

<b>AUDIT PANEL</b>			
<b>Report Title</b>	<b>Final Accounts 2015/16 – London Borough of Lewisham’s response to Grant Thornton’s external audit reports</b>		
<b>Key Decision</b>	<b>No</b>	<b>Item No.</b>	<b>4</b>
<b>Ward</b>	<b>ALL</b>		
<b>Contributors</b>	<b>Executive Director for Resources and Regeneration</b>		
<b>Class</b>		<b>Date:</b>	<b>13<sup>th</sup> September 2016</b>

### **Reasons for Lateness and Urgency**

This report was not available for the original despatch date because the report by Grant Thornton on their findings during the audit of the main accounts had not been agreed with the Executive Director for Resources and Regeneration by that date. The report is urgent and cannot wait until the next meeting of the Audit Panel on 6 December 2016 because the Council has a statutory requirement to approve and publish its audited Statement of Accounts by 30 September each year and as part of the approval process the Audit Panel are required to report their comments to Council.

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

## **1 PURPOSE**

- 1.1 The purpose of this report is to respond to the external auditor’s Audit Findings Reports on the 2015/16 audit of the Council’s Main Accounts and Value for Money conclusion, and the 2015/16 Pension Fund Accounts. These are attached to the previous item on this agenda, and contain:

*“... the key issues affecting the results of London Borough of Lewisham (‘the Council’) and the preparation of the Council’s financial statements for the year ended 31 March 2016 ... (and) whether, in our opinion, the Council’s financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared ... (and) whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ...”*

- 1.2 The reports set out any issues arising from the audits that, in the opinion of the external auditor, are of sufficient significance to warrant informing and discussing with Members.

## 2 EXECUTIVE SUMMARY

- 2.1 The Council has a statutory requirement to approve and publish its audited Statement of Accounts by 30 September each year. The pre-audit 2015/16 Accounts were considered and noted by the Audit Panel on 8 June 2016. Since then, Grant Thornton have been carrying out their external audit, and the final audited 2015/16 Accounts will be submitted to Council for approval on 21 September 2016.

## 3 RECOMMENDATION

- 3.1 The Members of the Audit Panel are recommended to note the reports from Grant Thornton and this covering officer report, to ask questions as appropriate and to agree the comments that they wish to be relayed to Council.

## 4 POLICY CONTEXT

- 4.1 Completing the external audit of the council's accounts and receiving the external auditor's report thereon contributes directly to the council's tenth corporate priority:
- **Inspiring efficiency, effectiveness and equity:** ensuring efficiency and equity in the delivery of excellent services to meet the needs of the community.

## 5 AUDIT OF ACCOUNTS

- 5.1 Since the pre-audit accounts were completed at the end of May 2016, they have been subject to extensive external audit by Grant Thornton and a number of changes have been agreed. At the time this report was despatched, the audits were substantially complete and Grant Thornton report that subject to the satisfactory completion of their outstanding work they anticipate providing unqualified opinions on the financial statements and that they propose to give an unqualified value for money conclusion. Grant Thornton will give a verbal update on progress at the meeting and, along with senior council officers, will answer any questions as required.
- 5.2 The external auditor requests that Members:
- Note the adjustments to the financial statements in the reports
  - Approve the letters of representation on behalf of the Council
  - Agree the response to the proposed action plan (Appendix A).
- 5.3 Under the Council's constitution these matters are for the Council to determine. At full Council on 21 September 2016, Members will be invited to consider any comments from this meeting and recommended to note the Audit Findings reports and approve the audited Statement of Accounts.

## 6 AUDIT FINDINGS

- 6.1 The Grant Thornton audit findings have raised a few matters for Members to consider and it is important to note that these mainly relate to presentational or additional disclosures and ensure that the Council complies with the technical accounting regulations.
- 6.2 A number of misstatements and classification errors were identified and amendments to the Accounts agreed with the auditors. None of these affect the reported financial positions shown in the accounts and they do not affect the charge to the Council Tax or Housing Rents for the year.
- 6.3 The main areas to note from the Council's main accounts audit report are as follows:
- The key issues are outlined on page 6 – these relate to: Property, Plant and Equipment; Collection Fund – Non-Domestic Rates (NDR); Grant Income & Other. Further details are as follows:-
  - Property, Plant and Equipment (PPE): there were a number of accounting errors in this area, leading to some significant adjustments, as listed on page 22. This is a complex area, and it was made more challenging in 2015/16 by the enhanced deadline of 31 May. A much greater degree of management input and review is planned for this area in 2016/17.
  - Collection Fund – Non-Domestic Rates (NDR): this had not been accounted for correctly since the abolition of national pooling arrangements in 2013/14. Several material amendments were made to the statements as a result of this, as listed on page 23. Staff changeover was a contributory factor here, together with the tighter closing deadline, but plans are now in place for more robust managerial oversight in 2016/17.
  - Grant Income & Other: these adjustments are listed on page 24 – the most significant item (NDR grant income) is indirectly related to the NDR issue set out above, so the planned additional managerial input noted above will be applied here too in 2016/17. The overstatement of creditors noted on page 24 was caused mainly by an Oracle financial system error which has already been logged for resolution with the external database managers Capgemini.
  - As noted on page 6, the Council successfully produced draft financial statements by the enhanced deadline of 31 May, in preparation for the new statutory deadline of publishing the audited accounts by 31 July in 2017/18. However, it was not possible for the audit to be fully concluded by 31 July in 2015/16, although it had been substantially advanced relative to the previous year. Therefore, further planning around timing, working papers and use of resources will be undertaken by officers in consultation with Grant Thornton, in order to expedite the audit process for 2016/17.
  - No issues were identified with the timing and frequency of bank reconciliations in 2015/16 (as indicated on page 21). This is largely as a result of significant managerial input and review undertaken throughout the year.
  - A review of the Council's IT controls is outlined on page 19, and recommendations have been made in a detailed report to officers. The

issues raised are similar to those raised in 2014/15, as mentioned on page 21.

- A number of other misclassifications and disclosure changes which affect the notes to the accounts but not the main statements are outlined on page 26. These have all been agreed by officers and amendments have been made.
- The Value for Money conclusion is summarised on pages 28 and 29, with the detail being set out on pages 30 to 34.
- The Action Plan (Appendix A on pages 41 and 42) contains a number of recommendations which have all been agreed with Grant Thornton.

6.4 The areas to note from the Pension Fund accounts audit report are as follows:

- There were three non-material (total £324k) misstatements identified. These have been agreed by officers and the final accounts amended
- There were three misclassifications identified in the notes to the accounts (4, 5a and 13) relating to the nature of investments and how these are presented. These have been agreed and the final accounts amended.
- All the accounting policies, estimates and judgements were judged as reasonable and no recommendations have been made in respect of the audit of the Pension Fund accounts.

## **7 ANNUAL GOVERNANCE STATEMENT**

7.1 This document has been updated from that considered at the Audit Panel on 8 June 2016 to reflect the comments of the external auditors. It will be submitted to Council on 21 September 2016 for approval.

## **8 FINANCIAL IMPLICATIONS**

8.1 There are no direct financial implications resulting from this report.

8.2 The cost of the external audit of the main accounts for 2015/16 was £193,000, with an estimated £26,000 for the certification of grant claims. The Pension Fund external audit cost was £21,000.

## **9 LEGAL IMPLICATIONS**

9.1 Regulation 8 of the Accounts and Audit (England) Regulations 2011 requires authorities to publish its Statement of Accounts after the external audit is concluded no later than 30 September. The approval of the audited Statement of Accounts by Council on 21 September 2016 will satisfy this statutory requirement.

9.2 It is the role of the Audit Panel to receive, review and where appropriate, advise and make recommendations to the Council in relation to the external

auditor's opinion and report to Members, and to monitor management action in response to issues raised by external audit.

## **10 EQUALITIES IMPLICATIONS**

10.1 There are no equalities implications in this report.

## **11 CONSULTATION**

11.1 Sections 25 to 28 of the Local Audit and Accountability Act 2014 give electors the right to inspect and make copies of the Accounts; also to question the auditor and make an objection. The Accounts are required to be available for public inspection for 30 working days prior to the conclusion of the audit and an advertisement placed on the Council's website to publicise this fact. This public inspection period ended on 31 August 2016. It is also a requirement that notice of the conclusion of the audit is advertised on the Council's website.

## **12 ENVIRONMENTAL IMPLICATIONS**

12.1 There are no environmental implications in this report.

## **13 CRIME AND DISORDER IMPLICATIONS**

13.1 There are no crime and disorder implications arising from this report.

## **14 BACKGROUND PAPERS**

None

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