

| <b>AUDIT PANEL</b>  |  |                 |                                       |
|---------------------|--|-----------------|---------------------------------------|
| <b>Report Title</b> | <b>Final Accounts 2017/18 – London Borough of Lewisham’s response to Grant Thornton’s external audit reports</b> |                 |                                       |
| <b>Key Decision</b> | <b>No</b>  | <b>Item No.</b> | <b>5</b>                              |
| <b>Ward</b>         | <b>ALL</b>   |                 |                                       |
| <b>Contributors</b> | <b>Executive Director for Resources and Regeneration</b>   |                 |                                       |
| <b>Class</b>        |  | <b>Date:</b>    | <b>20<sup>th</sup> September 2018</b> |

## **1 PURPOSE**

- 1.1 The purpose of this report is to respond to the external auditor’s Audit Findings Reports on the 2017/18 audit of the Council’s Main Accounts and Value for Money conclusion, and the 2017/18 Pension Fund Accounts. These audit findings are attached to the previous item on this agenda, and contain:

*“... 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 ... (and) 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 Local Audit and Accountability Act 2014 ... (and) whether, in our opinion, you have made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ...”*

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

## **2 EXECUTIVE SUMMARY**

- 2.1 The Council has a statutory requirement to approve and publish its audited Statement of Accounts by 31 July each year. The draft audited 2017/18 Accounts were considered and noted by the Audit Panel on 12 July 2018. Since then, Grant Thornton have continued to finalise their external audit. The draft audited 2017/18 Accounts were approved by Council on 18 July 2018. Grant Thornton report that subject to the satisfactory completion of their outstanding work they anticipate providing unqualified opinions on the financial statements.

## **3 RECOMMENDATION**

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

## 4 POLICY CONTEXT

4.1 Completing the external audit of the council's accounts and receiving the external auditor's report thereon contributes directly to the council's tenth corporate priority:-

- **Inspiring efficiency, effectiveness and equity:** ensuring efficiency and equity in the delivery of excellent services to meet the needs of the community.

## 5 AUDIT OF ACCOUNTS

5.1 Since the pre-audit accounts were completed at the end of May 2018, they have been subject to extensive external audit by Grant Thornton and only a limited number of mainly minor changes have been agreed as necessary. At the time this report was despatched, the audits were substantially complete and Grant Thornton report that subject to the satisfactory completion of their outstanding work they anticipate providing unqualified opinions on the financial statements. Grant Thornton are, however, unable to issue a Value for Money conclusion at this time pending the outcome of their review of significant risks identified in their audit plan. These risks relate to governance arrangements over the Council's transformation programmes. Grant Thornton will give a verbal update on progress at the meeting and, along with senior council officers, will answer any questions as required.

5.2 The external auditor requests that Members note the adjustments to the financial statements in the reports.

5.3 Under the Council's constitution these matters are for the Council to determine. At full Council on 18 July 2018, Members noted the draft Audit Findings reports and approved the draft audited Statement of Accounts.

## 6 AUDIT FINDINGS

6.1 The headlines are shown on pages 3 & 4 of the Audit Findings Report. Regarding the financial statements for 2017/18 there are no significant errors to be brought to the attention of Members. The main adjustment of £9.968m relates to the technical treatment of a LOBO loan restructuring, and does not have any impact on the Council's General Fund position or Council Tax or Housing Rents (see Appendix C on page 24).

6.2 In addition, a limited number of classification and disclosure changes to the accounts have been agreed with the auditors. None of these affect Council's General Fund position or Council Tax or Housing Rents for the year (see Appendix C on pages 24 to 25).

6.3 The main issues to note from the Council's main accounts audit report are as follows:-

- The new statutory deadline of completing the 2017/18 audit by 31 July was not achieved. Some of the reasons stated in the report are subject to further

discussion/agreement between Council managers and Grant Thornton, particularly around delays in obtaining/supplying information, since the responsibility for these is yet to be determined. For example, the technical accounting treatment of the LOBO loan that was challenged by Grant Thornton had been previously agreed by them in principle many months ago when the arrangement had been entered into.

- A review of the Council's IT controls is outlined in Appendix B on page 23, and these ongoing concerns have been discussed with senior management. These issues remain outstanding from 2016/17.
- The Value for Money findings are summarised on page 13, with the detail being set out on pages 14 to 20. Grant Thornton are, however, unable to issue a Value for Money conclusion at this time pending the outcome of their review of significant risks identified in their audit plan.
- The Action Plan (Appendix A on page 22) contains a small number of recommendations which will be discussed further with Grant Thornton and agreed as appropriate.

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

- There were no material adjustments required to the final accounts; therefore the Fund's reported financial position is unchanged.
- There were three misclassification and disclosure changes required (see Appendix C on page 15). These have been agreed and the final accounts amended. The action plan (Appendix A on page 13) shows just one item, which will be agreed as appropriate with Grant Thornton.
- All the accounting policies, estimates and judgements were judged as reasonable and no recommendations have been made for these in respect of the audit of the Pension Fund accounts.

## **7 ANNUAL GOVERNANCE STATEMENT**

7.1 This document has been updated from the draft considered at the Audit Panel on 12 July 2018. The draft Annual Governance Statement was approved by Council on 18 July 2018.

## **8 FINANCIAL IMPLICATIONS**

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

8.2 The cost of the external audit of the main accounts for 2017/18 was £193,000, plus £41,000 for the certification of grant claims. The Pension Fund external audit cost was £21,000.

## **9 LEGAL IMPLICATIONS**

9.1 The Accounts and Audit (England) Regulations 2015 require authorities to publish their Statement of Accounts after the external audit is completed no

later than 31 July. The approval of the draft audited Statement of Accounts by Council on 18 July 2018 will satisfy this statutory requirement on the Council's part, but as already indicated, the full statutory requirement of sign-off by Grant Thornton by 31 July has not been met.

- 9.2 It is the role of the Audit Panel to receive, review and where appropriate, advise and make recommendations to the Council in relation to the external auditor's opinion and report to Members, and to monitor management action in response to issues raised by external audit.

## **10 EQUALITIES IMPLICATIONS**

- 10.1 There are no equalities implications in this report.

## **11 CONSULTATION**

- 11.1 Sections 25 to 27 of the Local Audit and Accountability Act 2014 give electors the right to inspect and make copies of the Accounts; also to question the auditor and make an objection. The Accounts are required to be available for public inspection for 30 working days prior to the planned conclusion of the audit and an advertisement is placed on the Council's website to publicise this fact. This public inspection period ended on 12 July 2018. It is also a requirement that notice of the conclusion of the audit is advertised on the Council's website.
- 11.2 No new objections to the Accounts were received in 2017/18, but there are still two objections outstanding in connection with LOBO loans from the previous year 2016/17. Grant Thornton are still liaising with the Council before responding to these objections.

## **12 ENVIRONMENTAL IMPLICATIONS**

- 12.1 There are no environmental implications in this report.

## **13 CRIME AND DISORDER IMPLICATIONS**

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

## **14 BACKGROUND PAPERS**

None

### **For further information on this report please contact:**

Selwyn Thompson, Head of Financial Services – 020 8314 6932

David Austin, Head of Resources – 020 8314 9114

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