended union engagement and staff networks		
							Pulse surveys across a diagonal slice of staff		
3.A.2	Failure to maintain sufficient management capacity & capability to deliver business and implement change	6 (6)	3 (3)	2 (2)	YES ⇒	Chief Executive	All EMT posts are permanently filled and Director level posts appointed	(None, risk at target)	N/A
							OD Strategy in place		
3.A.3	Pace of change negatively impacts service delivery and employee morale	12 (12)	4 (4)	3 (3)	YES ⇒	<u>Head of HR</u>	Regular staff and management communications from CEX	Develop People Management Strategy	Q4 2022/23
							Together Lewisham Staff Network & Leading Together Lewisham		
							New appraisal process launched		

Ref	Risk Title	Current Risk & (Target Risk)	Current Impact (Target)	Current Likelihood (Target)	On Target? Travel	Risk Owner	Major Current Controls	Future Measures	Future Measures Date
DEVELOP STAFF & PARTNERS: Partnerships									
3.B.1	Multi-agency governance leading to ineffective partnership working	8 (4)	4 (4)	2 (1)	NO ⇒	Chief Executive	Regular meetings in place and liaison with all key partners & stakeholders	Development of local place based strategic plans being considered	Q3 22/23
							Strategic Partnership Boards in place and actively supported		
3.B.2	Failure to agree with partners integrated delivery models for local health & care services	12 (4)	4 (2)	3 (2)	NO ⇒	Executive Director Community Services	Partnerships in place across health & social care including monitoring initiatives.	Develop proposals for Commissioning Alliance	Q3 22/23
							Integration planning, including joint posts and whole system recovery plan		
							Strategic Commissioning Function developed		
SERVICES REPRESENT VFM: Procurement									
4.A.1	Failure to manage strategic suppliers and related procurements	12 (6)	4 (3)	3 (2)	NO ⇒	Executive Director of Corporate Resources	Contract management toolkit and supporting training plus contract mgmt dashboard	Contract management dashboard to be developed in use	Q3 22/23
							Social Value reporting		
							Contract Compliance checklist	Additional team recruitment	Q4 22/23

Ref	Risk Title	Current Risk & (Target Risk)	Current Impact (Target)	Current Likelihood (Target)	On Target? Travel	Risk Owner	Major Current Controls	Future Measures	Future Measures Date
4.A.2	Global commodity price increases or supply chain shortages	15 (6)	3 (3)	5 (2)	NO ↓	Executive Director of Corporate Resources	Monitoring prices through contract management framework	Review supply chain specifications and seek alternatives where possible	Monthly financial reporting
							Using variation clauses as required		
							Market engagement and benchmarking		
SERVICES REPRESENT VFM: Performance									
4.B.1	Failure to manage performance leads to service failure	6 (4)	2 (2)	3 (2)	NO ⇒	Chief Executive	Director sessions as part of SLT	Embed programme and project management approach	November 2022
							One Council approach to collaborative work	New corporate performance dashboard in development	Summer 2022
							Performance reporting to EMT		
4.B.2	Building for Lewisham programme fails to make full use of available funding streams and/or exceeds financial parameters	12 (8)	4 (4)	3 (2)	NO ⇒	Executive Director for HRPR	Changes to planning schemes to improve viability, including using 40% of RTB receipts. High level GLA Grant. Monitoring KPIs for Shared Ownership Sales and Quarterly financial reviews Sensitivity analysis including benchmarking with other LAs	Annual financial assumptions review	October 2022

Ref	Risk Title	Current Risk & (Target Risk)	Current Impact (Target)	Current Likelihood (Target)	On Target? Travel	Risk Owner	Major Current Controls	Future Measures	Future Measures Date
4.B.3	Failure to meet housing standards	9 (6)	3 (3)	3 (2)	NO ⇒	Director of Housing Services	LBL Self-Referral to the Regulator following issues highlighted by ITV programme.		
							Closely monitoring Lewisham Homes Lessons Learnt Action Plan. Updated clienting, including KPIs and quarterly monitoring.		
MANAGE WITHIN BUDGET: Financial									
5.A.1	Financial failure and inability to maintain service delivery within a balanced budget	25 (4)	5 (4)	5 (1)	NO ⇒	Executive Director of Corporate Resources	Audited financial statements, MTFS, regular reserves and provisions monitoring.	<u>Continued in-year savings plans</u>	<u>Rolling, but review Q3 2022/23</u>
							Financial planning addressing historic pressures and balanced budget.	Monitor local government finance changes	Q3 2022/23
							Comprehensive financial planning.		
5.A.2	Lack of provision for unforeseen expenditure or loss of income from funding streams	12 (6)	4 (3)	3 (2)	NO ⇒	Executive Director of Corporate Resources	Expert valuations of pension fund and insurance provisions	<u>Monitoring large income streams</u>	<u>Rolling, but review Q3 2022/23</u>
							Provisions and reserves strategy		
							Monitor and contribute to consultations on future of LG finance		

Ref	Risk Title	Current Risk & (Target Risk)	Current Impact (Target)	Current Likelihood (Target)	On Target? Travel	Risk Owner	Major Current Controls	Future Measures	Future Measures Date
5.A.3	Failure to collect debt	12 (3)	3 (3)	4 (1)	NO ⇒	Executive Director of Corporate Resources	ASC charging policy	(None)	N/A
							Additional resource for debt collection team		
							LL and Controc systems aligned		
MANAGE WITHIN BUDGET: Business Continuity									
5.B.1	Failure to effectively contain impact of emergency affecting public, business, environment	10 (8)	5 (4)	2 (2)	NO ⇒	Executive Director of Corporate Resources	On-call emergency planning rota and training with London wide standardised packages.	(None)	N/A
							BC Management programme using Resilience Standards for London		
							Quarterly Borough Resilience Forum with annual tests		
5.B.2	Failure to effectively contain ongoing impacts of Covid-19	6 (6)	3 (3)	2 (2)	YES ↓	Chief Executive	Covid risk register, reviewed by multi-agency partnership with established sub groups	(None)	N/A
							Service priorities determined and planned.		
							Ongoing monitoring and connection to London situation reporting		

