Grant Thornton

Audit Findings

Year ending 31 March 2018

London Borough of Lewisham Council

Contents

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Headlines

This table summarises the key issues arising from the statutory audit of London Borough of Lewisham Council ('you") and the preparation of the group and your financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion: • the group and your financial statements give a true and fair view of the group and your financial position and of the group and your expenditure and income for the year, and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work is nearing completion as at the date of writing this report. Our findings are summarised on pages 5 to 21. We have not to date identified any adjustments to the financial statements that have impacted significantly on your General fund financial position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. We had planned to complete our audit work to deliver our opinion by 31 July 2018, which is two months earlier than the prior year. A number of factors meant we were not able to fully conclude our work by the deadline. Some of the challenges arose due to the implementation of the new financial ledger system. This is an inevitable consequence of any large scale change of this nature, and an element of disruption was unavoidable. A number of key factors meant it was not possible to complete the work by the 31 July. This included the following: • Delays in obtaining sufficient documentation for us to gain assurance over the completeness of journals listings. • Delay in obtaining a Valuation Office Agency statement supporting the number of dwellings in the borough as at 31 March 2018. • We challenged the technical accounting treatment of a Lender Option Borrower Option Loans (LOBO) that was restructured in 2017/18, which resulted in officers recalculating the fair value of the loan and updating disclosures. This was a complex exercise. • We have not yet been provided with a formal signed response to the letters sent to those charge with governance covering compliance with laws and regulations. We have now received the majority of the information required for our audit. Subject to the following remaining items being resolved, we anticipate issuing an unqualified audit opinion, as detailed in Appendix E. - Completion of testing of some residual expenditure samples; - Receipt of senior officers' declarations of interest; - Receipt and review of responses to letters sent to those charged with governance; and - Receipt of listing of 2017-18 teachers' pay across all months for schools not on the Council's payroll system, and subsequent testing as required The following closing procedures are concluded at the end of the audit: - Receipt of your management representation letter; - Review of the final set of financial statements; - Final senior management and quality reviews; and - Review of Whole of Government Accounts. Following sign off of the financial statements, we will hold a wash up session with the finance team to identify lessons learnt and implementation of improvements in our joint working in 2018-19. We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we are auditing.

Headlines continued

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • you have made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	In our audit plan we reported a significant risk in respect of the governance arrangements over your transformation programmes. You have undertaken an internal review of these processes. We are in the process of reviewing your work and interviewing officers and collating evidence in respect of this risk. This is unlikely to be completed by the time we issue our audit opinion on your financial statements. We plan to issue our vfm conclusion after we have completed our work in respect of this risk. We have undertaken work on the other significant risks we identified in our audit plan in respect of our vfm work. We will consider our final vfm conclusion once our work in respect of all significant risks is completed.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • certify the closure of the audit	We have not exercised any of our additional statutory powers or duties. In the prior year 2016/17 audit, we received two objections from electors in respect of your LOBO loans. We are still awaiting information from the Council to enable us to consider our response to these objections. As such, we have not yet certified the closure of the 2016/17 audit. We will not be able to certify the conclusion of the 2017/18 audit until we have certified the closure of the prior year audit and completed our work in respect of your 2017/18 VFM conclusion.

Acknowledgements
We would like to take this opportunity to record our appreciation for the helpful assistance provided by management, the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group and your business and is risk based, and in particular included:

- An evaluation of the components of the group based on a measure of materiality, considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a comprehensive audit response was required for the London Borough of Lewisham and a targeted, analytical approach was required for Lewisham Homes Limited and Catford Regeneration Partnership Limited components.
- An evaluation of your internal controls environment including your IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We are anticipating giving you an unqualified audit opinion, subject to the completion of outstanding work set out on page 3.

Our approach to 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. Our materiality calculations have been updated from the planning materiality reported to you in the Audit Plan. This was to reflect the decrease in gross expenditure (adjusted for one-offs) in the 2017/18 draft accounts compared to the final 2016/17 accounts. The basis of the calculation (1.75% of gross expenditure) remains the same. We have not identified any areas that require a materiality for specific transactions, balances or disclosures. We have used this level of materiality for group consideration as the value of transactions through the subsidiaries would not have a significant impact on the materiality level

	Amount (£)
Materiality for the financial statements	17,004,000
Performance materiality	11,903,000
Trivial matters	850,000

Significant audit risks

Risks identified in our Audit Plan	Commentary
❶ **Improper revenue recognition** Under ISA 240 (UK) there is a 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.	**Auditor commentary** 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 London Borough of Lewisham Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for you.
❷ **Management override 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. We identified management override of controls as a risk requiring special audit consideration.	**Auditor commentary** We have completed the following work in relation to this risk: • Review of accounting estimates, judgments and decisions made by management. • Review of journal entry process and selection of large and unusual journal entries for testing back to supporting documentation. • Review of unusual significant transactions. We have not identified any material issues from our testing that require reporting as at the date of this report that we need to report to you.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of property, plant and equipment** You revalue your land and buildings at least every five years as a minimum or more regularly where a five-yearly valuation is insufficient to keep pace with material changes to fair value, 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.	**Auditor commentary** We have completed the following work in relation to this risk: • Reviewed management's processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of any management experts used. • Reviewed the instructions issued to valuation experts and the scope of their work. • Discussed the basis on which the valuation was carried out with your Valuer, challenging the key assumptions. • Tested revaluations made during the year to ensure they were input correctly into your asset register and financial statements. • Reviewed and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. • Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. Our audit work has not identified any material issues in respect of valuation of property, plant and equipment as at the date of this report that we need to report to you.
4	**Valuation of pension fund net liability** Your pension fund liability as reflected in its 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.	**Auditor commentary** We have completed the following work in relation to this risk • Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. • Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. Our audit work has not identified any material issues in respect of valuation of the pension fund net liability as at the date of this report that we need to report to you.

Reasonably possible audit risks

	Risks identified in our Audit Plan	Commentary
1	**Employee remuneration** Payroll expenditure represents a significant percentage of your expenditure. 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.	**Auditor commentary** We are undertaking the following work in relation to this risk • Documented our understanding of processes and key controls over the transaction cycle. • Undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding. • Obtained and reviewed the year-end payroll to general ledger reconciliation and investigated any significant reconciling items. • Agree payroll related accruals to supporting documents and review the reasonableness of estimates. • Completed substantive analytical procedures on the completeness of payroll. As set out on page 3, we have not completed our testing of employee remuneration as we are awaiting information from management to enable us to complete our work on schools' payroll. Subject to the satisfactory receipt of this evidence and completion of our work, at this stage we have not identified any material issues that require reporting.
2	**Operating expenses** Non-pay expenses on other goods and services also represents a significant percentage 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:	**Auditor commentary** The following audit work has been performed: • Evaluated your accounting policy for recognition of non-pay expenditure for appropriateness; and • Gained an understanding of the your system for accounting for non-pay expenditure and evaluate the design of the associated controls. • Sample cut off testing of payments made in April and May 2018 to ensure these have been charged to the appropriate year. We are still waiting for some of these sample items back. We have not identified any significant issues that require reporting as at the date of this report that we need to report to you.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Income from Council Tax, Non-Domestic Rates and rents is accounted for in the year it is due. • Income from the sale of goods is recognised when you transfer the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will be received. • Income from the provision of services is recognised when you can measure reliably the percentage of completion of the transaction and it is probable that the economic benefits or service potential associated with the transaction will be received. • Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.	We reviewed your revenue recognition policies. We have no material concerns with your revenue recognition policies or with the application of those policies. The revenue recognition policies adopted are in line with the CIPFA Code of Practice on Local Authority Accounting.	**Green**
Judgements and estimates	• Key estimates and judgements include – Revaluations and impairments – Useful life of PPE – Expenditure accruals – Accounting for PFI Schemes – Valuation of pension fund net liability – Provision for NNDR appeals – Other provisions – IAS 19 asset valuation	We have not identified any material issues in relation to any of the areas of estimate and judgement reflected within the financial statements.	Green
Other critical policies		We have reviewed your policies against the requirements of the CIPFA Code of Practice on Local Authority Accounting. Your accounting policies are appropriate and consistent with previous years.	Green

Assessment
- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	We have previously discussed the risk of fraud with the Audit Panel. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	A standard letter of representation has been requested from you, including specific representations in respect of the Group, which is included in the Audit Panel papers.
5	**Confirmation requests from third parties**	We requested from management permission to send confirmation requests to banking and investment institutions that you had deposits or loans with. This permission was granted and the requests were sent. All of the requests have been received and all were returned with positive confirmation.
6	**Disclosures**	Our review has so far found no material omissions in the financial statements.

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – refer to appendix E
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with your audited financial statements. This work has not yet been completed.
4	**Certification of the closure of the audit**	We do not expect to be able to certify the completion of the 2017/18 audit of London Borough of Lewisham Council in our auditor's report, as detailed in Appendix E. This is because the certificate for 2016/17 has not yet been issued, as we are awaiting information from management in respect of two objections received from an elector in 2017. In addition, we will need to undertake further work on our Value for Money conclusion in respect of the significant risk over your transformation projects, following the conclusion of your own review into matters arising in this area. Finally, we are unable to certify the audit as closed until we have issued our opinion on your pension fund annual report. The deadline for this is not until December 2018 and management has not yet produced this report, as allowed by the deadline.

Value for Money

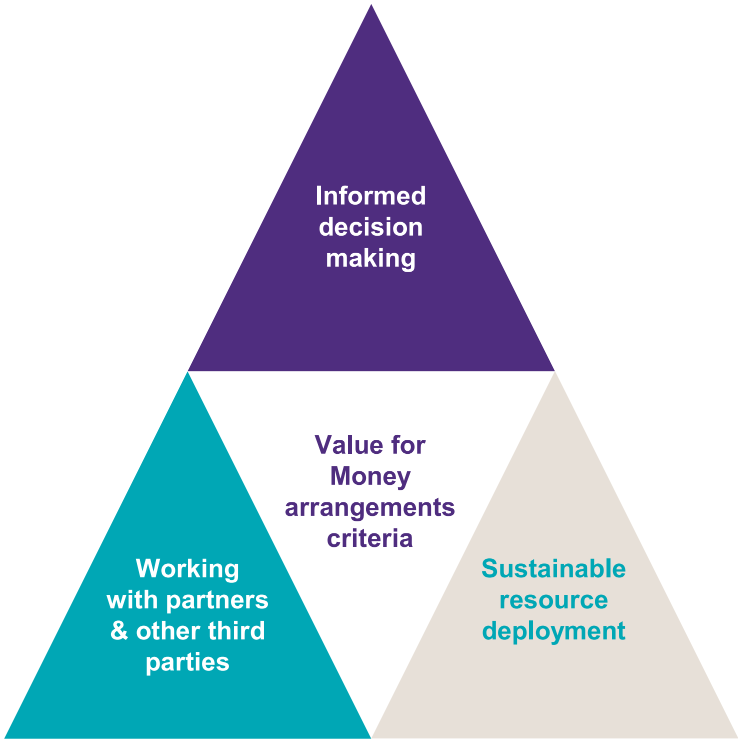
Background to our VFM approach

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 the 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:



Risk assessment

We carried out an initial risk assessment in January and February and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated February 2018. The risks that we identified were as follows:

- budget management;
- savings and medium term financial planning; and
- transformation

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of your arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in your arrangements. In arriving at our conclusion, our main considerations were:

- Your outturn position against general fund revenue budgets for 2017/18
- Whether your Medium Term Financial Strategy is based up a reasonable assumptions
- The appropriateness of arrangements in place in respect of your transformation programmes

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 14 to 19.

Overall conclusion

In our audit plan we reported a significant risk in respect of the governance arrangements over your transformation programmes. You are in the process of undertaking an internal review of these processes and in respect of a number of matters that have arisen. We are awaiting the conclusion of your review prior to undertaking our work in respect of this risk. This is unlikely to be completed by the deadline of 31 July 2018.

We plan to issue our vfm conclusion after we had an opportunity to consider your review and complete our work in respect of this risk.

We have undertaken work on the other significant risks we identified in our audit plan in respect of our vfm work. We will consider our final vfm conclusion once our work in respect of all significant risks is completed.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

You are in the process of undertaking an internal review of governance arrangements over your transformation schemes. We are awaiting the conclusion of your review prior to completing our work.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and conclusion
Budget Management You are currently (at risk assessment) 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 have: • Updated our understanding of the pressures affecting the 2017/18 budget. • Considered whether you have adequate arrangements to manage those pressures and to secure a sustainable financial position. • Considered your approach towards the use of reserves.	**Summary findings** • Your 2017/18 outturn position delivered a net £16.5m (7.1%) overspend. This resulted from a significant directorate overspend of £20.6m offset by directorate underspends of £2.8m and £1.3m contingency held corporately for risks and other budget pressures. • The Children and Young People directorate overspend of £15.6m (32%) is particularly significant. You need to gain a clear understanding of the circumstances that have driven the overspend and put in place robust measures to address these, as well as consider the sufficiency of the budgets in these areas. • There is no guarantee non-departmental underspends will continue, so vigilance over future positions is critical. Failure to deliver to budget could have a significant impact on your financial health. • You increased Lewisham's share of council tax by 4.99% for 2017/18 but, as service pressures are expected to grow, substantial efficiency and transformation savings will continue to be required across the organisation. **2017/18 Financial Performance** Like most local authorities across the country, the London Borough of Lewisham is facing a challenging financial position and uncertainty around future funding. You faced a reduction of £13.5m in the Revenue Support Grant in 2017/18 (£46.1m) compared to 2016/17 (£59.1m). You set a balanced budget for 2017/18 which relied on achieving an identified £22.2m of savings, increasing your share of council tax by 4.99% (1.99% increase plus 3.00% increase for the Social Care Precept), use of £5.0m of the New Homes Bonus for revenue purposes and release of £6.5m of corporate budget to offset risks and pressures. The 2017/18 £22.3m savings programme was agreed by you in the Lewisham Future Programme in September 2016. The savings which were identified as part of the budget process were deducted from the relevant service's budget. The savings programmes were not directly monitored, as monitoring was undertaken on overall budgets. In our view, this results in a lack of transparency and clarity in identifying whether the overspends are the result of under-delivery of savings plans or genuine unavoidable pressures from demand increases. Without this clarity, you may not be able to properly assess the robustness of future plans and make an informed judgement as to the deliverability of the £13.0m of additional savings in the 2018/19 budget. This also risks hampering your ability to make informed decisions in response, and your ability to properly assess performance in delivering transformational savings. We would recommend strengthening governance in this area by specifically monitoring the delivery of savings programmes and the success of the schemes involved and, importantly, where savings are not delivered as planned, identifying the causal drivers behind this. This will also enable you to determine whether overspends are due to failed savings programmes or deficiencies in the budget setting and delivery processes. It is important to understand these distinctions as the responses needed in each case may differ. We will consider this further in our subsequent review of your transformation governance arrangements. Your financial outturn position shows a £16.5m overspend on the directorates' net general fund revenue budget. However, this position was after applying £1.3m of a one-off corporate sum for risks and other budget pressures. The underlying service level overspend is therefore £17.8m, with the most significant overspends in Children and Young People (15.6m or 32%) and Customer Services (£5.0m or 11.7%). These were offset by underspends elsewhere, including £1.9m in the Resource and Regeneration directorate and 0.9m in the Community Services directorate. Despite the overspends, the General Fund balance at year end remained at £13.0m and Earmarked reserves increased by around £10.5m to £160.1m. The overspends have been regularly communicated to senior officers and members. The financial position is reported to members through the quarterly Public Accounts Select Committee meetings as at May, September, December and January, and monthly to the Executive Management Team. Until January 2018 the Council was reporting an overspend of approximately £13.0m. This was largely driven by demand led services within the Children and Young People directorate, mainly children's social care, and the environment section of the Customer Services directorate.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and conclusion
Budget Management Continuation of risk noted on the previous page.	From May 2017, overspends in Children and Young People were forecast to be £7.0m and rose steadily to £8.6m in January 2018. That significant overspends were forecast from so early in the year indicates a weakness in the arrangements for identifying assumptions for the budget setting in this area. You should strengthen the budget setting arrangements and improve the robustness of the assumptions on which the budget is based. The overspend had increased significantly to £15.6m by the end of the year. The increase was not due to a dramatic surge in demand led services in February and March. Instead it was due to assumptions made in financial forecasting that included mitigations that had been expected to be made earlier in the year that had not come to fruition. This resulted in the additional overspend only being reported at the year end. This indicates a weakness in the arrangements around the reporting of financial information to management and members. The final overspend was due to demand throughout the year for residential care places (£3.2m), fostering (£2.0m), placements in semi-independent accommodation (£1.8m) and other placements. Furthermore, a £7.5m overspend on staffing, particularly due to agency spend to meet the increased demand, had a negative impact on the Children's Social Care budget. Also contributing to the overspend in the Children and Young People Directorate is an overspend of £1.0m on schools' transport due to the increased use of taxis for extra pupils being transported following a reduction in the number of buses in service. We recommend presenting more information around the mitigations included in the forecast outturn reports to enable closer scrutiny of these to prevent unexpected deterioration of the financial position at the end of the year. The other significant area of overspend was £5.0m in the Customer Service directorate. The largest element of this was the £3.2m overspend in the Environment section. Most of this was attributable to the £2.1m overspend in the refuse service caused by the delay in implementing the move to fortnightly collections and introduction of the new food and garden waste service for which new vehicles were not procured in time to implement, leading to increased vehicle hire charges.

Authority	General fund reserves as at 31 March 2018	Gross service expenditure for 2017/18	Ratio of General Fund reserves to Gross service expenditure
	£000	£000	%
Lewisham	13,000	925,075	1.4%
Average (All London Boroughs)	19,672	879,996	2.7%
Neighbouring and comparable London Boroughs			
Greenwich	13,269	888,988	1.5%
Lambeth	22,851	1,301,324	1.8%
Newham	12,352	1,202,228	1.0%
Southwark	18,803	1,257,329	1.5%
Tower Hamlets	33,255	1,260,278	2.6%
Croydon	10,393	1,174,044	0.9%
Waltham Forest	14,572	863,711	1.7%

Your General Fund position has remained at £13.0m at 31 March 2018, which is the same as in 31 March 2017. This has been achieved through the use of one-off corporate resources, such as the £10.9m transfer of NHS long term creditors to Health Reserves and £6.5m surplus on Corporate Provisions.

This ratio of General Fund reserve to gross service expenditure is relatively low in comparison to other London Boroughs. It is around half that of the average of all London Boroughs, and when compared to your closest and most comparable size boroughs only Croydon and Lambeth have lower ratios. There is the risk that this level of General Fund Reserves is not sufficient to cope with the additional pressure of a significant unexpected incident.

Conclusion

There may be scope to strengthen governance and monitoring arrangements by monitoring savings delivery, shortfalls and causal factors, in addition to the normal budgetary monitoring processes. There is also scope to strengthen budgetary monitoring processes and the assumptions used in respect of demand-led growth. This view is subject to our outstanding work on the Transformation risk which we will consider in a later report.

Key findings (Continued)

Significant risk	Findings and conclusion
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 have: • Considered your arrangements to identify and deliver savings and efficiencies towards achieving a sustainable medium term financial position. • Updated our understanding of how you are working with partners in the local health economy to achieve savings.	**Summary findings** • For 2018/19, you have set a balanced budget, with generally robust underlying assumptions. • You have increased your share of council tax by 3.99% but, as service pressures are expected to grow, substantial efficiency and transformation savings will continue to be required. • Your Medium term financial strategy shows the budget has been balanced for 3 years with the use of reserves. • You will need to make savings of around £53.6m between 2019/20 and 2022/23 – a significant requirement which highlights further the point made in the previous section about the importance of specifically monitoring savings scheme delivery and understanding shortfalls, over and above the existing budgetary monitoring processes. Savings required in 2019/20 are higher than in previous years, when lower levels of savings were not delivered. • There are longer term pressures from demand led services that could continue to manifest in 2018/19 and beyond. • You have £13m of general fund reserves to cushion you against the on-going financial challenges that you face over the medium term. However, these represent only 1.4% of your annual spend, and should be used to invest in future transformation, rather than propping up budgetary overspends. • The first financial forecast for 2018/19 presented to the Public Accounts Select Committee up to May 2018 is forecasting a deficit of £14.8m, with a majority (£13.5m) again due to the Children and Young People directorate. This indicates weaknesses in the budget setting arrangements as the assumptions around the provision of children's social care appear not to have taken into account issues that led to similar overspends in 2017/18. This may indicate further improvements over the accuracy of activity assumptions are required. **2018/19 Budget Setting** You set a balanced budget for 2018/19 in February 2018. Reductions in Settlement Funding Assessment, inflation and service growth presented an overall budget gap of £8.6m to be funded from reserves. You have closed this through a £5.0m reserve transfer from the New Homes Bonus reserve to the General Fund for the third consecutive year and a further £3.6m one-off use of reserves. You have increased your share of council tax by 3.99% to provide an extra £10.2m, and identified planned savings of £4.86m. The New Homes Bonus (NHB) paid by government is expected to decrease by between a third and a half from its 2018/19 level of £6.9m. Whilst your New Homes Bonus reserve has increased in value in recent years despite regular transfers to the General Fund, the NHB received may soon drop below the transfer levels, and in the long term the use of this sort of transfer will become unsustainable. Schemes are reasonably well developed, and have been put in place for 2018/19. The structure enables you to focus on key streams and supports cross-cutting initiatives rather than top-slices to budgets. To maximise the impact of savings plans, project review should be incorporated more closely into the budget monitoring and outturn reports to ensure planned savings are delivering the desired effect. It is currently unclear from the budget report the extent to which overspends are being driven by purely demand led increases, against the success or failure of savings initiatives. **Medium Term Financial Strategy** Your latest Medium Term Financial Strategy (MTFS) is due to be published in July 2018. The financial outlook in the medium term remains very challenging for local government, with significant uncertainties over the economic and political environment. Beyond 2020 it is difficult to predict what the size of the challenge is as this will depend on the decisions of a future government. You have made prudent assumptions about your future funding, including the following: • Government will phase out the Revenue Support Grant • NNDR will be completely devolved to local government

Key findings (Continued)

Significant risk | **Findings and conclusion**

Savings and medium term financial planning

Continuation of risk noted on page 16

- Council tax increases continue to be capped below 2 per cent, with a precept for social care
- The Collection fund will deliver a reducing surplus for the foreseeable future
- Pay and non-pay expenses will be subject to 2-3% inflationary pressures
- Pressures and risks growth of £6.5m - £7.5m for the three years of 2021/22 to cover additional expenditure associated with a growing, aging population, household growth, the impact of changes in legislation and regulations, and the impact of reducing preventative services in the early years of austerity

The July 2018 Medium Term Financial Strategy covers the four year period from 2019/20 to 2022/23. You have modelled best, worst and most likely case scenarios for this period. Comparing these saving scenarios to the ones in the July 2017 MTFS, you can see the impact the overspends in 2017/18 and the failure to meet savings targets has had in increasing the pressure over the next three year period. Under the above and other assumptions the range of estimates of future savings requirements (£m) is:

July 2017 MTFS	2018/19	2019/20	2020/21	2021/22	2022/23	Total	2019/20 to 2021/22		
Optimistic	20.77	10.31	6.99	8.73	-	46.80	26.03		
Main	21.28	10.85	10.04	9.41	-	51.58	30.3		
Pessimistic	24.85	14.63	17.19	12.74	-	69.41	44.56		
July 2018 MTFS		**2019/20**	**2020/21**	**2021/22**	**2022/23**	**Total**	**2019/20 to 2021/22**	**Increase in savings required**	
Optimistic	-	14.75	8.10	10.24	5.22	38.30	33.08	7.05	27%
Main	-	16.82	12.42	14.55	9.76	53.56	43.794	13.494	45%
Pessimistic	-	19.05	18.43	18.85	13.38	69.70	56.32	11.76	26%

In the July 2018 MTFS, between 2019/20 and 2021/22 the savings that are required to be found have increased by £13.5m, a 45% increase, compared to the July 2017 MTFS. This demonstrates the importance of having robust savings plans and delivering them in year rather than rolling them onto the next year when the ask may be more than can be managed.

Since 2015, your MTFS has made no allowance for inflation on non-pay expenses. This has meant that not only have you had to make savings year on year to offset losses in government funding, but that also cuts and service efficiencies have been required to absorb external inflationary cost pressures. This assumption has been removed from the July 2018 MTFS. A large element of your overspend pressures in recent years have related to 'needs led' statutory duties including supporting the most vulnerable, and sustained pressures arising from statutory duties relating to services such as waste and environmental health; the MTFS also assumes that these cost pressures will be met from your existing budgets. You have spent considerable effort seeking to mitigate these risks and it is important that you remain vigilant in how you monitor and manage these burdens.

The medium term financial plan is led by the Lewisham Futures Board, which develops savings options for the Mayor and cabinet to consider. Its focus has been on implementing the £21.3m savings for 2018/19. In a change from previous years, the current plan for 2019/20 and 2020/21 is not based around the 18 strategic work streams or themes that came from the Lewisham Future Board. The change of approach has been instigated by the new Chief Executive. It was felt the previous method had become overly complicated and lost some of the strategic value it was adding. The new method begins in July with Star Chambers overseen by the Executive Team challenging service leads on every aspect of their budgets. Detailed proposals for the cuts identified from these will be presented to members for scrutiny later in the year. Having made around £160m of reductions in expenditure in the eight years from 2010/11, the 'easy' savings and cuts have been made. Future savings will have to come from longer term projects, transforming how you provides services which requires up front investment to obtain future benefits. The effectiveness of your transformation governance is therefore essential to your future financial sustainability and achievement of challenging savings plans and budgets.

Key findings (Continued)

Significant risk	Findings and conclusion
Savings and medium term financial planning Continuation of risk noted on page 16	The first financial forecast for 2018/19 presented to the Public Accounts Select Committee up to May 2018 is forecasting a deficit of £14.8m, with a majority (£13.5m) again due to the Children and Young People directorate. This indicates weaknesses in the budget setting arrangements as the assumptions around the provision of children's social care appear not to have taken into account issues that led to similar overspends in 2017/18, given how soon the forecast overspends arise following the setting of the budget. This may indicate further improvements over the accuracy of activity assumptions are required. Containing these budget pressures will also depend on the effectiveness of your transformation governance, delivery of savings and demand management and outreach schemes, to ensure budgets can be delivered within the growth assumptions. The medium term planning shows an improving outlook which is broadly in line with your high level thinking over council tax and growth plans. However, more savings are proposed to 2019/20 than have been in place in previous years. This is a significant risk, as you have not managed to deliver the lower level of savings proposed in 2017/18. In addition, there are longer term pressures from demand led services that could continue to manifest in 2018/19 and beyond.

Reserves and financial position

Despite the financial pressures that you have faced and your investments in supporting the borough, once useable earmarked reserves are added to your £13m of general fund reserves, your overall reserves position is relatively healthy, compared to many London Boroughs. As at 31 March 2018, you had total general fund reserves and earmarked reserves excluding schools reserves of £149.9m, compared to £145.9 as at 31 March 2017 and £148.7m as at 31 March 2016.

The following table sets out a summary of your reserves position and key financial ratios as at 31 March 2018 relative to other London Boroughs as per their draft published financial statements for 2017/18:

London Borough of Lewisham - financial position: key performance measures			
Measure	London Borough of Lewisham	Average for London Boroughs	Ranking relative to other London Boroughs
Total general fund and non-schools earmarked general fund reserves as at 31 March 2018 (£m)	149,927	102,585	7 / 32
Total general fund and earmarked general fund reserves as at 31 March 2018 (£m)	173,123	112,862	7 / 32
Total usable revenue and capital reserves as at 31 March 2018 (£m)	347,452	253,530	7 / 32
Useable capital and revenue reserves as a percentage of gross service revenue expenditure	37.6%	28.9%	9 / 32
Current ratio (current assets / current liabilities)	2.00	1.50	5 / 32

This analysis highlights that as at 31 March 2018 your reserves level placed you in the top quartile of the 32 London Borough. Nevertheless, it is important that you take appropriate action to maintain your reserves position.

As it currently stands, your reserves level provides you with a measure of support in respect of the on-going financial challenges that you face over the medium term due to reductions in central government funding and forecast increases in demand for your core services. However, you only have finite reserves available and it is important that you continue to maintain appropriate budgetary control going forward. Your reserves strategy does not have an explicit minimum level of General Fund reserves that you are comfortable with.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and conclusion
Savings and medium term financial planning Continuation of risk noted on page 16	**Conclusion** The early appearance of forecast significant overspend on the revenue budget in 2018/19 in similar areas to 2017/18 suggests weaknesses in the accuracy of the assumptions in this area. Development of a more detailed Reserves Strategy would ensure one-off monies are used effectively support the transformation needed to remain financially sustainable. Our final conclusion is subject to our outstanding work on the Transformation risk which we will consider in a later report.

Key findings (Continued)

Significant risk	Findings and conclusion
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.	**Summary findings** • You have undertaken an internal review of your transformation processes. We are in the process of reviewing your work and interviewing officers and collating evidence in respect of this risk. .

Independence and ethics

Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers and managers). In this context, we disclose the following to you:

We confirm that we have implemented policies and procedures to meet the requirements of 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 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified:

Service	£	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	3,500	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 is £3,500 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 all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers' Pension return	6,500	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 £6,500 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 the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Panel. 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.

Action plan

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	● Medium	Our testing of IT General Controls identified breaches of password policies, users with default responsibilities with excessive privileges and a lack of audit logging in Oracle EBC or the Database. There is the risk that passwords are not strong enough and unauthorised access may be gain to the Council's IT systems. The full details of the control findings have been shared with management.	The detailed recommendations have been shared with management. **Management response**
2	● Medium	Our testing of creditors identified an old creditor account with no activity for more than 5 years. The creditor was investigated and found not to be valid. Whilst it was not indicative of a material error, there risk is that there are other invalid creditors on the creditors ledger.	We recommend you review all creditor accounts that have had no activity for more than 6 months and determine whether the creditor remains valid. **Management response**
3	● Medium	The savings programmes were not directly monitored, as monitoring was undertaken only on overall budgets. In our view, this results in a lack of transparency and clarity in identifying whether the overspends are the result of under-delivery of savings plans or genuine unavoidable pressures from demand increases. Without this clarity, you may not be able to properly assess the robustness of future plans and make an informed judgement as to the deliverability of the £13.0m of additional savings in the 2018/19 budget. This also risks hampering your ability to make informed decisions in response, and your ability to properly assess performance in delivering transformational savings.	We would recommend strengthening governance in this area by specifically monitoring the delivery of savings programmes and the success of the schemes involved and, importantly, where savings are not delivered as planned, identifying and explaining the reasons behind this. This will also enable you to determine whether overspends are due to failed savings programmes or deficiencies in the budget setting and delivery processes. It is important to understand these distinctions as the responses needed in each case may differ. **Management response**
4	● Medium	The financial forecast reports contained mitigations that were expected to be achieved in the first half of the year but were not, which reduced the forecast deficit position until the end of the year. This prevented management and members from gaining a full understanding of the levels of and reasons behind overspends.	We recommend presenting more information around the mitigations included in the forecast outturn reports to enable closer scrutiny of these, to enable greater monitoring in respect of unexpected deterioration of the financial position at the end of the year. **Management response**
5	● Medium	Your Reserves Strategy does not have an explicit minimum level for your General Fund reserve.	You should consider adding a minimum level / range for your General Fund reserves at a level you are comfortable with to your Reserves Strategy. **Management response**

Controls
- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of London Borough of Lewisham Council's 2016/17 financial statements, which resulted in recommendations being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendations and note they are still to be completed.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	X	We completed a high level review of your IT controls and at the shared service provider, focussing on the interface between the two. Consistent with previous years the review highlighted significant issues specifically around default passwords and accounts, audit logs, change management, separation of duties and access controls. We have reported these findings in detail to management in a separate paper and we have discussed these with the Head of Financial Services. We understand you are considering the future of your IT arrangements following the expiry of the current shared services contract.	• Work completed by our team of IT experts identified similar issues in work completed on the 2017/18 IT General Controls. Issues were in the areas of breaches of password policies, users with default responsibilities with excessive privileges and lack of audit logging in Oracle EBC or the Database.

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

The table below provides details of adjustments identified during the 2017/18 audit which have not been made within the final set of financial statements. The Audit Panel is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
1	LOBO calculation of the fair value of the loan on inception	Dr Finance Restructuring Costs 9,968	Cr borrowings 9,968	There is no impact on the Council's General Fund position as the impact is reversed out through the Movement In Reserves Statement. The amendment has nil impact on Council Tax payers.
	Overall impact	£9,968	£9,968	£00

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2017/18 audit which have not been made within the final set of financial statements. The Audit Panel is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1	Sample testing of your calculation of depreciation across a range of assets identified an estimated extrapolated error of £1,202,000.	Dr Depreciation across Cost of Service 1,202	Cr Property Plant and Equipment 1,202	1,202	Misstatement is an estimated extrapolation and is well below materiality.
2	Sample testing of expenditure identified a reversal of an accrual whereby the accrual should not have been raised in the first instance as the invoice was paid before year-end. This error was extrapolated to £1,182,000	Cr Expenditure across Cost of Services 1,182	Dr Accruals 1,182	(1,182)	Misstatement is an estimated extrapolation and is well below materiality.
	Overall impact	£20	£20	£20	

Impact of prior year unadjusted misstatements

We have not identified any unadjusted misstatements in relation to the 2016/17 Statement of Accounts as at the date of writing this report.

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

We have not identified any adjusting misstatements as part of our audit work to date.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjustment agreed?
Housing Revenue Account Note 7	Figures in Note 7 of the HRA Statement haven't been updated for 2017/18.	The table should be updated to reflect the correct figures.	✓
Note 38 Contingent Liabilities	The final paragraph of note, 38 the disclosed figures require updating to report 'In addition, the NHS has a current application for charitable status. If accepted this would require a backdated payment of around £9m by the Council and an ongoing annual loss of business rates of £0.105m.'	The Note requires updating.	✓
Narrative Report	The Narrative Report discloses the Highways and Bridges project of £10m per Narrative Report, but the total per the Outturn Report is £8.9m.	The Narrative Report and outturn report should be consistent	✓
Narrative Report	Narrative Report - Revenue Budget Outlook – The Net Budget requirement for 2018/19 was disclosed as £242.3m in the Narrative Report, but was disclosed as £241.281m as per the Budget Report 2018/19 approved by council.	Amend the Narrative report	✓
Note 37 Defined Benefit Pension Schemes	The Employers' Contributions Payable to the Scheme of £32,708k was excluded from note 37c.	Amend note 37c to include Employers' Contributions payable to the Scheme	✓
Collection Fund Note 5	Disclosure of Rateable Value in Collection Fund Note 5 is based on National non Domestic Rates 1 return rather than Valuation Office Agency at year end as per the Code of Practice on Local Authority Accounting . The 2017/18 balance should be updated to £181.4m and 2016/17 should be updated £140.2m from £190.2 and £139.2 respectively.	Amend Collection Fund Note 5	✓
Housing Revenue Account Note 3	Note 3 to the HRA Accounts details rent rebates of £42,774k was the 2016/17 balance. The correct figure per the Housing subsidy claim form is £39,840k	Amend Housing Revenue Account Note 3	✓

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit Fees

	Proposed fee	Final fee
Council Audit	£193,233	£TBC
Grant Certification	£30,370	£30,370
Total audit fees (excluding VAT)	**£223,603**	**£223,603**

We will report the final proposed fees for the year following the conclusion of our work in respect of your vfm arrangements**.** 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'.

Non Audit Fees

Fees for other services	Fees
Audit related services:	
• Certification of Teachers' Pension return	£6,500
• Certification of Housing capital receipts grant	£3,500
Non-audit services	
• Place Analytics subscription	£26,000
Total (excluding VAT)	**£36,000**

Draft Audit opinion

We anticipate we will provide the Group with an unmodified audit report

Independent auditor's report to the members of London Borough of Lewisham

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of London Borough of Lewisham (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Comprehensive Income and Expenditure Statement, the Housing Revenue Account – Movement in Reserves Statement, the Collection Fund Revenue Account and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director for Resources and Regeneration's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director for Resources and Regeneration has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Executive Director of Resource and Regeneration is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Statement and the Annual Governance Statement, other than the group accounts and Authority financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Statement by the Executive Director for Resource and Regeneration and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Executive Director of Resource and Regeneration and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director for Resource and Regeneration. The Executive Director for Resource and Regeneration is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director for Resource and Regeneration is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Authority.

The Audit Panel is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2018. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2018. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2018.

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2018 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of objections related to the year ended 31 March 2017 brought to our attention by local authority electors under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that these matters do not have a material effect on the financial statements for the year ended 31 March 2018.

SIGNED

Paul Grady
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

30 Finsbury Square
London
EC2A 1AG

DATE

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