London Borough of Lewisham Audit Plan

Financial year ended 31 March 2023

June 2023

Contents

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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.

Key matters

National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

Local authority accounts are becoming increasingly complex as accounting standards evolve and local authorities enter more and more innovative financing arrangements and income generation projects. A significant challenge in managing local audits is the differing needs of various stakeholders. The local government sector, central government and regulators need to agree on the purpose of local audit and find a consensus on improving efficiency in publishing accounts. These delays are exacerbated by capacity constraints in both local auditors and local government. A new workforce strategy is being developed by the director of local audit at the Financial Reporting Council, but improving the attractiveness of a career in local audit and local authority accounting will require a lot of focus. You can find more insight and guidance on the key challenges for local audit in our report. https://www.grantthornton.co.uk/insights/report-key-challenges-in-local-audit-accounting/

Key matters

The financial challenge

The Council's 2022/23 net revenue budget of £248.6m is significantly less than the £400m it was over a decade ago. Financial constraints have been imposed on Council services with year on year budget reductions. The Council's ability to identify, agree and implement further savings to service budgets has become ever more challenging. The Council were required to identify a further £11.8m of savings necessary to set a balanced budget for 2022/23 without the use of reserves.

2022/23 has continued to be a challenging year for the Council. At the 31 March 2023 the Council-wide outturn for the General Fund is an overspend of £22m. This position is partially mitigated by £2.4m of funding held corporately, drawdowns from Reserves and Provisions of £8.6m to cover the cost of the staff pay award and energy price increase and £4m of legacy covid funding. This leaves a remaining overspend of £7m. The key areas of financial challenge are:

- the number and complexity of childcare placements continues to increase the strain on Children's Social care budgets;
- in line with the majority of Local Authorities, the number of Education Health Care Plans (EHCP's) and the associated severity of targeted need continues to increase year on year. Approximately 1 in 3 pupils with a plan are likely to need transport support which also adds pressure to the budget;
- the number of people needing nightly accommodation has increased which has added a £4.1m pressure within temporary accommodation. The increase has also impacted the service in terms of landlord payments and recharges for housing benefit payments which have exceeded the caps and limits and therefore not payable through the Government benefits claim.

The 2023/24 settlement has provided a potential increase of 9.3% in council core spending power in cash terms (of which 6% forms part of the base general fund budget and the balance in the collection fund and specific grants), however this is still less than the published CPI inflation level of 10.7% in November 2022. Existing funding streams will continue; however, the Market Sustainability and Fair Cost of Care Fund will be replaced by the Adult Social Care Market Sustainability and Improvement Funding. The government expects these will support councils to meet the extra cost and demand-led pressures to keep providing services at pre pandemic levels. Despite this, there is continuing widespread concern that there remains a significant funding gap for the sector to meet all its statutory service requirements including Social Care. The government's response to this has been increasing the social care precept, and the overall social care grant funding. The Government confirmed the continuation of an increase of 2% to the Social Care (SC) precept on Council Tax in 2023/24, which will generate an extra £2.5m of revenue.

Key matters

Cost of Living crises

One in four households in Lewisham are now affected by food and fuel poverty with 61,000 local people falling behind on their bills, meaning they require financial assistance and/or will be accessing a food bank. On the 23 November 2022 the Council passed a motion to declare a Cost of Living Emergency, calling on the Government to use its powers to support people through the worst financial crisis to hit the country in decades. The Council has already provided over £7 million worth of support from council tax support, food and fuel vouchers, assistance with rent payments and securing residents somewhere to live.

Lewisham Homes

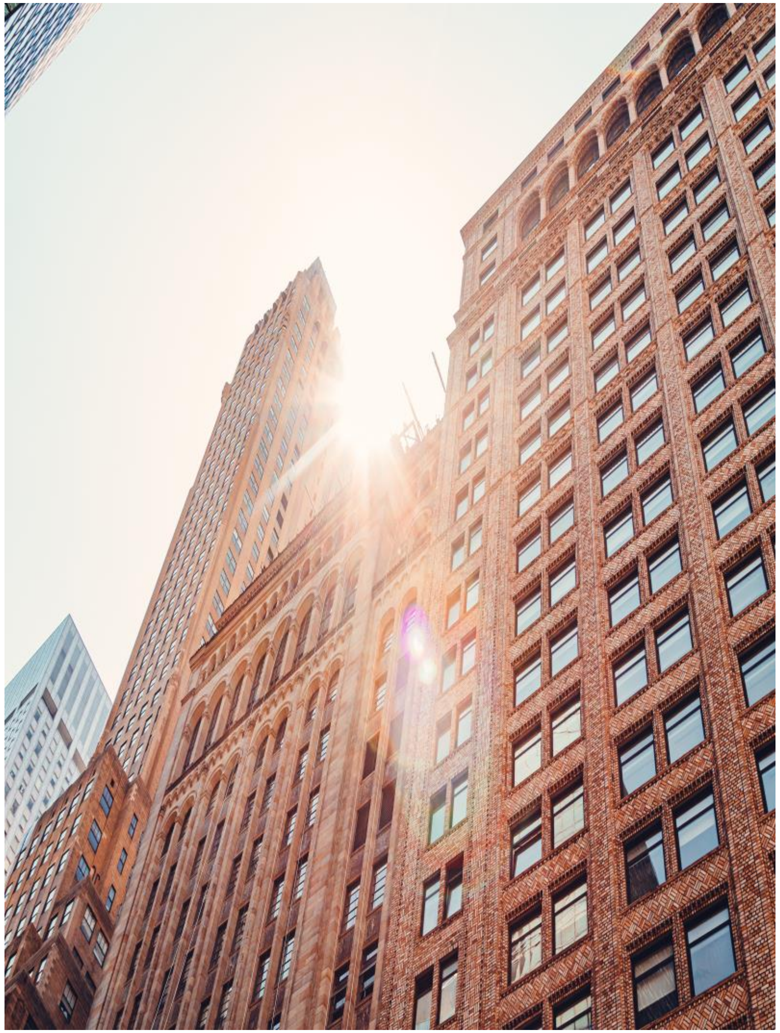
The Council established an Arm's Length Management Organisation (ALMO), Lewisham Homes in 2007. A new management agreement between the Council and Lewisham Homes was agreed in June 2017 for ten years with a break clause which allows the Council to give six months' notice before the fifth anniversary of the agreement. On 7 December 2022 Mayor and Cabinet authorised the Executive Director, Housing, Regeneration and Public Realm in consultation with the Monitoring Officer and Section 151 Officer to negotiate termination of the management agreement with Lewisham Homes and negotiate a mutually acceptable date to transfer the landlord service to the Council as soon as practicable. The Development team within Lewisham Homes have returned to the Council on 1 February 2023. The corporate functions of Finance, Procurement, and IT along with Temporary Accommodation and Tenant Management Organisation support are returning on the 1 May 2023. All the remaining Management Agreement services are expected to return on or around 1 October 2023. As a small amount of staff in the development team transferred in the year there is unlikely to be a significant impact on our audit. The Council will need to inform the actuary of the transfer for the IAS19 pension liability calculation.

Key matters

Our Responses

- There has been a delay in signing off the Council's 2021-22 financial statements. This is due to additional information coming to light following the March 2022 pension fund triennial valuation that has resulted in amendments to the financial statements and some additional audit work. This is expected to be resolved by early July and has no impact on this plan or our ability to continue with the 2022-23 audit.
- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Executive Director of Corporate Resources.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to review the progress the Council has made against the agreed actions in respect of matters identified through previous audit work, either on the financial statements or in respect of work on arrangements to secure VFM.
- We will continue to provide you and your Audit Panel with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control– refer to page 9.
- We identified a significant audit risk relating to a purge of data on the general ledger which prevented the Council making payments from some feeder systems in the period April to June 2022. We will undertake testing on the manual processes that the Council implemented at short notice to ensure companies continued to receive payments for services delivered to the Council.

Introduction and headlines



Purpose

This document provides an overview of the planned scope and timing of the statutory audit of London Borough of Lewisham Council ('the Council') for those charged with governance.

Respective responsibilities

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

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Panel); and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit Panel of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls.
- Valuation of land and buildings.
- Valuation of the pension fund net liability.
- Accuracy and completeness of manual payments made between April to June 2022.

We will need to increase the scope of our work for the period when the Council processed some of its payments manually. This is likely to involve the use of our IT auditors.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of Lewisham Homes Limited and Catford Regeneration Partnership Limited. There will be a small change in the group structure as some staff transferred from Lewisham Homes back to the Council within 2022-23.

Materiality

We have determined planning materiality to be £16.8m (PY £16.8m) for the group and £16.5m (PY £16.5m) for the Council, which equates to approximately 1.5% of your prior year gross operating costs. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.825m (PY £0.825m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weakness. We will continue to update our risk assessment until we issue our Auditor's Annual Report. We will follow up on improvement recommendations raised in 2021/22 covering:

- Council's arrangements to improve savings performance.
- The development of a workforce plan/strategy.
- Development of actions to respond to a worst case scenario included within the Medium Term Financial Plan.
- Review of the Council's risk management arrangements.
- Improvements to governance arrangements.
- Increased reporting of non financial key performance indicators.
- Developing and implementing action plans from the LGA review.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Audit logistics

Our interim visit will take place in March 2023 and our final visit will take place from July 2023. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £269,488 (PY: £253,289) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Presumed risk of fraud in revenue recognition ISA (UK) 240	Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.	Under ISA (UK) 240 there is a rebuttable presumed risk of material misstatement 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. Having considered the risk factors set out in ISA 240, and the nature of the revenue streams of London Borough of Lewisham, we have determined that it is likely that the presumed risk of material misstatement due to the improper recognition of revenue can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of public sector bodies, London Borough of Lewisham, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for the Council at the time of our planning however we will keep this assessment under review.
Management override of controls ISA (UK) 240	Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities. The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance. 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.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

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

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Completeness and accuracy of manual payments made by the Council between April to June 2022	At the beginning of the financial year the Council encountered a systems issue that meant they were unable to process payments automatically from some feeder systems to clients/companies in the normal way. This information had to be manually uploaded onto the Council's creditor payments system The Council reacted promptly to the issue and installed a manual workaround process to ensure suppliers were paid in accordance with agreed terms and conditions. The manual processes however, increase the risk over the accuracy and completeness of payments made. We are likely to require the use of our IT experts to assist us with our testing of the processes and reconciliations the Council implemented over this period.	We will: • update our understanding of the processes and controls put in place by management to ensure correct payments were made to suppliers on a timely basis; • review the work completed by Internal Audit in this area; and • undertake substantive testing on manual payments made between April to June 2022.
Valuation of the pension fund net liability	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. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£564 million in the Council's balance sheet at 31 March 2022) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of Practice on Local Authority Accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	We will: • update our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation; • assess the accuracy and completeness of the information provided by to the actuary to estimate the liabilities; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of London Borough of Lewisham Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the Fund and the fund assets valuation in the Fund's financial statements.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation Council Dwellings, Other Land and Buildings and Surplus Assets.	The Council revalues its dwellings and land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (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. Management will need to ensure that the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus properties) at the financial statements date. We will focus our audit attention on assets that have large and unusual changes and / or approaches to the valuation of Council Dwellings, Other Land and Buildings and Surplus Assets, as a significant risk requiring special audit consideration. The risk will be pinpointed as part of our final accounts work, once we have understood the population of assets revalued. We will report an updated risk assessment for valuation of land and buildings in our Audit Findings Report.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met; • challenge the information and assumptions used by the valuer to assess the completeness and consistency with our understanding, which will include 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; • test, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluate 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.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto. Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Other risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Completeness of non-pay operating expenditure and associated short-term creditors	Non-pay expenditure on goods and services represents a significant percentage (60%) of the Council's gross operating expenditure. Management uses judgement to estimate accruals of un-invoiced costs. In the prior year our sample audit testing identified payments that have been codded to the incorrect financial year. We identified completeness of non-pay expenditure and associated short-term creditors as a risk requiring particular audit attention.	We will: • evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness, including the use of de minimis level set; • gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; and • obtain and test a listing of non-pay payments made in April and May 2023 to ensure that they have been charged to the appropriate year.

'In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.' (ISA (UK) 315)

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Key changes within the group:

On 7 December the Council decided to negotiate the termination of the management agreement with Lewisham Homes and negotiate a mutually acceptable date to transfer the landlord service to the Council as soon as practicable.

The development team transitioned from Lewisham Homes back into the Council on 1 February 2023. As the size of the team is small and occurred towards the year end, there will not be a significant change in costs from Lewisham Homes to the Council in 2022/23. The significant changes will occur in the 2023-24 year.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
London Borough of Lewisham Council	Yes		• Management override of controls • Valuation of property, plant and equipment • Valuation of pension fund net liability	Full scope audit performed by Grant Thornton UK LLP.
Lewisham Homes Limited	No		• Valuation of property, plant and equipment • Valuation of pension fund net liability	Specific scope procedures on valuation of property plant and equipment and pensions liability to be performed by our audit team.
Catford Regeneration Partnership Limited	No		• Valuation of Investment Property	Specific scope procedures on valuation of investment property to be performed by our audit team.

Audit scope

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

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

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

Progress against prior year audit recommendations

We identified the following issues in our 2021/22 audit of the group's financial statements, which resulted in 8 recommendations being reported in our 2021/22 Audit Findings Report. We will continue to follow up the progress on implementing the recommendations as part of our 2022/23 audit.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress implementation date June 2023	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.	Management have reinforced the rules for use of balance sheet codes to the services to reduce the chance of future imbalances occurring. A full and detailed reconciliation between the net deficit/surplus in the Consolidated Income and Expenditure Statement and the movement in net asset value in the Balance Sheet will be carried out again in 2022/23 to identify and correct any miscoding that creates any imbalances.
In progress implementation date June 2023	Our cut off testing identified 2 errors (total value £749k) 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	Improvements have been made in cut-off training and testing. A training session will be held specifically for Capital Project Managers to share best practise requirements and impact. This should improve the completeness of capital accruals made for2022/23.
Implemented	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 has written these assets out the books and has now undertaken an exercise to ensure all assets are now tracked.
Implemented	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.	Discussions have been held between the Council and Lewisham Homes and no evidence can be found about the flat rate agreement for callout. Lewisham Homes proposes that callouts are paid under the same terms as their contractor supply-chain which is callout including cost of actual work completed. A formal agreement will be put in place.
Implemented	Schools bank accounts were not all reconciled as at 31 March 2022. Some were reconciled at an earlier date. All schools bank accounts should be reconciled as at 31 March.	All schools bank accounts will be reconciled as at 31st March, which is included within the Schools and Corporate Closing timetable and training. This date does not clash with the schools Easter Holiday.

Progress against prior year audit recommendations continued

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress. No impact on the Audit Plan or our audit approach. The Council are strengthening arrangements in these areas.	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 comprehensive review to reconcile Exacom to the General Ledger is ongoing and an audit of projects from 2010 to date is also being undertaken. The reconciliation process and the recording of payments on the General Ledger/Exacom is also under ongoing review. These actions will continue for 22/23 and 23/24 to provide additional accuracy.
In progress. No impact on the Audit Plan or our audit approach. The Council are strengthening arrangements in these areas.	The Adult Social Care Controcc system is not being updated and monitored regularly to ensure the commitments stated on the system are complete and accurate. The finance team rely on the reports from Controcc system to determine outstanding commitments to be raised as creditors at year-end. The Council should ensure the Controcc system is regularly updated.	There will always be an element of non-delivery on care such as Homecare as people go into hospital, decline, or do not require the service.Two key workstreams are being undertaken to improve the accuracy of commitments within the Controcc system: • A monthly reconciliation is to be created which will compare payments made on the Oracle system to the Controcc commitment report, this will highlight potential commitments that should not be within Controcc as payments are not being made. • Invoices on hold are also reviewed on an ongoing weekly basis to make sure commitments in the system are accurate to enable invoices to be processed without intervention. Both will help improve the accuracy of outstanding commitments and the year-end creditor.
In progress. No impact on the Audit Plan or our audit approach. The Council are strengthening arrangements in these areas.	The Council has significant credit balances on Council Tax and NNDR accounts due to residents and businesses. These balances have remained outstanding for several years. The Council need to take action to repay these creditors. In the instance where the residents or businesses cannot be traced and the legal time limits have expired, the Council should write back these amounts.	Action will take place to proactively contact customers where details are held to refund these sums. Where contact is not made, the amounts will be written off. Should customers contact Lewisham at any time, we will write back the credit and raise a refund. All write off balances will be reported to the Director of Finance for review and approval.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. Materiality at the planning stage of our audit is £16.8m for the group and £16.5m for the Council, which equates to approximately 1.5 % of your draft gross expenditure in the prior year.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
3	**Other communications relating to materiality we will report to the Audit Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Panel any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit Panel any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.825m (PY £0.825m). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Panel to assist it in fulfilling its governance responsibilities.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	16,800,000	16,500,000	This benchmark is determined as a percentage of the Council's Gross Cost of Services Expenditure in year, which has remained at approximately 1.5%.
Performance materiality	10,920,000	10,725,000	Performance Materiality is based on a percentage of the overall materiality.
Trivial matters	840,000	825,000	This balance is set at 5% of overall materiality

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 23.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Oracle Fusion	Financial reporting	We do not plan to test design and implementation of the ITGCs
Academy	Council Tax, Business Rates, Benefits, Grants, Housing Rents	We do not plan to test design and implementation of the ITGCs
Oracle HR/Payroll	Payroll	We do not plan to test design and implementation of the ITGCs
Altair	Pensions	We do not plan to test design and implementation of the ITGCs

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office -issued its latest Value for Money guidance -to auditors in January 2023 . The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report. We will follow up on improvement recommendations raised in 2021/22 covering:

- Council's arrangements to improve savings performance.
- The development of a workforce plan/strategy.
- Development of actions to respond to a worst case scenario included within the Medium Term Financial Plan.
- Review of the Council's risk management arrangements.
- Improvements to governance arrangements.
- Increased reporting of non financial key performance indicators.
- Developing and implementing action plans from the LGA review.

Audit logistics and team

Planning and risk assessment

Interim audit March 2023

Audit Panel June 2023

Audit Plan

Year end audit July to September

Audit Panel November 2023

Audit Findings Report and Auditors Annual Report

By 30 November

Audit opinion

Joanne Brown, Key Audit Partner

Joanne is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Audit Panel, the Chief Executive and the Executive Director of Corporate Resources. Joanne will share her wealth of knowledge and experience across the sector providing challenge and sharing good practice. Joanne will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit work. Joanne will sign your audit opinion.

Paul Jacklin, Senior Manager

Paul is responsible for overall audit management, quality assurance of audit work and output, and liaison with the Audit Panel, Director of Finance and finance team. Paul will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable. Paul will be responsible for the delivery of our work on your arrangements in place to secure value for money.

Lakshmi Forster, Assistant Manager

Lakshmi will support Paul in his work to ensure the early delivery of audit testing and lead on a number of complex accounting issues. Lakshmi will perform first reviews of the team's work. In addition, Lakshmi will also liaise with key members of the finance team to ensure audit testing and reviews are conducted on a timely basis.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- Produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement.
- Ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you.
- Ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing. These reports should be cleansed so that reversing transactions are removed.
- Ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit.
- Respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017 , PSAA awarded a contract of audit for London Borough of Lewisham to begin with effect from 2018/19. The fee agreed in the contract was £170,039. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's–IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £5,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf [and has been agreed with the Director of Finance].

Audit fees

	Actual Fee 2020/21	Actual Fee 2021/22	Proposed fee 2022/23
Council Audit	£264,530	£253,289	£269,488

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

New scale fee	**£170,039**
Group	£2,630
Reduced materiality	£6,575
Use of expert	£9,994
Additional Requirements – Payroll Change of Circumstances (Information Provided by the Entity) IPE Testing	£500
Additional Requirements – Collection Fund Reliefs (Information Provided by the Entity) IPE Testing	£750
Value for Money audit – new NAO requirements	£20,000
ISA 540	£6,000
ISA 315	£5,000
Additional journals testing	£3,000
Infrastructure	£2,500
Quality review – response to FRC (Quality Partner)	£1,500
Triennial valuation work	£3,500
Other local factors – This will this takes account the likelihood of extra sampling, testing, new guidance plus the additional work we need to complete on the manual payments made earlier in the year.	£37,500
Total	**£269,488**

By setting the fees out in the plan the fee proposals are agreed and thereafter subject to PSAA approval

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams and component audit firms providing services to the group and Council.

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified/ No other services provided by Grant Thornton were identified

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group and Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Teacher's Pension Return	10,000	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 £10,000 in comparison to the total fee for the audit of £269,488 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.
Certification of Housing Capital receipts grant	52,388	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 £52,388 in comparison to the total fee for the audit of £269,488 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.
Certification of Housing Capital Receipts	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 £269,488 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

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		n/a
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Grant Thornton

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