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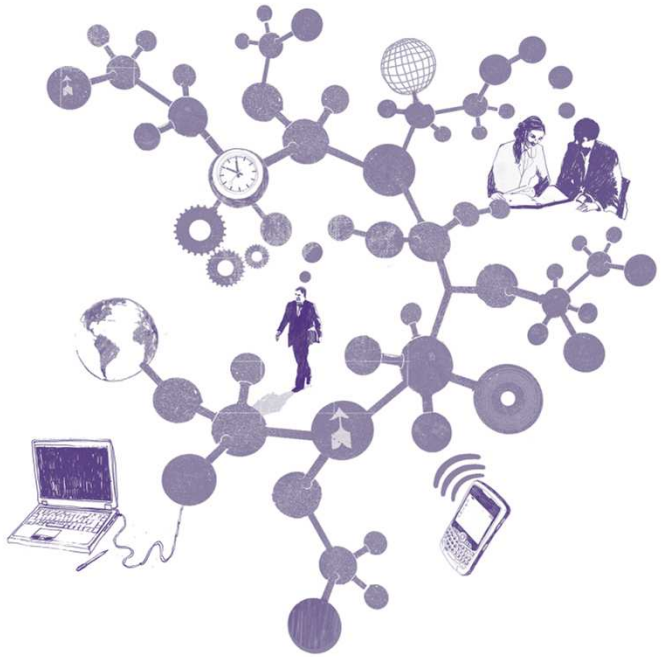
This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

The Audit Findings for the London Borough of Lewisham

Year ended 31 March 2013

August 2013



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of the London Borough of Lewisham (the Council)'s financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and the Audit Panel in accordance with the requirements of International Standard on Auditing 260 (ISA).

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

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan.
Our audit is substantially complete although we are finalising our work in the following areas:

- Employee remuneration
- Accounts receivable
- Review of pensions disclosures
- Grants revenues
- Review of the final version of the financial statements
- welfare benefits testing
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

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

Key issues arising from our audit

Financial statements opinion

Subject to completing our outstanding work we anticipate providing an unqualified opinion on the financial statements.
The financial statements were overall of a good quality. We have agreed a number of adjustments to correct errors in disclosure notes and to improve the presentation of the financial statements**.** These are set out later in this report**.**
Most of the numerical adjustments are concerned with the valuations of Property , Plant and Equipment and the way the Council has accounted for them. Although there are some large adjustments none of them affect the Council's overall revenue position.
Overall the audit has progressed well and finance staff have been helpful and prompt in responding to our queries. We will be meeting with management to discuss areas where further efficiencies could be made for next year and where the quality and relevance of supporting evidence could be further improved.

Further details are set out in section 2 of this report.

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Value for money conclusion
Based on our review of your arrangements to secure economy, efficiency and effectiveness in your use of resources, we propose to give an unqualified value for money (VFM) conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

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

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

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

We draw your attention in particular to control issues identified in relation to asset valuations. You had no valuations expertise available to you during 2012/13 and had to recruit a temporary valuer at a late stage of the process. This put the Council at risk of being unable to comply with the Code requirement to revalue its assets within a five year cycle. Some aspects of the valuations were not fully in accordance with the Code or were incorrectly accounted for.

Further details are provided within section 2 of this report.

The way forward
Matters arising from the financial statements audit and the review of your arrangements for securing economy, efficiency and effectiveness have been discussed with the Chief Finance Officer.

We have made a number of recommendations as set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Chief Finance Officer and the finance team.

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

Grant Thornton UK LLP
September 2013

Section 2: Audit findings

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Audit findings

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

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 18 June.

Audit opinion

Subject to satisfactory completion of our outstanding audit procedures we anticipate that we will provide the Council with an unqualified opinion. Our audit opinion is set out in Appendix B.

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Audit findings against significant risks

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

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	• review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions	We reviewed your revenue recognition policies and concluded they were reasonable We tested material revenue streams and did not identify any concerns, or any significant unusual items Our audit work to date has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular we found there were adequate controls over journal adjustments, which were supported by appropriate evidence. We note journals are not sequentially numbered, which makes it difficult for management to demonstrate it had a complete record of manual adjustments to the ledger. This is a potential improvement area to explore when the Oracle system is upgraded later in 2013. We reviewed the significant estimates and judgements made by management and did not identify any indication of management override.

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Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Operating expenses understated	• We carried out a walkthrough of the accounts payable system • We tested a sample of 60 operating expenses for completeness and accuracy	Our audit work to date has not identified any significant issues in relation to the risk identified
Operating expenses	Creditors understated or not recorded in the correct period	• We tested a sample of creditors and accruals	Our audit work to date has not identified any significant issues in relation to the risk identified
Employee remuneration	Remuneration expenses not correct	• We carried out a walkthrough of the payroll system. • We tested a random sample of 60 employees for assurance that payments were valid and accurate • We tested the year end reconciliation of payroll to the ledger	**Awaiting evidence for 8 schools employees**
Welfare expenditure	Welfare benefits improperly computed	• We carried out a walkthrough of the benefits system and we are currently certifying the benefits claim BEN01	**Reliance to be placed on the testing of initial samples of benefits claimants**
Housing rent	Revenue transactions not recorded.	• We carried out a walkthrough of the Housing revenue systems • we tested the disclosures in the Housing Revenue Account (HRA)	Our audit work has not identified any significant issues in relation to the risk identified
Property, plant & equipment	PPE activity not valid	• We carried out verification work on the opening PPE balance and we tested a sample of additions	Our audit work has not identified any significant issues in relation to the risk identified
Property, plant & equipment	Revaluation measurement not correct	• We reviewed the reasonableness of valuation measurement	We concluded the valuations were reasonable, although there were some instances where the approach was not strictly in line with the requirements of the Code. (as explained under 'judgements and estimates').

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Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• You complied with the standard accounting policies on revenue recognition as set out in the Code.	You selected appropriate accounting policies on revenue recognition and you complied with them	Green
Judgements and estimates	• You made significant accounting estimates regarding - useful life of capital equipment – pension fund valuations and settlements – revaluations – impairments – Provisions	We reviewed your significant judgements and estimates. We concluded that the useful lives of property, plant and equipment assets were reasonable and in accordance with your accounting policies. At this time we are still reviewing the pension fund valuations as provided by your actuary. We reviewed the property, plant and equipment valuations in your accounts and concluded they are reasonable. Your housing stock has been valued by uplifting last year's figures by an appropriate index. The Code recommends a Beacon approach, which involves valuing a sample of houses and extrapolating them to the whole housing stock. The Council adopted the indexation approach because of resourcing pressures. We concluded that the index is soundly based and provides a reasonable estimate of valuation movements, therefore this would be unlikely to lead to a material misstatement. We reviewed the impairments in your draft accounts. We found that these were not accounted for correctly, and required material amendments to classifications in notes 9 and 35. However these amendments did not affect the overall net book values of your assets.	Amber

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

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Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
Estimates continued	• Bad debt provision	You made a provision of £24,674K for council tax bad debts. In reviewing this estimate we compared the assumptions management had made with actual council tax recovery rates, based on historic performance. We estimated the provision overstated the likely amount of bad debts by £4.2 million. This is not a material difference from the Council's estimate. Management's view is that its provision is prudent and they do not propose to change their methodology at this time, given the recent changes to the council tax benefit system. We concur wit the Council's approach.	
Other accounting policies	• We reviewed your accounting policies against the requirements of the CIPFA Code and accounting standards.	You selected appropriate accounting policies and complied with them. Management agreed to provide more clarification on the treatment of schools on the balance sheet. The accounting of the pension indemnity for former employees who transferred to Lewisham Homes was an area of disagreement between the Council and its former auditors. Previously the Council disclosed the pension indemnity as a contingent liability under IAS37. You have changed the accounting this year, recording the pension cost in note 39 (Defined Benefit Schemes). We concur with the change n treatment. Our view is that this change in treatment should be treated as a change in accounting policy under accounting standard IAS8. In your financial statements you have treated this as change in accounting estimates. The effect of this is not material and is a presentational matter which does not alter your overall financial position.	● Amber

Assessment

- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

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Adjusted misstatements

We set a triviality threshold of £1,066K (which is 0.1 per cent of gross revenue expenditure). We deem errors below this level to be inconsequential to our opinion and we do not report them.

We did not identify any misstatements above the trivial threshold which affect the net expenditure position or asset values.

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Misclassifications & disclosure changes

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

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misclassification	25,606	Council dwellings – note 9b	Revaluations and impairments were incorrectly classified within note 9. This did not affect the overall net book value or the balance sheet.
2	Misclassification	141,945	Other land and buildings – note 9b	Revaluations and impairments were incorrectly classified within note 9. This did not affect the overall net book value or the balance sheet.
3	Disclosure	1,808	Other land and buildings – note 9a	Amendment made so that note 9a is consistent with note 9b
4	Disclosure	39,572	PFI assets – note 35c	Amendments made to this disclosure note to include all PFI assets and to correctly classify valuations and impairments
5	Disclosure	5,312	Operating leases – note 34 - Council as lessor	Amendment to the future commitments of the Council as lessor
6	Disclosure	3,013	Operating leases – note 34 - Council as lessee	Amendment to the future commitments of the Council as lessee
7	Disclosure	15,300	Revaluation reserve	The revaluation reserve contains a debit balance of 15,300 in respect of decent homes. This should be apportioned over the assets it relates to rather than as a separate line in the revaluation reserve.
8	Misclassification	3,714	Balance sheet	Loan is misclassified as long term but should be short term
9	Disclosure	6,933 and 3,619	Note 12a – financial instruments	Financial instruments values were inconsistent with the balance sheet, because of late adjustments, and were also overstated because they included debtors and creditors which did not meet the definition of a financial instrument.

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Unadjusted misstatements

We set a triviality threshold of £1,066K (which is 0.1 per cent of gross revenue expenditure). We deem errors below this level to be inconsequential to our opinion and we do not report them.

We did not identify any misstatements above the trivial threshold which Management has declined to amend.

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Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. 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. These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1.	● Red	• As a result of an internal reorganisation you had no in-house valuation expertise during 2012/13. This put the Council at risk of being unable to comply with the Code requirement to carry out a programme of valuations of property plant and equipment. • You recruited a temporary valuer at a late stage in the process, who was able to carry out sufficient work to assure us that the financial statements were not materially misstated. • However due to time and resource pressures the valuation was not strictly in line with the Code in a number of respects. - the housing stock was uplifted by an index, whereas the approach recommended by the Code is to value a sample of assets and extrapolate to the full housing stock using a beacon approach. We reviewed the indices used and we concluded they represented a reasonable estimate. - you only valued a sample of three investment properties, whereas the Code requires a full valuation. We note that the other properties are immaterial in value. - you did not revalue surplus assets which are held at fair value. - there are a small number of assets which have not been valued in the five year cycle, however the value of these is trivial.	• Ensure you have sufficient valuations expertise available to meet the requirements of the Code

Assessment

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

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Internal controls (continued)

	Assessment	Issue and risk	Recommendations
2.	Amber	• Your previous auditors commented that your asset register did not reconcile to the accounts. • During 2012/13 you have made progress in developing the use of the asset register. The gross book value and net book values in the asset register now materially agree to the accounts. • There is scope to develop the register further. The register is not being used as the main tool to populate the accounts, which are still mostly updated as a year end process through the use of spreadsheets. There are also significant differences in how movements are being accounted for between the register and the accounts.	• Continue to develop the use of the asset register as a tool to drive capital accounting and the production of the financial statements.
3.	Amber	• We reviewed the investment balances disclosed in your accounts. These included £10 million which according to the Council's records was held by Lloyds TSB. When we checked this to confirmations we found it was actually held at Bank of Scotland, although the Council's correspondence with its relationship manager had specifically named Lloyds TSB. • Management subsequently clarified that Bank of Scotland is part of the Lloyds group and their relationship is at a group level, not with the individual institution.	• Ensure the investment institution is always specified, where there is a group relationship
4.	Amber	• Our IT auditors carried out an IT risk assessment, to consider the adequacy of controls over the IT system. We did not identify any significant weaknesses. but raised some points of best practice which we have shared with management. • You plan to upgrade your Oracle system in November 2013. We will be discussing with management what controls are in place around data migration to the upgraded system.	• Consider the best practice points raised in the IT audit memorandum

Assessment

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

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Other communication requirements

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

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit Panel. We have been made aware of all instances of fraud over £10,000 which occurred at the Council during 2012/13. No other issues have been identified during the course of our audit.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A standard letter of representation has been requested from the Council.
4.	**Disclosures**	• We reviewed narrative disclosures and our review found no material omissions in the financial statements.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed
6.	**Going concern**	• Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.
7.	**Annual Governance Statement**	• The Annual Governance Statement complies with the best practice guidance by CIPFA. We did not identify any omissions or any information which was inconsistent with our knowledge. • At 17 pages it is one of the longest Annual Governance Statements we have seen . In the interests of making your accounts less cluttered and more accessible to a reader, you may wish to consider how this public document could communicate your governance arrangements in a more succinct way.

Section 3: Value for Money

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Value for Money

Value for Money conclusion

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

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

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

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

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

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

We have reported the detailed results of our financial resilience review in a separate report. We concluded that you have sound budgetary controls in place, supported by robust financial governance arrangements and internal controls.

Our work highlighted that you underspent against your revenue budget by £ 3.5 million in 2012/13. This was the third successive year of underspend, demonstrating your strong track record of robust financial management.

You have not had to draw on reserves to support the revenue position and you were able to increase the level of usable reserves by £26.2 million in 2012/13. The level of reserves is broadly in line with other London Boroughs. The level of your borrowings has significantly reduced due to a large receipt following the abolition of the housing subsidy system in 2012 used to repay borrowing .

You recognise that your council tax collection rate for 2012/13 was below target. Statistics published by the Department of Communities and Local Government show a rate of 94.2 per cent, compared to a London average of 96.4 per cent. All councils are faced with the issue that collection rates could deteriorate further in 2013 due to the changes to council tax benefits introduced under the Welfare Reform Act.

Your medium term financial plan (the financial survey) covers the period to 2016. You have set a balanced budget for 2013/14 but still need to identify further savings for 2015 onwards.

We concluded you have adequate arrangements to secure financial resilience.

Value for Money

Value for Money conclusion

Key findings (continued)

Challenging economy, efficiency and effectiveness
We have reviewed whether you have prioritised resources to take account of the tighter constraints you are operating within.

The population of London grew by around a million between 2001 and 2011 and is the fastest growing part of the UK, with a younger age profile than elsewhere in the UK. This presents a particular set of challenges around a growth of demand for education, housing and welfare services in particular. The Borough needed 23 new reception classes in 2012/13 and will need an additional 25 classes this year.

The economic environment remains challenging, with continuing pressure on demand for services such as benefits and homelessness. At the same time those economic pressures create downward pressure on council tax receipts and other sources of demand led income.

Recent changes to legislation have created additional pressures in relation to central Government funding. As a consequence of the Welfare Reform Act you are now responsible for the cost of council tax benefits, with significantly reduced funding. You are preparing for the universal credit which is introduced in October 2013 and in doing so you are working with your most vulnerable clients to mitigate the impact of the changes.

Since 2010 you have successfully implemented a programme of savings resulting in over £56 million efficiencies. You achieved 97 per cent of planned savings in 2012/13.

In December 2012 the Secretary of State announced further reductions to Revenue Support Grant, requiring the Council to make an additional £53.5 million savings between 2013 and 2015. Some £20.9 million of those savings are built into the budget for 2012/13. An additional £32 million is needed for the 2014/15 budget of which around £14 million is still to be identified.

You have a strong track record of making efficiencies. The scale of future savings requirements mean that more radical savings options may be required to continue this good track record.

The Audit Commission publishes value for money profiles on its website, which compare councils' costs per head with those of similar councils. These show your overall costs to be broadly in line with the peer group, but higher in some specific areas most notably adult social care.

At the same time as making savings, you are progressing with ambitious plans to regenerate the Borough as part of your vision to make Lewisham the best place to live, work and learn in London.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

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

Residual Risk identified	Assurances obtained	Conclusion on residual risk
The Council may not be able to achieve the £20.9 million savings approved in 2013/14, due to the level of savings which have already been made by the Council in the previous three years.	You have a good track record of achieving efficiency savings. 97 per cent of planned savings were realised in 2012/13. The last budget finance report to the Public Accounts Select Committee forecasts that 93 per cent of the 2013/14 planned savings will be achieved.	While the target for 2013/14 is a challenge the Council's good track record and robust in-year forecasting indicate that this should be achievable.
Savings plans for 2014/15 and beyond may struggle to identify the required level of savings using efficiencies alone.	Following the Secretary of State's announcement of reductions in Revenue Support Grant, the Council has determined that £32 million savings will be required in 2014/15. To date over half of that requirement has been identified. In recent discussions management have indicated that around £14 million of savings are still required for 2014/15.	The savings requirement is of a similar order to that achieved by the Council in previous years. You have already identified over half of the savings required and recognise the scale of the challenge.

Section 4: Fees, non audit services and independence

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Fees, non audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Council audit	255,044	255,044
Grant certification	78,750	78,750
Total audit fees	**333,794**	**333,794**

Fees for other services

Service	Fees £
Advisory work on PFI schemes	7,000

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

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

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

Respective responsibilities

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

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

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

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

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

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Appendices

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Appendix A: Action plan

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

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
	Ensure you have sufficient valuations expertise available to meet the requirements of the Code	High	We will ensure that arrangements are in place to enable the requirements of the Code will be met	November 2013 T Thompson
	For 2013/14 value the housing stock using the beacon approach as recommended by the Code	Medium	We will ensure that the requirements of the Code will be met	December 2013 T Thompson
	Continue to develop the asset register as a tool to drive the capital accounting entries in the financial statements	Medium	We will continue to develop the use of the asset register	November 2013 R Lambeth
	For 2013/14 ensure you apply the correct accounting treatment in respect of valuations, impairments and PFI assets	Medium	We will ensure that the correct accounting treatment will be adopted	March 2014 R Lambeth
	Apportion the £15.3 million decent homes balance in the revaluation reserve over the assets it relates to	Medium	This apportionment will be applied to the opening balances as at 1st April 2013	November 2013 R Lambeth
	Review the disclosures in the Annual Governance Statement, with a view to making it more succinct and readable	Low	This will be considered during the 2013/14 process.	March 2014 K Nicolson
	Consider the points raised in our IT issues memorandum for best practice in IT controls	Low	These will be considered as part of the implementation of the new Oracle R12 financial system	October 2013 S Berlin

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Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF LEWISHAM

Opinion on the Council financial statements

We have audited the financial statements of the London Borough of Lewisham for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. 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 2012/13.

This report is made solely to the members of the London Borough of Lewisham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the London Borough of Lewisham as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response; or

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- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Council and the auditor

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.

We are required under Section 5 of the Audit Commission Act 1998 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 Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, the London Borough of Lewisham put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of the London Borough of Lewisham in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

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

The Explorer Building
Fleming Way
Crawley
West Sussex
RH10 9GT

[Date]

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Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 18 June

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	ongoing
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	ongoing
Cost of services – Housing revenue	HRA	Other	Housing revenue transactions not recorded	No	**None**
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Payments to Housing Capital Receipts Pool	Property, Plant & Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None

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Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	**None**
Return on Pension assets	Employee remuneration	None		No	None
Dividend income from Joint Venture	Revenue			No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	**There was only a part valuation of investment properties in 2012/13**
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
PFI revenue support grant and other Government grants	Grant Income9	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

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Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	**None**
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	Some differences between the asset register and the accounts
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	Valuations were not fully compliant with the Code and incorrectly accounted for.
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	Classification error between long/short term. 1 investment incorrectly recorded the name of the institution
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None

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Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Borrowing (long & short term)	Debt	None		No	**None**
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	**Ongoing**
Reserves	Equity	None		No	**ongoing**

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