

The Audit Plan for the London Borough of Lewisham

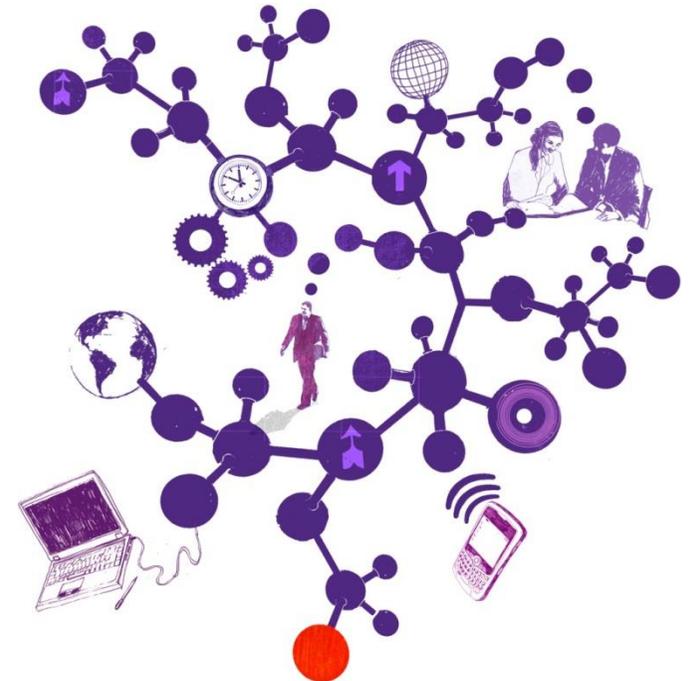
Year ended 31 March 2014

March 2014

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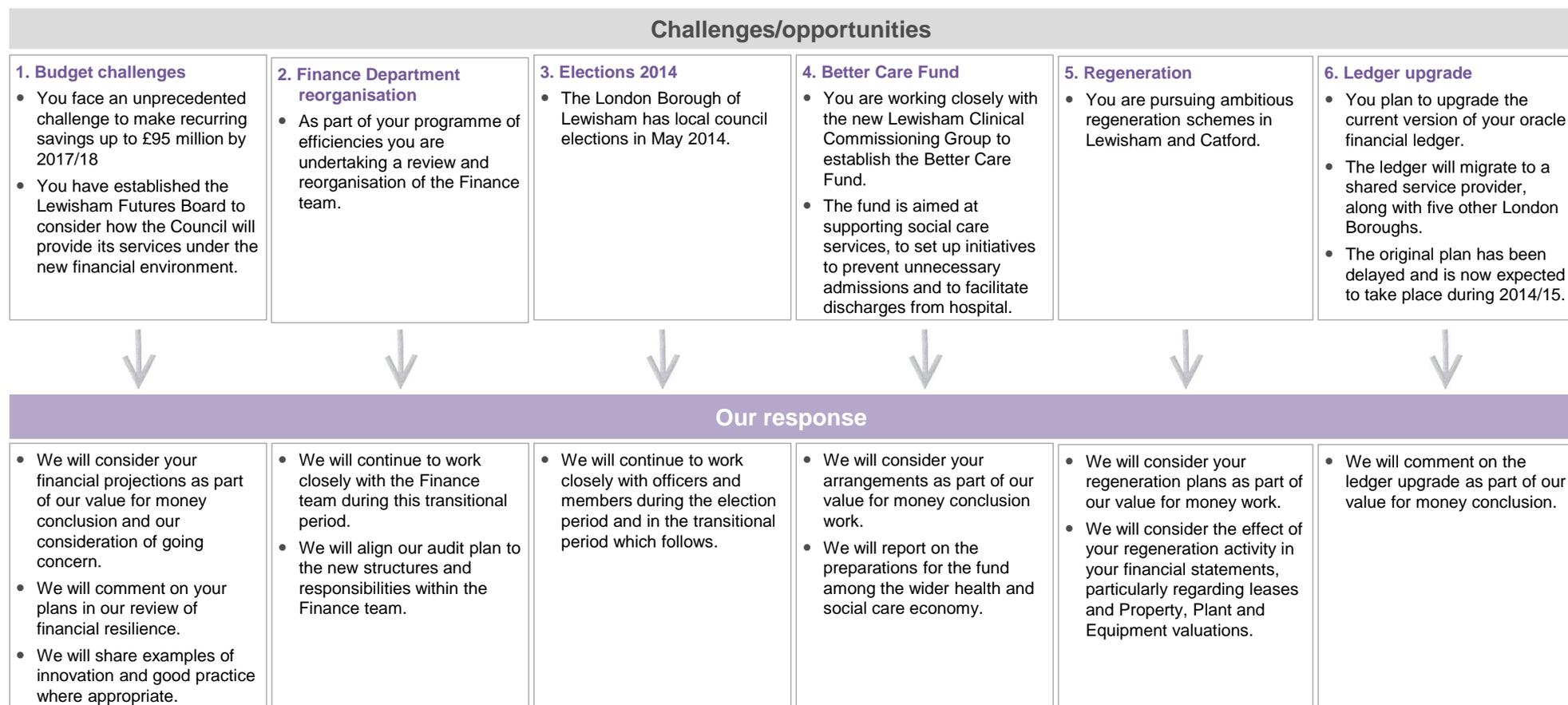
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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

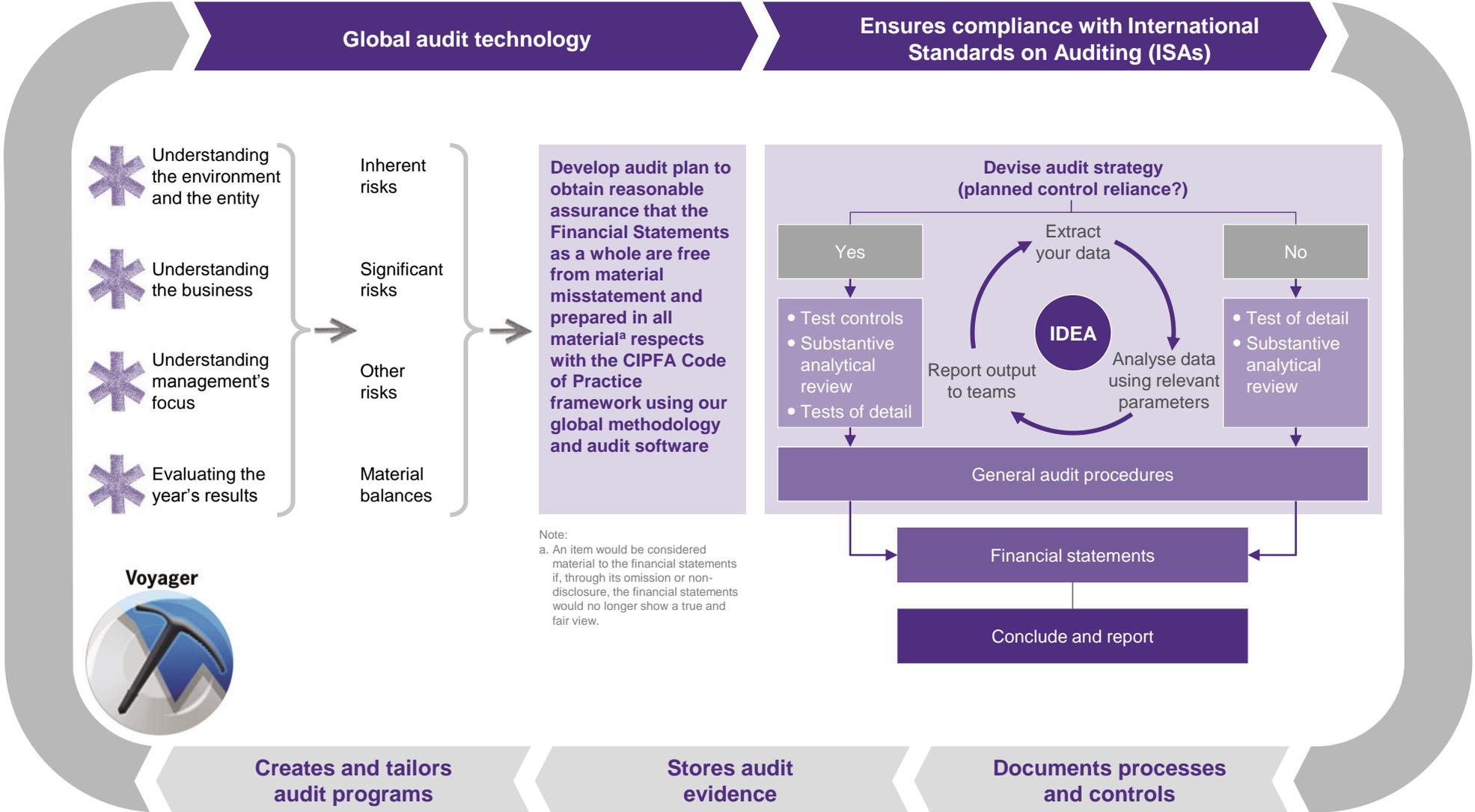
Developments and other requirements

| 1. Financial reporting | 2. Legislation | 3. Corporate governance | 4. Pensions | 5. Financial Pressures | 6. Other requirements |
|--|---|---|---|---|---|
| <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Clarification of Code requirements around PPE valuations • Changes to NDR accounting and provisions for business rate appeals • Transfer of assets to Academies | <ul style="list-style-type: none"> • Welfare reform Act 2012 | <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword | <ul style="list-style-type: none"> • The impact of 2013/14 changes to the Local Government pension Scheme (LGPS) | <ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans | <ul style="list-style-type: none"> • You are required to submit a Whole of Government accounts pack on which we provide an audit opinion • You complete grant claims and returns on which audit certification is required |

Our response

| | | | | | |
|--|--|--|--|--|---|
| <p>We will test that</p> <ul style="list-style-type: none"> • you comply with the requirements of the CIPFA Code of Practice and business rate appeals, through discussions with management and our substantive testing • schools are accounted for correctly and in line with the latest guidance | <ul style="list-style-type: none"> • We have discussed the impact of the Welfare Reform Act with senior management, which has helped inform our national report 'Reaping The Benefits'. • We will consider the impact of the Act on your financial statements (for example the collection fund). • We will consider your response as part of our value for money conclusion work. | <ul style="list-style-type: none"> • We will review your arrangements or the production of the AGS • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge. | <ul style="list-style-type: none"> • We will review how you deal with the impact of the 2013/14 changes and consider this as part of our audit. | <ul style="list-style-type: none"> • We will review your performance against the 2013/14 budget, including consideration of performance against the savings plan • We will undertake a review of Financial Resilience as part of our VFM conclusion. | <ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements • We will certify grant claims and returns in accordance with Audit Commission requirements |
|--|--|--|--|--|---|

Our audit approach



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 outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

| Significant risk | Description | Substantive audit procedures |
|---|--|--|
| The revenue cycle includes fraudulent transactions | Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. | <p>Work planned:</p> <ul style="list-style-type: none"> • Review and testing of revenue recognition policies • Testing of material revenue streams |
| Management over-ride of controls | Under ISA 240 there is a presumption that the risk of management over-ride of controls is present in all entities. | <p>Work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions |
| Property Plant and Equipment – Revaluation measurements not correct | Your 2012/13 financial statements contained several errors regarding the accounting treatment of PPE valuations. We also reported that in some instances your approach to valuation was not in line with the Code. Because of this we consider PPE valuation to be a high risk for 2013/14 accounts. | <p>Work completed to date:</p> <ul style="list-style-type: none"> • We have confirmed our understanding of the system for accounting for PPE valuations. <p>Further work planned:</p> <ul style="list-style-type: none"> • We will write to the District Valuer to establish the scope and basis of valuations work for the 2013/14 financial statements. • We will review the valuations information in your financial statements to confirm they have been accounted for correctly, in line with the Local Government Code of Accounting and accounting standard IAS16. • We will consider the reasonableness of your valuations information by reference to valuation trend data provided by the auditor's expert Gerald Eve. |

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

| Other reasonably possible risks | Description | Work completed to date | Further work planned |
|---------------------------------|---|--|---|
| Operating expenses | Creditors understated or not recorded in the correct period | <ul style="list-style-type: none"> We have reviewed and walked through the operating expenditure system. | <ul style="list-style-type: none"> We will review and test the year end creditors control account reconciliation. We will test a sample of transactions at the year end to confirm they are accounted for in the correct period We will review your accruals policy and confirm that it has been properly applied. |
| Employee remuneration | Employee remuneration accrual understated | <ul style="list-style-type: none"> We have reviewed and walked through the system for employee remuneration | <ul style="list-style-type: none"> We will review and test the year end payroll reconciliations We will review and test your year end payroll accruals |
| Welfare Expenditure | Welfare benefit expenditure improperly computed | <ul style="list-style-type: none"> We have reviewed and walked through the system for welfare benefits | <ul style="list-style-type: none"> Our work to certify your Housing and Council Tax benefits claim should give us adequate assurance over the accuracy of your financial statements. We will review the reconciliation between your financial statements and the Housing and Council Tax benefits claim. |
| Housing Rent Revenue Account | Revenue transactions not recorded | <ul style="list-style-type: none"> We have reviewed and walked through the system for welfare benefits. | <ul style="list-style-type: none"> We will review and test your year end reconciliations of housing rents. We will carry out predictive analytical review to confirm rental income is in line with expectations |
| Property, Plant & Equipment | PPE activity not valid | <ul style="list-style-type: none"> We have confirmed our understanding of the PPE system | <ul style="list-style-type: none"> We will test a sample of PPE additions to confirm they have been appropriately accounted for in line with IAS16. |

Value for money

Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

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

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- review key financial performance indicators for 2013/14.
- review and comment on your medium term financial projections.
- review your performance against your savings targets and comment on your identification of savings in 2014/15 and beyond.
- consider the work of the Lewisham Futures Board in seeking to ensure a sustainable future for the Council's services.
- Consider the management of staffing reductions in the finance function.
- Comment on your partnership working in seeking to maximise the benefits of the Better Care Fund.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

We will issue a separate report to comment on your financial resilience.

Results of interim audit work

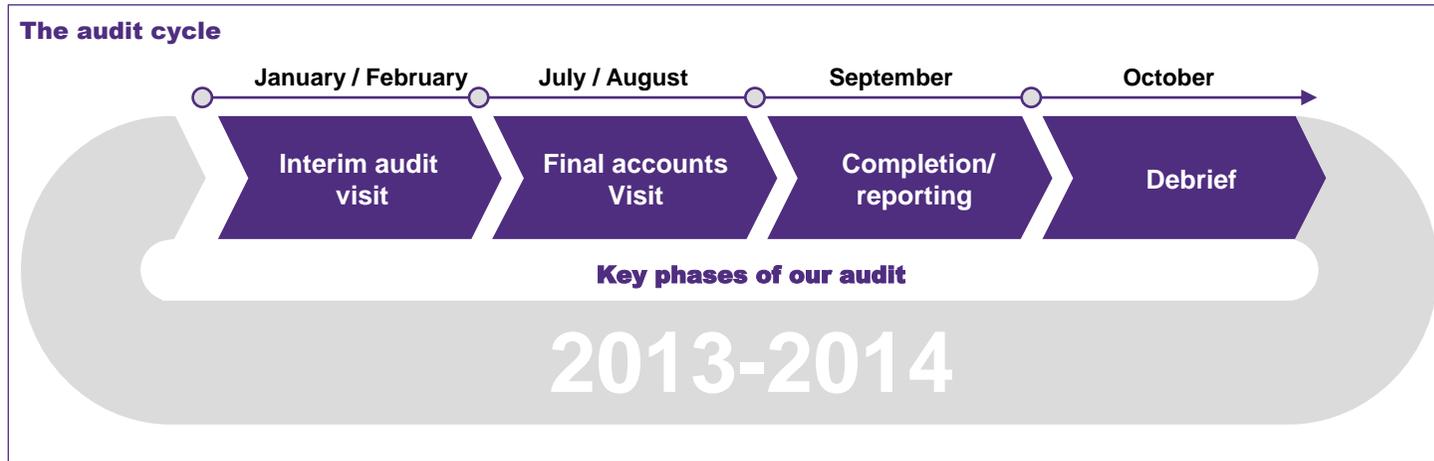
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

| | Work performed and findings | Conclusion |
|--|---|---|
| Internal audit | <p>We have reviewed your internal audit overall arrangements, having regard to the Public Sector Internal Audit Standards.</p> <p>We also monitored all of internal audit's completed reports including their work on the key financial systems.</p> | <p>Our review of internal audit work has not identified any additional matters which impact on our audit approach.</p> <p>The Head of Corporate Resources has extensive management responsibilities as well as overseeing internal audit. The Council is aware of this potential conflict and has taken steps to mitigate it.</p> <p>Public Sector Internal Audit Standards do not prohibit this, but they do state that Internal Audit should be operationally independent of management and should not impair its actual or perceived objectivity and independence.</p> |
| Walkthrough testing | <p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p> | <p>Our work has not identified any weaknesses which impact on our audit approach.</p> |
| Review of information technology controls | <p>Our information systems specialist is performing a high level review of the general IT control environment, as part of the overall review of the internal controls system. We are also following up issues that were raised last year.</p> <p>This work is on-going.</p> | <p>Our work on IT controls is on-going.</p> <p>We have held discussions with management about the forthcoming oracle upgrade and we will revisit this in our 2014/15 audit.</p> |

Results of interim work

| | Work performed | Conclusion |
|----------------------------------|--|---|
| Journal entry controls | <p>We have reviewed your journal entry policies and procedures as part of determining our journal entry testing strategy. We have not identified any material weaknesses which are likely to adversely impact on your control environment or financial statements.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p> | <p>We reported in 2012/13 that your ledger system does not allocate sequential numbers to journals. We are unable to confirm the completeness of journal transactions except by directly interrogating the ledger. In 2012/13 you agreed to consider this point as part of the ledger upgrade.</p> <p>Apart from this we have not identified any other matters that we wish to report to you.</p> |
| Payroll reconciliations | <p>We reviewed your arrangements to reconcile payroll expenditure at the month end and year end.</p> | <p>We found that while some aspects of payroll are reconciled monthly (eg tax deductions) there is no regular reconciliation in total, to confirm that payroll has been completely and accurately transferred from the payroll system to the ledger.</p> |
| Early substantive testing | <p>We have confirmed the existence of Property, Plant and Equipment assets from your asset register</p> | <p>As in previous years we note that the asset register is updated once as a year-end exercise. We were therefore unable to walk through your controls to account for Property Plant and Equipment .</p> |
| Housing Revenue Account | <p>We checked whether council officers confirm that the annual uprating of housing rents has been properly actioned in the rents system</p> | <p>Council officers did not certify that this control had been undertaken.</p> <p>We will test at the year end that the correct housing rents have been used.</p> |

Key dates



| Date | Activity |
|-------------------------|--|
| March 2014 | Planning |
| January – February 2014 | Interim site visit |
| June 2014 | Presentation of audit plan to Audit Panel |
| July - August 2014 | Year end fieldwork |
| September 2014 | Audit findings clearance meeting with Executive Director |
| September 2014 | Report audit findings to the Audit Panel |
| September 2014 | Sign financial statements opinion |
| October 2014 | Annual Audit Letter |

Fees and independence

Fees

| | £ |
|-----------------------------------|----------------|
| Council audit | 255,044 |
| Grant certification | 36,500 |
| Total fees (excluding VAT) | 291,544 |

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Fees for other services

| Service | Fees £ |
|---------|--------|
| None | Nil |

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.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

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

Communication of audit matters with those charged with governance

International Standards 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.

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 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 a report to the Council.

Respective responsibilities

This plan 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 issue 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 | | ✓ |
| Non compliance with laws and regulations | | ✓ |
| Expected modifications to the auditor's report, or emphasis of matter | | ✓ |
| Uncorrected misstatements | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | | ✓ |

Appendices

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 |
|---------|--|----------|--|--------------------------------------|
| 1 | Carry out and retain evidence of regular and timely reconciliations of the payroll interface with the ledger. | Medium | This will be actioned monthly for 2014/15 and has now been addressed for 2013/14 during the closing of accounts process. | June 2014 – R. Lambeth |
| 2 | Continue to develop the use of the asset register as a tool to drive the accounting entries in the financial statements. | Medium | The Council has further developed the use of the RAM asset register for the 2013/14 closing of accounts. | June 2014 – R. Lambeth |
| 3 | Retain evidence of checking the annual uprating of rents in the housing rents system. | Low | This checking is carried out by the Council and Lewisham Homes and evidence is retained by both bodies. | June 2014 – M. Humphreys |
| 4 | Ensure the new ledger system is able to generate a complete, sequentially numbered list of all journals posted in a period | Low | The Council has included this recommendation as part of the Oracle R12 system implementation. | August 2014 – S.Chin |



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