



## Audit Panel

### **Report title: Final Accounts 2019/20 – LBL Response to Grant Thornton's Audit Findings Reports**

**Date:** 04 November 2020

**Key decision:** No

**Class:** Part 1

**Ward(s) affected:** All

**Contributors:** Executive Director for Corporate Resources

### **Outline and recommendations**

The purpose of this report is to respond to the external auditor's Audit Findings Reports on the 2019/20 audit of the Council's Main Accounts and Value for Money conclusion, and the 2019/20 Pension Fund Accounts.

It is recommended that the Audit Panel note the reports from Grant Thornton and this officer response report, to ask questions as appropriate and to agree the comments.

## 1. Summary

- 1.1 The purpose of this report is to respond to the external auditor's Audit Findings Reports on the 2019/20 audit of the Council's Main Accounts and Value for Money conclusion, and the 2019/20 Pension Fund Accounts.

## 2. Recommendation

- 2.1. It is recommended that the Audit Panel note the reports from Grant Thornton and this officer response report, to ask questions as appropriate and to agree the comments.

## 3. Background

- 3.1. These audit findings are attached to the previous item on this agenda, and contain:

*"... the key issues arising from the statutory audits of the London Borough of Lewisham Council ('the Council or you') and the preparation of the group and Council financial statements for the year ended 31 March 2020 ... (and) whether, in our opinion, the group and Council financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and have been properly prepared ... in accordance with the Local Audit and Accountability Act 2014 ... (and) if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ..."*

- 3.2. 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.

## 4. Audit of Accounts

- 4.1. As a result of the Covid-19 pandemic, the deadline for the preparation of the pre-audit financial statements was extended to 31 August 2020 and the date for audited financial statements to 30 November 2020. The first of these deadlines was achieved on 29 June 2020 and it is fully anticipated that the second will be achieved immediately following approval of the audited accounts by full Council on 25 November 2020.
- 4.2. Since the pre-audit accounts were completed on 29 June 2020, they have been subject to extensive external audit by Grant Thornton. The audits are now substantially complete and Grant Thornton report that, subject to outstanding queries being resolved, they anticipate providing unqualified opinions on the financial statements and Value for Money conclusion. Grant Thornton will give a verbal update on progress at the meeting and, along with senior council officers, will answer any questions as required.
- 4.3. The external auditor requests that Members note the adjustments to the financial statements in the reports.
- 4.4. Under the Council's constitution these matters are for the Council to determine. At full Council on 25 November 2020, Members will note the Audit Findings reports and are expected to approve the audited Statement of Accounts.

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## 5. Audit Findings

- 5.1. The headlines are shown on pages 3, 4 & 5 of the Audit Findings Report. The Covid-19 pandemic has not had a significant impact overall on the actual process of final accounts preparation and audit. With remote working, there have inevitably been some delays in resolving certain audit queries but, conversely, there have also been some improvements in the timeliness of officer responses.
- 5.2. The main issues to note from the Council's main accounts audit report are as follows:-
- i. There were some weaknesses identified around cut-off arrangements which resulted in expenditure that related to the 2019/20 financial year being incorrectly allocated to 2020/21. This will require a concerted effort by various service accountants to examine more closely the year-end accruals in future, plus a strengthened review process, for which the options will be examined in November / December 2020. The natural consequence of this audit finding is that additional expenditure will fall on the General Fund in 2020/21, estimated to be up to £6.6m using extrapolation techniques. This impact will be investigated further.
  - ii. There were two notable issues arising regarding property, plant & equipment (PPE): firstly, that the Council had not revalued all of its surplus assets as required by the accounting standards; and secondly, the floor areas used in the valuation of three schools were incorrect, which led to a decrease in the valuation of these buildings by £11.5m. PPE is a complex accounting area, for which any errors or misjudgements can cause significant swings in the figures. Nevertheless, it is accepted that the review of this area by management must be strengthened, and the plans for this will be devised in November / December 2020, ready for implementation by year-end.
  - iii. It was necessary to update the pension fund IAS19 valuation due to the impact of Covid-19 reducing year-end asset valuations. Officers always seek to obtain the most up-to-date valuation figures in time for the draft accounts, but in the exceptional circumstances of the Covid-19 pandemic this year, even this approach could not keep pace with the market changes. This will be kept closely under review for 2020/21.
  - iv. A number of presentational amendments to the financial statements were identified by the auditors. On account of the tight deadlines for submission of the draft accounts to the auditors, there is often a shortage of time to carry out a proper management review. Therefore, the appropriate time for a more robust management review will be built into the timetable for 2020/21 and adhered to.
  - v. None of the above has any impact on the Council's General Fund position or council tax or housing rents for 2019/20, although the first one may have an effect in 2020/21 as indicated.
  - vi. A review of the Council's IT controls is outlined in Appendix A on page 37, and these ongoing concerns have been discussed with senior management.
  - vii. The Value for Money findings are summarised on pages 18 & 19, with the detail being set out on pages 20 to 33.
- 5.3. The Action Plan (Appendix A on pages 36 & 37) contains seven recommendations which will be discussed further with Grant Thornton and agreed as appropriate.

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- 5.4. The areas to note from the Pension Fund accounts audit report are as follows:-
- i. Subsequent to receipt of the draft financial statements, the Fund Manager Harbourvest provided updated 31 March 2020 capital statements which take into consideration the impact of Covid-19. The valuations of the Harbourvest investments had fallen by £2.1m from the balance disclosed in the draft financial statements. Management have agreed to adjust the pension fund financial statements.
  - ii. The action plan (Appendix A on page 16) shows just one item, regarding the coding structure in the general ledger. Officers agree that historic coding arrangements with the Fund's custodian require significant manual adjustments throughout the year and at year-end for the accounts to reconcile to the ledger. Discussions will take place with the custodian to update the coding structure, and adjustments will be processed to tidy up historical miscodings in the ledger as it stands.
  - iii. There were also several misclassification and disclosure changes required (see Appendix B on pages 17 & 18). These have been agreed and the final accounts amended.

## **6. Annual Governance Statement**

- 6.1. This document is currently being finalised, subject to review by the Executive Director for Corporate Resources and the Monitoring Officer. This final version will be circulated separately to Audit Panel members in time for the meeting on 4 November 2020. It will be an updated version from the draft which was circulated following the meeting on 30 September 2020. The final Annual Governance Statement is expected to be approved by Council on 25 November 2020.

## **7. Financial implications**

- 7.1. There are no direct financial implications resulting from this report.
- 7.2. The cost of the external audit of the main accounts for 2019/20 was £183,000, plus £42,000 for the certification of grant claims. The Pension Fund external audit cost was £25,000.

## **8. Legal implications**

- 8.1. The Accounts and Audit (England) Regulations 2015 (as amended for the Accounts and Audit (Coronavirus) Amendment Regulations 2020) require authorities to publish their Statement of Accounts after the external audit is completed no later than 30 November. It is fully anticipated that this sign-off will be achieved immediately following approval of the audited accounts by full Council on 25 November 2020.
- 8.2. 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.

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## **9. Consultation**

- 9.1. 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 28 September 2020. It is also a requirement that notice of the conclusion of the audit is advertised on the Council's website.

No new objections to the Accounts were received in 2019/20. The objections outstanding in connection with LOBO loans and PFI from financial year 2016/17 have now been resolved and final responses sent to the objectors. Grant Thornton can therefore now proceed to certify the closure of the 2016/17 audit and subsequent years.

## **10. Equalities implications**

- 10.1. There are no equalities implications arising from this report.

## **11. Climate change and environmental implications**

- 11.1. There are no climate change and environmental implications arising from this report.

## **12. Crime and disorder implications**

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

## **13. Health and wellbeing implications**

- 13.1. There are no health and wellbeing implications arising from this report.

## **14. Background papers**

- 14.1. None

## **15. Report author and contact**

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