

AUDIT PANEL			
Report Title	Final Accounts 2016/17 – London Borough of Lewisham’s response to Grant Thornton’s external audit reports		
Key Decision	No	Item No.	
Ward	ALL		
Contributors	Executive Director for Resources and Regeneration		
Class		Date:	14th September 2017

1 PURPOSE

- 1.1 The purpose of this report is to respond to the external auditor’s Audit Findings Reports on the 2016/17 audit of the Council’s Main Accounts and Value for Money conclusion, and the 2016/17 Pension Fund Accounts. These audit findings 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 group and Council's financial statements for the year ended 31 March 2017 ... (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 2016/17 Accounts were considered and noted by the Audit Panel on 20 June 2017. Since then, Grant Thornton have been carrying out their external audit, and the final audited 2016/17 Accounts will be submitted to Council for approval on 20 September 2017.

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 2017, they have been subject to extensive external audit by Grant Thornton and only a very limited number of minor changes have been agreed as necessary. 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. Although Grant Thornton have not identified any significant issues in respect of the Council's Value for Money (VFM) arrangements, they are unable to issue a VFM conclusion at this time pending the outcome of the New Bermondsey Inquiry. 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.

5.3 Under the Council's constitution these matters are for the Council to determine. At full Council on 20 September 2017, 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 There has been a marked improvement in the quality of the financial statements for 2016/17 compared to 2015/16, and as a result there are no significant issues to be brought to the attention of Members.

6.2 Nevertheless a very limited number of classification adjustments to the accounts have been 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:-

- As indicated on page 6, the Council successfully produced draft financial statements by the target date 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 completed by 31 July in 2016/17, because of unforeseen staffing issues on the audit side, as

explained on page 6. Council officers will continue to work closely with Grant Thornton in order to optimise the planning around timing, working papers and use of resources, with a view to achieving the new audit deadline of 31 July in 2017/18.

- Foremost amongst the improvements in 2016/17 is the fact that there were no issues identified with Property, Plant and Equipment (PPE) (as indicated on page 21). This had been an area of some concern in the previous year, but the issues were successfully addressed via significant managerial input, planning and review undertaken during the year. Nevertheless there will be a continued focus in 2017/18 on this and other potentially high-risk areas, to ensure that standards are maintained.
- Action will be taken to prevent a recurrence of the misclassification of grant issue mentioned on page 25. This should be straightforward to resolve via improved coordination of grant receivable.
- A review of the Council's IT controls is outlined on page 20, and these ongoing concerns have been discussed with senior management. The issues raised are similar to those raised in 2015/16, as mentioned on page 21.
- The Value for Money findings are summarised on pages 27 and 28, with the detail being set out on pages 29 to 33. Based on their review to date, Grant Thornton have not identified any significant issues in respect of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. However, as noted on page 28, they are unable to issue a VFM conclusion at this time, because of a significant risk in connection with the New Bermondsey planning decision.
- The Action Plan (Appendix A on page 43) contains a small 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 no material adjustments required to the final accounts; therefore the Fund's reported financial position is unchanged.
- There were four misclassifications identified in the notes to the accounts (all in Note 5a) relating to the nature of investments and how these are presented. Also, there were two disclosure changes required (in Notes 2 and 5b) regarding benefits payable and market prices, respectively. 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 for these 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 20 June 2017 and will be submitted to Council on 20 September 2017 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 2016/17 was £193,000, with an estimated £41,000 for the certification of grant claims. The Pension Fund external audit cost was £21,000.

9 LEGAL IMPLICATIONS

- 9.1 The Accounts and Audit (England) Regulations 2015 require authorities to publish their Statement of Accounts after the external audit is completed no later than 30 September. The approval of the audited Statement of Accounts by Council on 20 September 2017 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 27 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 planned conclusion of the audit and an advertisement placed on the Council's website to publicise this fact. This public inspection period ended on 01 August 2017. It is also a requirement that notice of the conclusion of the audit is advertised on the Council's website.
- 11.2 There are three objections that have been received by the auditors regarding the Accounts for 2016/17, two on the subject of LOBOs ('lender option borrower option' loans) and one on PFIs ('private finance initiative'). These are currently under consideration by Grant Thornton, but will not affect the date that the auditors sign off the Accounts; however they may delay the formal conclusion of the audit (which would normally occur shortly after the sign-off).

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

For further information on this report please contact:

Selwyn Thompson, Head of Financial Services – 020 8314 6932

David Austin, Head of Resources – 020 8314 9114

Paul Calnan, Acting Group Finance Manager, Core Accounting – 020 8314 6167