

The Audit Plan for the London Borough of Lewisham

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.

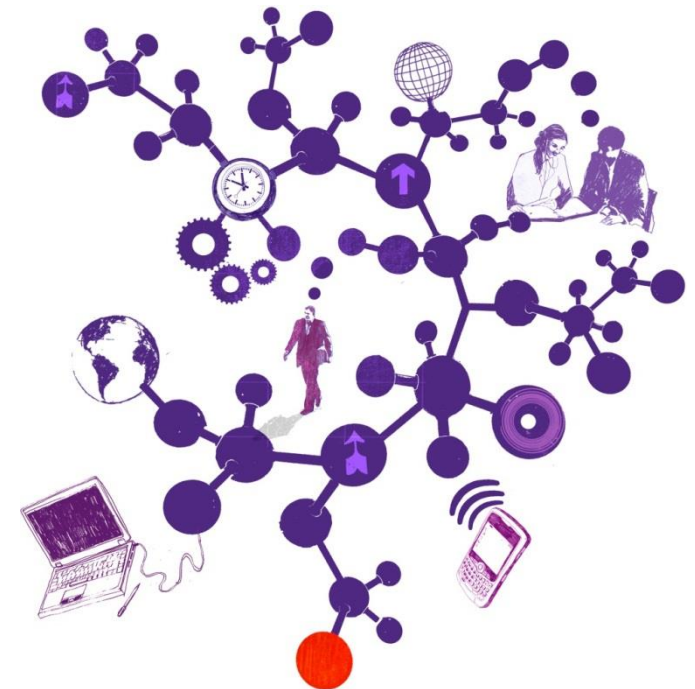
Year ended 31 March 2015

March 2015

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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 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 any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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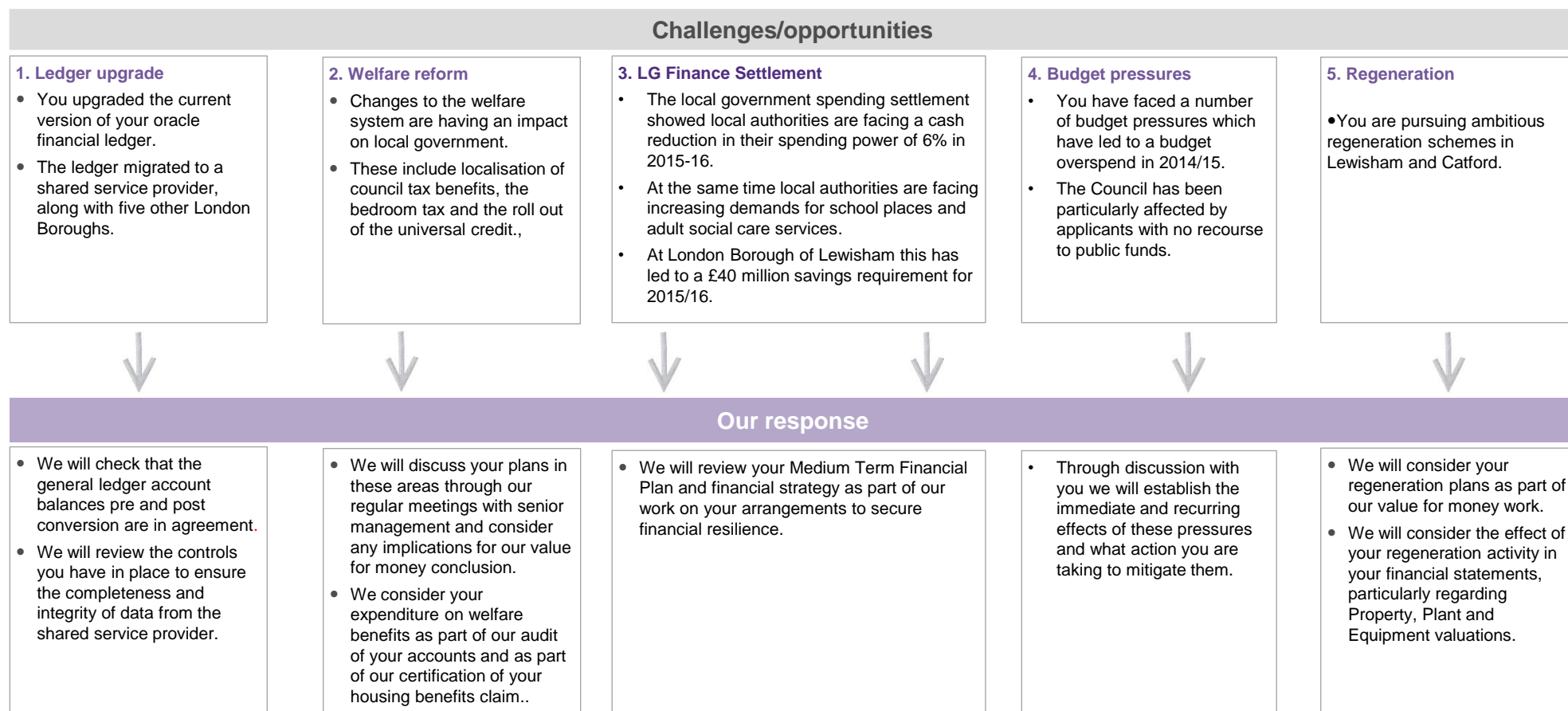
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- A. Action plan

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

- Changes to the CIPFA Code of Practice
- Changes to the recognition of school land and buildings on local authority balance sheets
- Adoption of new group accounting standards (IFRS 10,11 and 12)

2. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

3. Better Care Fund

- Better Care Fund (BCF) plans and the associated pooled budgets will be operational from 1 April 2015

4. Other requirements

- The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion
- The Council completes grant claims and returns on which audit certification is required

Our response

We will review that

- the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our final accounts testing
- schools are accounted for correctly and in line with the latest guidance
- the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly

- We will review the arrangements the Council has in place for the production of the AGS
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge, as well as considering how effectively these documents communicate your governance arrangements to the reader of the accounts.

- We will consider whether the Better Care Fund is a risk in the context of our VfM conclusion and will carry out further work if required

- We will carry out work on the WGA pack in accordance with requirements
- We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.

Our audit approach

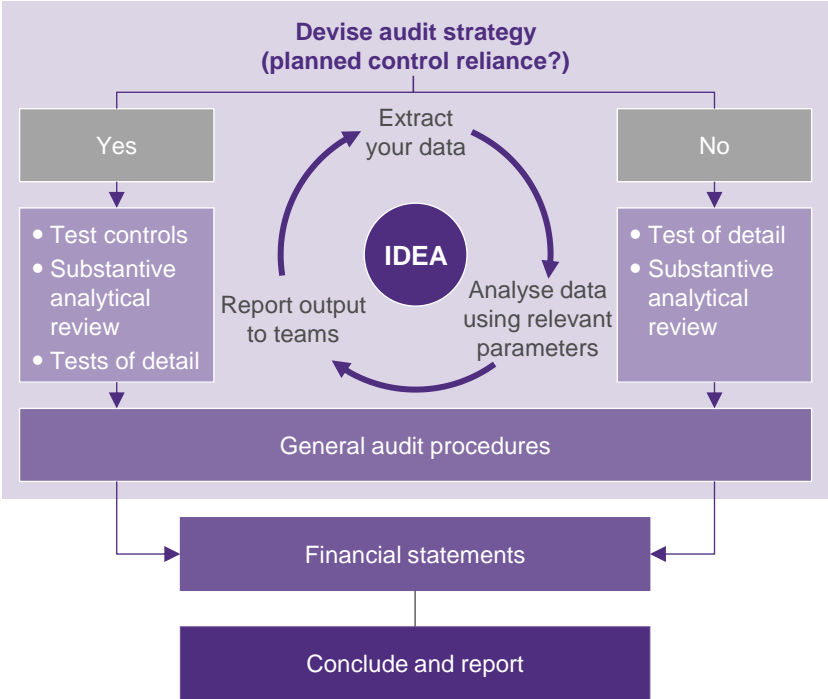
Global audit technology

Ensures compliance with International Standards on Auditing (ISAs)

- * Understanding the environment and the entity
- * Understanding the business
- * Understanding management's focus
- * Evaluating the year's results

Inherent risks
 Significant risks
 Other risks
 Material balances

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material^a respects with the CIPFA Code of Practice framework using our global methodology and audit software



Note:
 a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.



Creates and tailors audit programs

Stores audit evidence

Documents processes and controls

Significant risks identified

'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	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Lewisham Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the Council has a strong counter fraud culture and ethical frameworks.
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of journal entry policies and procedures <p>Further 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
Ledger upgrade	<p>The general ledger migrated to a shared service provider, along with five other London Boroughs. As this is a significant non-routine event it is our view that this represents a significant risk under ISA 315.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of the general ledger account balances pre and post conversion to ensure that they are in agreement. <p>Further work planned:</p> <ul style="list-style-type: none"> • We will review the controls the Council has in place to ensure the completeness and integrity of data from the service provider.

Other risks identified

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 risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough of operating expenses system, updating our understanding <p>Further work planned:</p> <ul style="list-style-type: none"> Review and test the year end creditors control account reconciliation. Test a sample of transactions at the year end to confirm they are accounted for in the correct period (cut-off testing) Review your accruals policy and confirm that it has been properly applied
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough payroll system, updating our understanding <p>Further work planned:</p> <ul style="list-style-type: none"> Reconciliation of payroll to the General Ledger (for completeness) Undertake analytical procedures e.g. trend analysis Test a sample of transactions at the year end to confirm they are accounted for in the correct period (cut-off testing)
Welfare Expenditure	Welfare benefit expenditure improperly computed	<p>Work planned:</p> <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 Review the reconciliation between your financial statements and the Housing and Council Tax benefits claim

Other risks identified (continued ..)

Other risks	Description	Audit Approach
Property Plant and Equipment	Revaluation measurements not correct	<p>Work planned:</p> <ul style="list-style-type: none">• Walkthrough the system for PPE valuations• Substantively test the accounting entries for PPE valuations to underlying records• Review of reconciliation between general ledger and fixed asset register• Write to the external Valuer to establish the scope and basis of valuations work for the 2014/15 financial statements.• 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.• Consider the reasonableness of your valuations information by reference to valuation trend data provided by the auditor's expert.

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 2014/15.
- review and comment on your medium term financial projections.
- review your performance against your savings targets and comment on your identification of savings in 2015/16 and beyond.
- consider the work of the Lewisham Futures Board in seeking to ensure a sustainable future for the Council's services.
- consider the results of the recent peer review from the Local Government Association.
- Consider the management of staffing reductions in the finance function and more widely across the Council.
- 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
<p>Internal audit</p>	<p>We have completed a high level review of internal audit's overall arrangements.</p> <p>We review specific Internal Audit reports in detail where these relate directly to our own audit work, for example, the Council's key financial systems.</p> <p>The previous internal audit contract ended as at the 1 July 2014. Currently the Council is deploying the existing internal resource of one audit manager and one audit trainee and the Council has contracted the London Borough of Greenwich to deliver the schools audit plan, and an independent IT consultant to deliver the IT audits in the plan. For non-schools audit work the Council has liaised with the London Borough of Croydon and London Borough of Islington to obtain resources under their frameworks with Mazars and PwC respectively.</p> <p>At the time of our review there has been no Internal audit work completed on the core financial systems of the Council in which to provide assurance on internal controls. We understand that Mazars have recently started this programme of work.</p> <p>The internal audit plan shows that most of this work is scheduled to be completed place towards the end of the audit year, which is due to finish by the end of June 2015 to enable the Head of Internal Audit opinion to be signed.</p>	<p>While the responsibility for identifying and managing risks belongs to management and those charged with governance, one of the key roles of internal audit is to provide assurance that risks have been properly managed meaning that Internal audit plays a central and essential role in maintaining a sound system of internal control.</p> <p>Maintaining the internal control environment is especially important at a time when the Council has been undergoing significant internal restructuring and staffing reductions. The Council has also recently migrated its ledger to a shared service provider.</p> <p>At the time of our interim audit visit there had been little or no internal audit coverage of financial systems. We are unable to comment on the adequacy of internal coverage although we note that this coverage is due to take place towards the end of the audit year.</p> <p>Management and those charged with governance should ensure sufficient and timely internal audit coverage to provide assurance at a time of significant change.</p>

Results of interim audit work cont'd

	Work performed	Conclusion
Review of information technology controls	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 will also follow up on the issues that were raised last year as well as considering the controls the Council has in place to ensure the integrity of data from the service provider. This work is on-going.	Our work on IT controls is on-going.
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	No issues have been identified that we wish to highlight for your attention. We will undertake detailed testing on journal transactions recorded for the first nine months of the financial year during our interim visit in March. Testing of months 10 to 12 and year end journals will be performed as a part of the final accounts audit.
Early substantive testing	We have reconciled the 2013/14 audited closing balances to the 2014/15 opening trial balance.	There are no issues to report from the early testing we have carried out to date. We will carry out early substantive testing on employee remuneration expenditure in March 2015.
Ledger upgrade	We asked the Council to provide working papers to support the assumption that the data migration had been successful in July 2014. We reviewed the overall totals that were migrated to the shared service provider as well as a sample of detailed account codes to check the data mapping to the new chart of accounts. We did not identify any issues. Officers carried out a number of 'dry-run' tests before migrating the data, and kept their own spreadsheet records of control totals. However most of the data migration working papers supplied to us were prepared retrospectively by finance officers when we requested them. It was not clear to us how management and those charged with governance obtained assurance over the data migration at the time that it happened.	We are satisfied that the migration of the general ledger balances appears materially successful, mitigating the risk of material error within the financial statements due to migration errors. However our work is not intended to provide assurance to the Council that there are no errors within the data migration exercise. Our procedures are performed in accordance with international auditing standards to provide us with sufficient assurance that the data migration exercise was materially correct to gain assurance that the financial statements will be free from material error as a result of this exercise. The Council has not obtained any assurances from its own internal control processes e.g. from Internal Audit.

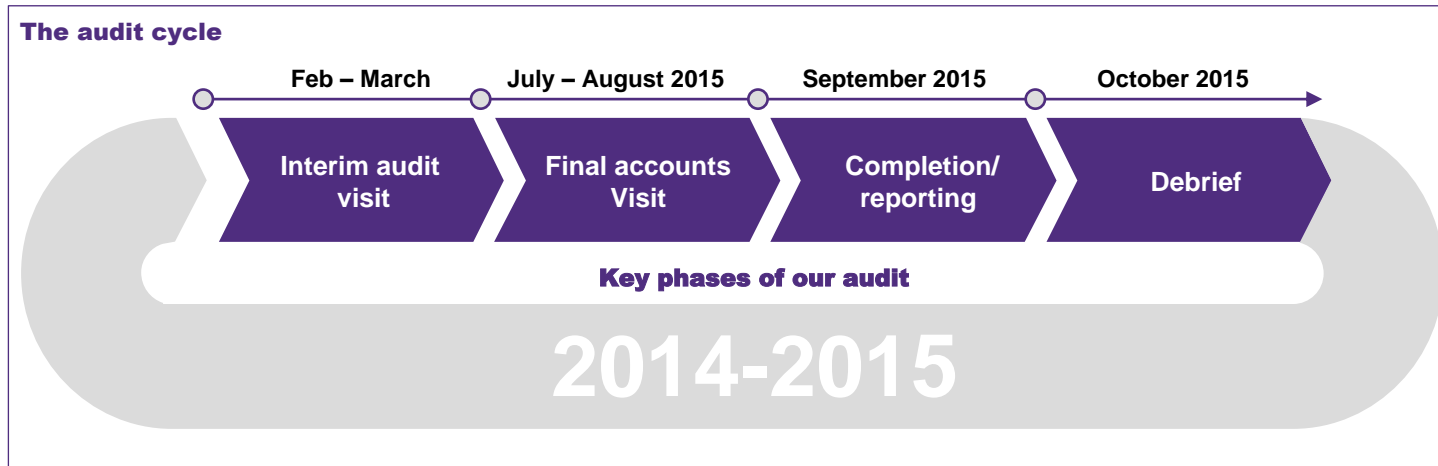
Results of interim audit work cont'd

	Work performed	Conclusion
<p>Walkthrough testing</p>	<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. The systems reviewed were:</p> <ul style="list-style-type: none"> • Employee Remuneration • Accounts Payable (Operating Expenses) • Welfare Expenditure • PPE valuations <p>Our work has identified the following issues which we wish to bring to your attention.</p> <p>Bank reconciliations</p> <p>We requested evidence that bank reconciliations were taking place as this is a key control within many of our walkthroughs. While attempting to obtain these we were informed that the Council has not performed regular bank reconciliations as the member of staff dealing with this was made redundant in July 2014, and no handover of duties took place.</p> <p>We were given an example of the last formal reconciliation for the Co-op Payments Account 2 - Cashbook Reconciliation for May 2014. This reconciliation is in the traditional format expected of a reconciliation showing reconciling items. This reconciliation has a variance of £163m and is therefore also incomplete.</p> <p>We recognise that this is only one example but the Council holds a number of bank accounts and yet no single officer is responsible for the preparation of bank reconciliations as responsibilities are divided among finance staff and no high level 'control schedule' exists to show bank accounts held, date of last reconciliation, who prepared, who reviewed etc.</p> <p>In our 2013-14 audit findings report where we recommended that the Council took action to provide full reconciliations and audit trails for principal bank accounts.</p>	<ul style="list-style-type: none"> • We are unable to determine the completeness and timeliness of bank reconciliations. • We are unable to determine the completeness and timeliness of AP reconciliations. • The timeliness of payroll reconciliations requires improvement. <p>We raised this issue with management immediately when we became aware of it. Management agreed with our findings and took prompt action to prepare a full bank reconciliation for the most recent month (February 2015).</p> <p>We have held discussions with management on the reconciliations we would expect to see on a regular monthly basis.</p> <p>In our view this issue requires an individual at the Council to take an overview of all the key reconciliations, ensuring they are carried out and reviewed on a regular and timely basis.</p>

Results of interim audit work cont'd

	Work performed	Conclusion
Walkthrough testing (continued)	<p>Accounts Payables (AP) to GL reconciliation</p> <p>We requested the reconciliation between payables system and the general ledger (accounts representing the payables system) but we have not been able to verify that these are being performed and have not received any examples of a reconciliation being prepared during the year. When we queried this with officers it was again confirmed that the Council has not performed these reconciliations as the member of staff dealing with this was made redundant in July 2014, and consequently no handover of duties took place.</p> <p>Payroll reconciliations</p> <p>Our 2013-14 audit recommended that the Council carries out and retains evidence of regular and timely reconciliations of the payroll interface with the ledger. This recommendation appears to have been implemented by the Council by the creation of a 'payroll control' reconciliation.</p> <p>At the time of our first interim visit during February, the February payroll had just been processed but the latest reconciliation performed by the Council was dated November 2014.</p>	
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.

Key dates



Date	Activity
January 2015	Planning
Feb - March 2015	Interim site visit
March 2015	Presentation of audit plan to Audit Committee
July - August 2015	Year end fieldwork
September 2015	Audit findings clearance meeting with Executive Director
September 2015	Report audit findings to those charged with governance Audit Panel
September 2015	Sign financial statements opinion

Fees and independence

Fees

Service	£
Council audit	255,044
Grant certification	39,980
Total fees (excluding VAT)	295,024

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

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

Fees for other services

Service	Fees £
Certification of Teachers pension return	8,500

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

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.

	Audit plan	Audit findings
Our communication plan		
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	Nominate a responsible officer to maintain a log/control schedule of all control account reconciliations prepared by the Council, recording details of when they were last performed and reviewed.	High		
2	Carry out and retain evidence of regular and timely reconciliations of bank accounts.	High		
3	Carry out and retain evidence of regular and timely reconciliations of accounts payable.	High		
4	Ensure that key controls and business-critical processes continue to be undertaken when finance staffing reduces or is restructured.	High		
5	Ensure payroll reconciliations are done on a timely basis .	Medium		
6	Ensure the Internal Audit service provides management and those charged with governance with sufficient and timely assurance over key financial control risks, for example the upgrade to the ledger.	High		



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