

# Annual Audit Letter

London Borough of Lewisham

Audit 2010/11



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**Traffic light explanation**  
Red ■ Green ●

# Key messages

**This report summarises the findings from my 2010/11 audit. My audit comprises two elements:**

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

**I have included only significant recommendations in this report. The Council has accepted these recommendations.**

Key audit risk	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

## **Audit opinion and financial statements**

I issued unqualified opinions on the Council's financial statements and on the pension fund accounts on 21 October 2011.

I issue an audit certificate when the audit is formally closed and all of the work has been completed. I also issued this on 21 October 2011 to close my audit.

At the 20 September 2011 Audit Panel I presented annual governance reports and a progress report to the Audit Panel on the financial statements and the pension fund accounts. The reports highlighted a large number of errors that the Council agreed to adjust within the financial statements. I also brought to the Audit Panel's attention that

my audit had encountered significant delays, that a number of material areas of the audit were in progress and that as a consequence the target date of the 30 September 2011 for issuing the audit opinion was at risk. I issued a final report, listing further agreed amendments, to the Executive Director for Resources and Chair of the Audit Panel on 19 October 2011.

As required, the Council produced International Financial Reporting Standards (IFRS) compliant financial statements for the first time in 2010/11. The Council were unable to prepare for the IFRS transition in line with its timetable which meant that all the audit work was concentrated into the summer adding to my staff and officer's workload.

## **Value for money**

I issued an unqualified value for money conclusion. I am satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011. The conclusion is based on my assessment of the Council against the two criteria specified by the Audit Commission.

# Financial statements and annual governance statement

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**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

## **Overall conclusion from the audit**

- 1** This has been a long and difficult audit with a significant number of amendments made to the draft financial statements. I issued an unqualified opinion on the Council's financial statements and pension fund accounts on 21 October 2011, three weeks after the target date of 30 September 2011. The level of errors in the draft financial statements has significantly increased from the previous year.
- 2** The implementation of International Financial Reporting Standards (IFRS) for the first time had an impact on both the accounts preparation and audit process. The application of IFRS, requiring review of accounting policies and practice, restatement of prior year comparators and other changes, considerably increased the workload of officers. There was considerable slippage in the work plan timetable, mainly due to problems with the implementation of the property, plant and equipment register. I reported to the March 2011 Audit Panel that I assessed the Council's IFRS preparations as at high risk of not completing the transition on time. I did not receive any further IFRS information to review until I received the financial statements on the 30 June 2011, which increased the work load for my team and the Council during the audit.
- 3** The Council submitted its accounts for audit by the deadline of 30 June 2011. Although the financial statements were generally complete not all areas were adequately supported by working papers. Most significantly the Council's implementation of its new property, plant and equipment asset register was delayed and these working papers were provided to me on 2 September 2011. Improvements are needed to ensure that a comprehensive set of working papers are provided to us promptly on production of the draft accounts.
- 4** During the course of the audit I met regularly with the Executive Director for Resources and my audit team had weekly meetings with officers to discuss queries and amendments and agree a revised audit timetable. My team and I would like to thank officers for their help and cooperation throughout the audit.

**5** My audit identified a large number of amendments to the financial statements which were agreed with officers. Accounting for property, plant and equipment and the associated disclosures, cash flow, reserves and financial instruments were particularly weak areas. Before giving my opinion I reported to those charged with governance, the Audit Panel, on the issues arising from the 2010/11 audit. Two detailed reports were presented to the Audit Panel on 20 September 2011 and I issued a final report to the Executive Director for Resources and Chair of the Audit Panel on 19 October 2011.

#### Recommendation

**R1** To review arrangements for the timely production of financial statements, working papers and dealing with audit queries.

**R2** Include appropriate quality control procedures in the final accounts closedown process to review both the draft financial statements and the supporting working papers.

### Significant weaknesses in internal control

**6** The council was unable to complete the implementation of its new property, plant and equipment register (Real Asset Management), listing of £1,654m of assets at net book value, in time to support the preparation and audit of the financial statements. The plan was to have the RAM system operational by February 2011. As a result, in mid August 2011 the Council had to revert to spreadsheet records which were provided to me on 2 September 2011.

#### Recommendation

**R3** Implement and test the RAM system to ensure that all data has been transferred from manual records and that the system is capable of providing accurate and timely information to support the entries made in the financial statements.

### Pension Fund

**7** The Council provided the pension fund financial statements earlier than the main council financial statements, on 7 June 2011. I found that the draft pension fund financial statements contained four material errors, three material omissions in the notes, and several non trivial and trivial errors. There were also two material disclosures missing that related to the transition to International Financial Reporting Standards. A complete set of working papers to support the financial statements was not available at the start of the audit and the Council's key officer left at the end of June, delaying completion of audit work until October 2011. I issued unqualified opinions on the Council's financial statements and on the pension fund accounts on 21 October 2011.

## Recommendation

**R4** Use the working paper requirements document agreed with the auditors to prepare the working papers before the audit begins.

## Significant weaknesses in internal control –Pension Fund

**8** As reported in the Annual Governance Report presented to the September 2011 Audit Panel my audit identified three significant weaknesses in internal control relating to the pension fund:

### Pension Fund 2011/12 Bank Account

**9** Under revisions to legislation, the Pension Fund must from 1 April 2011 have a separate and dedicated bank account rather than have its funds within the Council's banking arrangements. The Council confirmed that a new bank account has been open from 1 April 2011 but the Council has not yet used this bank account for the pension fund transactions in the 2011/12 year.

## Recommendation

**R5** The Council should take action to ensure that it is complying with legislation in relation to the operation of its pension fund bank account.

## Whole of Government Accounts

**10** As a result of delays to the issuing of the audit opinion I was not able to certify the Council's Whole of Government Accounts (WGA) return before the submission deadline of 30 September 2011. As outlined above a significant number of amendments were reported due to changes between the draft return and audited financial statements. The review of the WGA is currently in progress

## Other matters

**11** At the time of writing this report, my audit of the Council's 2010/11 grant claims and returns is in progress. Of the eleven which require audit certification, four have been certified and submitted on time to the appropriate grant paying body, one was certified late. For the remaining six claims and returns, four are on course for being certified within the required timeframes and two were provided to me after the grant paying body's deadline.

# Value for money

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**I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

**12** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources. I issued an unqualified value for money conclusion on 21 October 2011

My conclusion on each of the two areas is set out below.

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## Value for money criteria and key messages

Criterion	Key messages
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>I am satisfied that the Council has robust systems and processes to manage effectively financial risks and opportunities and to secure a stable financial position.</p> <p>The Council is stable both in terms of finances but also culturally, with a low turnover of key staff. There are good arrangements in place to lead the organisation and deal with financial risks and opportunities. Good use is made of benchmarking information (such as the Audit Commission Value For Money Profiles) to highlight areas where there is potential for improvement, either by reducing costs or improving services. Councillors are informed of emerging financial risks through regular briefings.</p>
<p><b>2. Securing economy efficiency and effectiveness</b></p>	<p>The Council has prioritised its resources within tighter budgets and has secured economy, efficiency and effectiveness, for example by achieving cost reductions and by improving efficiency</p>

Criterion	Key messages
<p><b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b></p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>and productivity.</p> <p>The Chief Executive and Mayor, supported by the senior management team, have taken a clear lead on prioritising resources and spending reductions. This is reflected in the budget report 2011/12 which sets out the financial strategy, the action taken to consult with staff and the public, the savings proposals and overall financial position for 2010/11. Members were also consulted and the plans were approved at the Cabinet meeting in February 2011.</p> <p>The Council challenges the way activities are delivered and explores new ways of delivering activities. The Council has good arrangements to monitor efficiency savings and the impact on service quality and provision. It uses the Performance Plus performance monitoring system to monitor performance. Cabinet and the senior management team monitor the impact of the savings via regular budget monitoring reports.</p>

# Current and future challenges

The Council faces considerable challenges in the coming years as a result of the economic situation, as shown in the following table:

Issue	Findings
Economic downturn and pressure on the public sector	<p>The wider financial outlook continues to be challenging for the public sector. The Local Government financial settlement announced in February 2011 reduced funding available to the Council by 10.6% in 2011/12 and 7.8% in 2012/13. These cuts amount to a total reduction of £56 million over the two years.</p> <p>The Council has been working to manage the impact of the financial settlement and has developed a strong plan to identify savings in order to meet the funding gap. This plan has been successfully implemented. Additional pressures such as increasing inflation levels and volatility in the financial markets which will impact on investment returns for the Council also need to be managed.</p>
Income streams	<p>The Council's main income streams are the revenue support grant (RSG), schools grant, housing and council tax benefit subsidy, and housing subsidy. Other key income sources include non-domestic rates and council tax. The Council is facing significant reductions in a number of its income streams.</p> <p>The Council's charges for some areas of miscellaneous income were below the London average. The Council has taken action to bring fees and charges in line with the rest of London.</p>
Reform of local government finance	<p>The Housing Revenue Account (HRA) subsidy system comes to end from April 2012 and HRA self financing will be introduced which will result in changes to capital financing and accounting arrangements.</p> <p>The Council has developed a 30 year business plan in which it considers</p>

Issue

Findings

future rent levels. The Department of Communities and Local Government (DCLG) allows a transitional period of up to five years with authorities able to move across to full depreciation accounting beforehand should they wish. This transitional period will allow the Council to deal with the short term affordability issues as a result of the introduction of the new model. Consultation is currently underway for the proposal to repatriate business rate income to local authorities, and allow them to borrow against future growth of this income, from 2013/14.

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# Closing remarks

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I have agreed this letter with the Chief Executive and the Executive Director for Resources. I presented this letter at the Audit Panel on 23 November 2011.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit opinion plan	June 2011
Annual governance report	12 September 2011
Summary audit progress update	20 September 2011
Summary audit progress update	19 October 2011
Auditor report	21 October 2011
VFM conclusion	21 October 2011
Final accounts memorandum	(Planned) December 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Susan M. Exton

District Auditor

November 2011

# Appendix 1 - Fees

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	Actual	Proposed
Total audit fee <sup>*1</sup>	£472,360	To be finalised
Pension Fund audit fee	£35,000	To be finalised

<sup>\*1</sup> the total audit fee is shown gross of a rebate of £ £43,148 from the Audit Commission

# Appendix 2 - Glossary

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## **Audit opinion**

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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