External Audit Plan

Year ending 31 March 2018

London Borough of Lewisham

February 2018

Contents

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of the London Borough of Lewisham ('you') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the London Borough of Lewisham. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Audit Panel); and
- Your Value for Money arrangements for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Panel of your responsibilities. It is your responsibility to ensure that proper arrangements are in place for the conduct of your business, and that public money is safeguarded and properly accounted for. We have considered how you are fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of your business and is risk based.

Significant risks	Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Management over-ride of controls • Valuation of property, plant and equipment • Valuation of pension fund liability We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality to be £19.9m (PY £19.6m), which equates to 1.75% of your prior year gross expenditure (adjusted for non-recurring items). We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to you. Clearly trivial has been set at £0.99m (PY £0.98m).
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks: • Budget management • Savings plans and medium term financial planning • Transformation programme
Audit logistics	Our interim visit will take place in March 2018 and our final visit will take place in June 2018. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for your audit will be no less than £193,233 (PY: £193,233).
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

Deep business understanding

Changes to service delivery

Commercialisation

The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation.

As part of your work to generate additional income you plan to bring forward Private Rented Scheme (PRS) development options. The establishment of Joint Venture to develop Besson Street PRS is the first stage in this process.

Transformation

The Lewisham Future programme is your approach to making the transformational changes necessary for you to reposition yourself for the future while living within the financial resources at your disposal. This is technology enabled and seeks to drive innovation, financial and non-financial benefits, to deliver service improvements and better working with residents

Regeneration/Restructure

You are involved in a number of schemes to revitalising Lewisham town centre, each of which will play a part in providing new homes, jobs and amenities. The single largest scheme is Lewisham gateway which, when complete, will include shops, restaurants, bars and cafes, leisure facilities and up to 800 homes. Catford Town centre is also undergoing major transformation. The North Deptford area of the borough includes four 'strategic' regeneration sites which, between them, could provide over half of the borough's new housing provision for the period 2011–2026 as well as significant amounts of new business space.

All these schemes will assist you with expanding your Council Tax base and increasing revenues from Business Rates.

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Ministry of Housing, Communities and Local Government (MHCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

Housing Revenue Account (HRA)

DCLG has issued revised guidance on the calculation of the Item 8 Determination for 2017/18, which :

- extends transitional arrangements for reversing impairment charges and revaluation losses on dwelling assets and applies this principle to non-dwelling assets from 2017/18,
- confirms arrangements for charging depreciation to the HRA and permitting revaluation gains that reverse previous impairment and revaluation losses to be adjusted against the HRA.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.

Key challenges

Impacts of Grenfell Tower fire

The Grenfell Tower fire disaster in 2017 has led to the identification of approximately 150 high rise buildings in local authority ownership that have failed fire safety tests. Local authorities are expected to make these buildings fire safe. Three tower blocks managed by the Council's ALMO, Lewisham Homes, failed testing of their Aluminium Composite Material cladding types. This cladding was removed and replaced by the end of 2017.

Implementation of new financial ledger

On 1st April 2018, you will be implementing a new financial ledger system, replacing a system shared with London Borough of Croydon. The implementation of the new system has risks specifically in relation to the completeness and accuracy of data transferred to the new ledger.

Financial pressures

You are currently projecting a £12.9m overspend on the 2017/18 budget. Should you utilise the risk and other budget pressures reserve in full this will reduce your overspend to £11.6m.

You have set a balanced budget for 2018/19 which includes an overall increase in Council Tax of 4.20%, and savings of £4.9m. In addition, the budget proposals include a transfer of £5m from the New Homes Bonus reserve to the General Fund and the use of £3.6m reserves. You have also set aside £13.4m for identified and unidentified corporate risks and pressures. Going forward you will need to identify further savings of circa £35m for 2019/20 and 2020/21. Your Medium Term Financial Strategy anticipates that post 2020 approximately £10m per year of savings will be required.

Our response

- We will consider your arrangements for managing and reporting your financial resources, including your progress on regeneration schemes as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including yourselves, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for you.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. You face external scrutiny of your spending, and this could potentially place management under undue pressure in terms of how they report performance. Management over-ride of controls is a risk requiring special audit consideration.	We will: • Gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness. • Obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness. • Evaluate the rationale for any changes in accounting policies or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of property, plant and equipment	You revalue your land and buildings on an annual basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration. .	We will: • Review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • Consider the competence, expertise and objectivity of any management experts used. • Discuss with the valuer the basis on which the valuation is carried out and challenge the key assumptions. • Review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they are input correctly into your asset register and financial statements. • Evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
Valuation of pension fund net liability	Your pension fund asset and liability as reflected in your balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	We will: • Identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • Evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • Undertake procedures to confirm the reasonableness of the actuarial assumptions made. • Check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the report from your actuary.

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Employee remuneration	Payroll expenditure represents a significant percentage (29.8%) of your operating expenses. As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention	We will • Evaluate your accounting policy for recognition of payroll expenditure for appropriateness. • Gain an understanding of your system for accounting for payroll expenditure and evaluate the design of the associated controls. • Obtain and review the year-end payroll to general ledger reconciliation. We will investigate significant adjusting items. • Agree payroll related accruals to supporting documents and review the reasonableness of estimates.
Operating expenses	Non-pay expenses on other goods and services also represents a significant percentage (59.2%) of your operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention:	We will • Evaluate your accounting policy for recognition of non-pay expenditure for appropriateness. • Gain an understanding of your system for accounting for non-pay expenditure and evaluate the design of the associated controls. • Sample testing of payments made in the new financial year to ensure these have been charged to the appropriate year.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of you.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under the Act and the Code, as and when required, including:
    - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
    - issue of a report in the public interest; and
    - making a written recommendation to you, copied to the Secretary of State.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

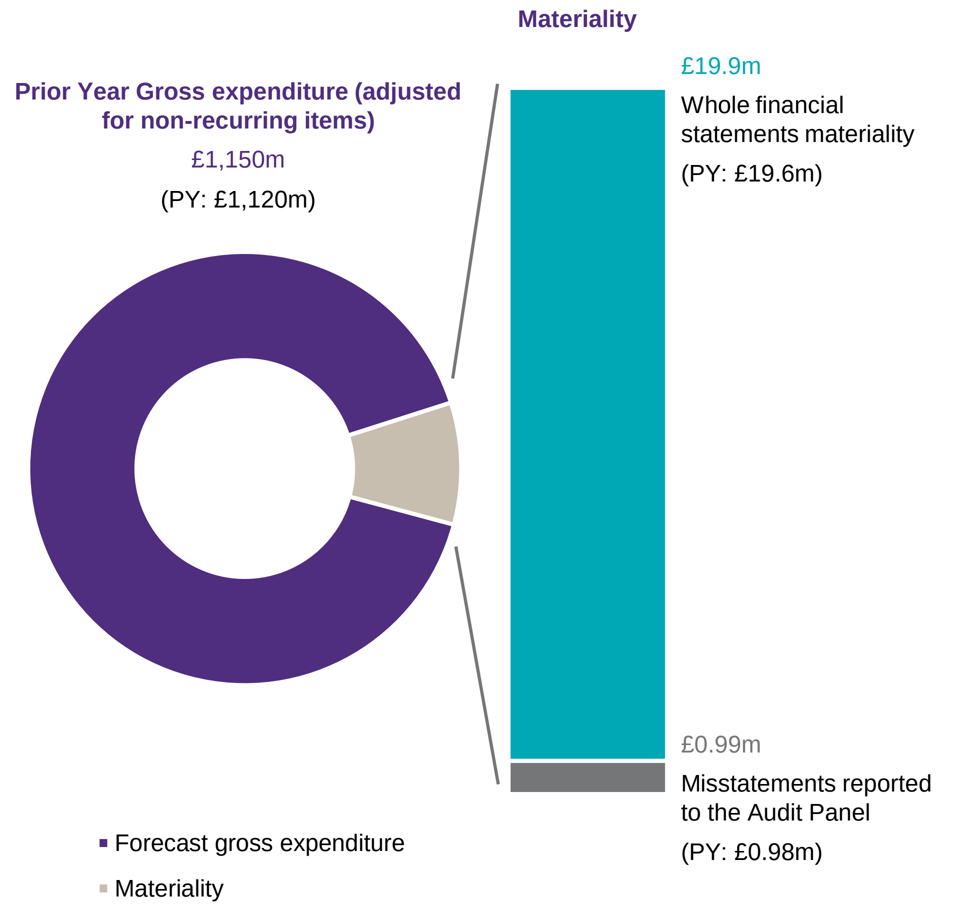
We propose to calculate financial statement materiality based on a proportion of your gross expenditure for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £19.9m (PY £19.6m), which equates to 1.75% of your prior year gross expenditure (adjusted for non-recurring items) for the year. We design our procedures to detect errors in specific accounts at a lower level of precision.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

Matters we will report to the Audit Panel

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Panel any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In your context, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.99m (PY £0.98m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Panel to assist it in fulfilling its governance responsibilities.



Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA (UK and Ireland) 600	Risks identified	Planned audit approach
Lewisham Council	Yes	Comprehensive	- Management over-ride of controls - Valuation of property, plant and equipment - Valuation of pension fund net liability - Employee remuneration - Operating expenses	Full scope UK statutory audit performed by Grant Thornton UK
Lewisham Homes Limited	No	Analytical	N/A	Desktop review performed by Grant Thornton UK. We will consider targeted procedures on the material balance of Property Plant and Equipment, focussing on valuation.
Catford Regeneration Partnership Limited	No	Analytical	N/A	Desktop review performed by Grant Thornton UK

Key changes within the group:

- There have been no significant changes within the group

Audit scope:

Comprehensive – the component is of such significance to the group as a whole that an audit of the components financial statements is required

Targeted – the component is significant to the Group, audit evidence will be obtained by performing targeted audit procedures rather than a full audit

Analytical – the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level

Involvement in the work of component auditors

The nature, time and extent of our involvement in the work of the company auditors will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the company auditors' audit documentation and meeting with appropriate members of management.

Value for Money arrangements

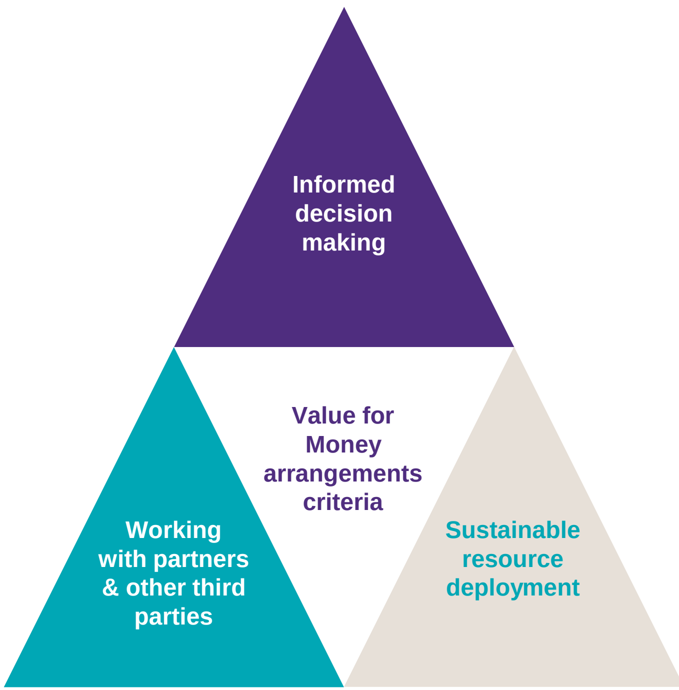
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether you have proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Budget Management

You are currently projecting a £12.9m overspend on the 2017/18 budget. Should you utilise the risk and other budget pressures reserve in full this will reduce your overspend to £11.6m. This anticipated overspend is larger than the prior year overspend of £7m. Should the position worsen then this will increase the pressure into 2018/19.

In response to this risk we will:

- Update our understanding of the pressures affecting the 2017/18 budget.
- Consider whether you have adequate arrangements to manage those pressures and to secure a sustainable financial position.
- Consider your approach towards the use of reserves.

Savings and medium term financial planning

You have set a balanced budget for 2018/19 which includes an overall increase in the total Council Tax of 4.20%, and savings of £4.9m. In addition, the budget proposals include a transfer of £5m from the New Homes Bonus reserve to the General Fund, the use of £3.6m reserves, you have also set aside £13.4m for identified and unidentified corporate risks and pressures. Going forward you will need to identify further savings of circa £35m for 2019/20 and 2020/21. Your Medium Term Financial Strategy anticipates that post 2020 approximately £10m per year of savings will be required.

In response to this risk we will:

- Consider your arrangements to identify and deliver savings and efficiencies towards achieving a sustainable medium term financial position.
- Update our understanding of how you are working with partners in the local health economy to achieve savings.

Transformation

You are planning a significant transformation programme. This will be technology enabled and seek to drive the right cultural outcomes from, and for, people, facilitating innovation to drive transformational benefits – financial and non-financial – resulting in service improvements and better working with residents. Any transformation programme of this scale, complexity and ambition carries inherent risk.

In response to this risk we will:

- Update our understanding of overarching programme management arrangements.
- Consider whether you have adequate arrangements to manage the interdependencies, identify and realise planned benefits and ensure robust and effective programme governance.
- Asses the extent to which transformational plans and medium term financial planning is aligned, and whether assumptions in financial plans align with programme ambitions.

Audit logistics, team & audit fees

Paul Grady, Engagement Lead

Paul will be the main point of contact for the Chief Executive and Board Members. Paul will share his wealth of knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Senior Management and the Audit Panel. Paul will ensure our audit is tailored specifically to you and is delivered efficiently. Paul will review all reports and the team's work focussing his time on the key risk areas to your audit

Paul Jacklin, Senior Audit Manager

Paul will work with the senior members of the finance and executive teams, ensuring early delivery of testing and agreement of accounting issues on a timely basis. Paul will attend Audit Panel Committees, undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable to all. Paul will work with Internal Audit to secure efficiencies and avoid duplication, providing assurance for your Annual Governance Statement**.**

Andy Ayre, Audit Manager

Andy will lead the onsite team and will be the day to day management contact for the audit. Andy will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Andy will coach the junior members of the team and review the teams work.

Audit fees

The planned audit fees are no less than £193,233 (PY: £193,233) for the financial statements audit and £30,370 (PY: £41,235 for grant certification. Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

In setting your fee, we have assumed that the scope of the audit, and your activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, you must ensure that:

- All audit queries arising from our interim work are responded to satisfactorily during the interim audit and all testing samples provided to enable completion during the interim audit
- The draft accounts are provided to us by 31 May and are materially accurate;
- Supporting schedules to all figures in the accounts and other working papers are provided to us by 31 May in accordance with the agreed upon information request list;
- All supporting schedules are clearly presented and agree to figures in the accounts;
- Key management and accounting staff identified in our information request list are available throughout the duration of our audit visits to help us locate information and to provide explanations; and
- All audit queries are resolved promptly and within agreed timescales.

If any of the above requirements are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to you.

Non-audit services

The following non-audit services were identified:

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work for 2016/17 was £3,000 in comparison to the total fee for the audit of £193,233 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers' Pension return	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work for 2016/17 was £6,000 in comparison to the total fee for the audit of £193,233 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
Place Analytics subscription for 3 years from 2016/17	26,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this for 3 year period from 2016/17 was £26,000 in comparison to the total fee for the audit of £193,233 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with your policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Appendices

Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: • The directors use of the going concern basis of accounting is appropriate • The directors have disclosed identified material uncertainties that may cast significant doubt about your ability to continue as a going concern.
Material uncertainty related to going concern	We will need to include a brief description of the events or conditions identified that may cast significant doubt on your ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: • Responsibilities of management and auditors regarding other information • A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation • Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.

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