Grant Thornton

The Audit Findings for the London Borough of Lewisham

Year ended 31 March 2020

October 2020

Contents

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

This table summarises the key findings and other matters arising from the statutory audits of the London Borough of Lewisham ('the Council or you') and the preparation of the group and Council financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council. The Council has faced extensive front-line challenges as a result of the pandemic such as administration of grants to businesses, closure of schools and car parks with additional complexities of reopening services under new government guidelines. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum to management in April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 7. The financial statements were published and provided to the audit team on 29 June 2020. Throughout the closedown period we held regular meetings with your key finance staff to discuss the impact of Covid-19 on you. We also discussed the financial implications in terms of asset valuations, going concern and provision for credit losses in advance of your submission of the financial statements. Your finance team were well set up for remote working and there were no changes in key financial processes that impacted on our approach to your audit. Restrictions for non-essential travel have meant both teams have had to be flexible in approaches to sharing information. We agreed to use video calling to watch your finance team run the required reports to gain assurance over the completeness and accuracy of information produced by you. We made more use of conference calls and emails to resolve audit queries. Both teams utilised a query log to track and resolve outstanding items. Weekly meetings were held with senior finance staff to highlight key outstanding issues and findings to date, ensuring that the audit process was as smooth as possible. Inevitably in these circumstances resolving audit queries takes a little longer than a face to face discussion. We are please to report that there has been an improvement in the timeliness responses to audit queries and requests for additional information this year despite the challenges of remote working.

Headlines continued

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Group and Council's 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 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 Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during July-October. Our findings are summarised on pages 6 to 17 . Our findings included the following:

- We identified weaknesses in your expenditure cut off arrangements which resulted in expenditure that related to the 2019-20 year being incorrectly coded to the 2020-21 year. This means your expenditure for 2019/20 is understated. Our combined extrapolation of our cut off findings amounted to £6.6m. Management have decided not to adjust the financial statements as the amount is an estimated misstatement and below materiality levels.
- The Council had not revalued all of its surplus assets as required by the accounting standards.
- The floor areas used in the valuation of 3 schools were incorrect, which led to a decrease in the valuation of these buildings by £11.5m.
- Your pension fund IAS19 valuation of investment assets had to be updated due to the impact of Covid-19 reducing year end asset valuations.

We continue to identify a number of presentational amendments to your financial statements, which had not been identified and corrected by management's review of the accounts prior to their submission for audit. We would recommend a strengthening of this process to identify and correct such misstatements and enhance the quality of the financial statements submitted for audit in future years. Audit adjustments identified to date are detailed in Appendix C.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendices E) or material changes to the financial statements, subject to the outstanding matters outlined on page 6 of this report.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. Our anticipated audit opinion for the Council will be unmodified. It will include an Emphasis of Matter, highlighting material uncertainties around the valuation of land and buildings, and material uncertainties in pension fund investments in property, private equity, infrastructure and private debt.

Headlines continued

Value for Money arrangements (Council only)	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that London Borough of Lewisham Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Our findings are summarised on pages 18 to 33.
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 • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we have certified completion of the prior year audits (certificates were previously held open due to prior year objections which have now been determined) and completed our work on the Whole of government Accounts return.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

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 auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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's business and is risk based, and in particular included:

- An evaluation of the groups internal controls environments, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a comprehensive audit approach 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.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, to reflect our response to the Covid-19 pandemic.

Conclusion

We have substantially completed our audit of your financial statements and, subject to outstanding queries being resolved, anticipate issuing unqualified audit opinions following the Audit Panel meeting on 4 November 2020, as detailed in Appendix E. These outstanding items include:

- receipt and review of your updated Annual Governance Statement;
- receipt and review of your workings for your Minimal Revenue Provision calculation;
- receipt and review of your updated exit payments note;
- receipt and review of a bank statement in relation to Beecroft school;
- manager and engagement lead quality review of audit files and resolution of any arising queries;
- updating our review of events after the reporting date;
- receipt of management representation letters; and
- receipt and review of the final sets of financial statements, updated for agreed adjustments in a number of areas.

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 levels remain the same as reported in our audit plan.

	Group (£'000)	Council (£'000)
Materiality for the financial statements	16,500	16,000
Performance materiality	10,800	10,400
Trivial matters	800	800

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation. - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates. - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen. - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	Audit procedures undertaken in response to the identified risk included: • working with management to understand the implications of the response to the Covid-19 pandemic on your ability to prepare the financial statements including updating financial forecasts and assessment of the implications for our materiality calculations. No changes were made to materiality levels previously reported as a result of Covid-19 specifically. The draft financial statements were provided on 29 June 2020; • liaison with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert; • evaluating the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluating of whether sufficient audit evidence could be obtained through remote technology; • evaluating whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; • evaluating management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and • discussion with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. The Council's property valuation specialists reported that valuations of land and buildings were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. In addition, the fund managers for the Pension Fund's pooled property, Infrastructure, Private Equity and Private Debt investments declared material valuation uncertainties around the valuation of these investments. This impacts upon the valuation of the net defined benefit liability in the Council's balance sheet. Management have disclosed these uncertainties in Note 4 to the Council's financial statements. These disclosures will be referred to in our auditor's report in emphasis of matter paragraphs. These references do not constitute qualifications of the audit opinions.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
The revenue cycle includes fraudulent transactions (rebutted)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. In our audit plan we reported that having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we had determined that the risk of fraud arising from revenue recognition could 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 the London Borough of Lewisham, mean that all forms of fraud are seen as unacceptable Therefore we did not consider this to be a significant risk for the London Borough of Lewisham. Our assessment remains consistent with that reported in our audit plan.
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. In particular journals, management estimates and transactions outside the course of business are areas susceptible to management override.	Audit procedures undertaken in response to the identified risk included: • evaluation of the design effectiveness of management controls over journals • analysis of the journals listing and determine the criteria for selecting high risk unusual journals • testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gaining an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions. Subject to the completion of our management reviews, we have not identified any material issues from our work.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings The Council revalues its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£2.5 billion) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2020. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	Audit procedures undertaken in response to the identified risk included: • evaluation of management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluation of the competence, capabilities and objectivity of the valuation expert • writing to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met • engaging our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation • testing revaluations made during the year to see if they had been input correctly into the Council's asset register • assessing the value of a sample of assets in relation to market rates for comparable properties • testing a sample of beacon properties in respect of council dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group. As discussed under 'Covid-19' above, the Council's property valuation specialists reported that valuations of land and buildings and council dwellings were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty and a higher degree of caution should be placed on the recorded valuation of these assets than would otherwise be the case. Management have disclosed this uncertainty in Note 4 to the financial statements. This disclosure will be referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion. The Council had not obtained a year end valuation for all its surplus assets as required by International Financial Reporting Standards. The Council has since obtained a valuation for the assets that had not been revalued. The financial statements will need updating for these revised revaluations. The Council has calculated the potential change to the Net Book Value of assets is an increase of £25.1m Our testing of the floor area data used in the valuation of the 3 modern schools identified a variance between the floor areas used for these schools as per the valuer workbooks and the floor plans. This error resulted in an overall reduction of the valuations of £11.5m. We also identified the following other amendments in land and buildings revaluations: • Lee Green Depot valuation of £1.3m was omitted from the valuation report • Wearside Depot: the valuation of £188,420 per the accounts should have been £1,888,420 • Three school blocks of a combined value of £1.5m had not been included within the revaluation report. The council has agreed to amend the financial statements for the above misstatements. We will review the amended financial statements on receipt of them. Subject to the satisfactory completion of the above amendments and outstanding matters set out on page 6, we have not identified any further material misstatements in response to this risk.

Significant audit risks

Risks identified in our Audit Plan	Risks identified in our Audit Plan
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£752 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.	Audit procedures undertaken in response to the identified risk included: • updating our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluation of the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessing the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • assessment of the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud and Guaranteed Minimum Pension cases • assessing the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability • testing the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertaking procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • obtaining assurances from our audit of the Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements As discussed under 'Covid-19' above, the fund managers for the Pension Fund's pooled property, Infrastructure, Private Equity and Private Debt investments reported that valuations of these investments were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. As 82% of the Pension Fund's assets are attributable to the Council as the administering authority for the Fund, this material uncertainty impacts in turn upon the valuation of the net defined benefit liability in the Council's balance sheet. Management have disclosed this uncertainty in Note 4 to the financial statements. This disclosure will be referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion. The pension disclosures within the financial statements were prepared using the actuary estimate of the 31 March 2020 investment balances. Due to Covid-19, there was a significant difference between the estimated value of the investment balances and subsequent actual assets. The Council obtained an updated IAS19 report from their actuary to reflect the year end actual balances. The assets had decreased by £7.4m. The Council has amended the financial statements. Subject to the satisfactory completion of the outstanding matters set out on page 6, we have not identified any further material misstatements in response to this risk.

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
Completeness of non pay operating expenditure and associated short term creditors Non-pay expenditure on goods and services represents a significant percentage (61%) of the Council's gross operating expenditure. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenditure and associated short-term creditors as a risk requiring particular audit attention.	Audit procedures undertaken in response to the identified risk included: • evaluation of your accounting policies for recognition of non pay expenditure for appropriateness, including the use of any de minimis level set • gained an understanding of your system for accounting for non-pay expenditure and evaluate the design of associated controls • Obtained and tested bank listings and invoices received in April and May 2020 to ensure that they have been charged to the appropriate year	Our testing identified that invoices received and payments made in April and May 2020 that related to 2019/20 had not been appropriately accrued for. The extrapolated error from our testing was £6,653k. This is not material and so management have taken the decision not to adjust the financial statements.
IFRS 16 implementation has been delayed by one year Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.	Management disclosed in Note 2 to the financial statements the title, date of initial application and the nature of changes in accounting policy which would arise from IFRS 16 implementation. This disclosure also includes a statement that the change to charges to the CIES would increase to £1.6m and the value of leases on the balance sheet would increase to £20m. However, these were not reliable estimates so the Council has decided to remove them.	For 2020/21, management will need to be in a position to provide a monetary estimate of the impact on assets, liabilities, income, expenditure and reserves of the transition to IFRS 16 to allow for auditor assessment of the adequacy of associated disclosures in the financial statements.

Significant findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Lewisham Homes	KPMG	An unqualified audit opinion of Lewisham Homes Limited was issued by KPMG on 21 August 2020. No significant issues were identified.	No impact on the Group Audit
Catford Regeneration Partnership Limited	ACF Auditing Services Limited	We have tested the investment property and the Loan with the Council. These are the only material balances within these financial statements. No significant issues were identified.	No impact on the Group Audit

Significant findings – key estimates and judgements – Council

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Council Housing – £1,283.1m	The Council owns 13,796 in the Housing Revenue Account and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged Wilks, Head and Eve to complete the valuation of these properties. The year end valuation of Council Housing was £1,283.1m, a net increase of £28.6m from 2018/19 (£1,254.5m).	• We have no concerns over the competence, capabilities and objectivity of your valuation expert Wilks, Head and Eve. • No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. • There have been no changes to the valuation method this year. • The valuer has correctly prepared the valuation using the stock valuation guidance issued by MHCLG, and has ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH) value disclosed within the accounts. • All properties have been valued as at 31 March 2020.	Green
Land and Buildings – Other – £1,082.6m **Surplus Assets £94.7m**	Other land and buildings comprises of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use value (EUV) at year end. The Council has engaged Wilks, Head and Eve to complete the valuation of properties as at 31 March 2020. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4.	• We have no concerns over the competence, capabilities and objectivity of your valuation expert. • No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. • There have been no changes to the valuation method this year. • The Council had not obtained a year end valuation for all its surplus assets as required by International Financial Reporting Standards. The Council has since obtained a valuation for the assets that had not been revalued. The financial statements will need updating for these revised revaluations. The Council has calculated the potential change to the Net Book Value of assets is an increase of £25.1m. • Our testing of the floor area data used in the valuation of the 3 modern schools identified a variance between the floor areas used for these schools as per the valuer workbooks and the floor plans. This error resulted in an overall reduction of the valuations of £11.5m. • We also identified the following other amendments in land and buildings revaluations: • Lee Green Depot valuation of £1.3m was omitted from the valuation report • Wearside depot: the valuation of £188,420 as recorded in the accounts should have been £1,888,420 • Three school blocks of a combined value of £1.5m had not been included within the revaluation report	Red

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements – Council

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £511.1m (prior to amendment)	The Council's total net pension liability at 31 March 2020 is £511.1m (PY £752.4m) comprising liabilities relating to the London Borough of Lewisham Pension Fund and London Pension Fund Authority Local Government Pension Schemes and an immaterial amount of unfunded defined benefit pension scheme obligations. The Council uses Hymans Roberson (Council scheme) and Barnett Waddingham (LPFA scheme)to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed as at 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. This has led to material experience liabilities arising during 2019/20 as assumptions used were normalised for actual data. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a net decrease of £241.3m in the overall pension fund liability in 2019/20.	See auditor commentary below	Amber

Auditor commentary:

- We have assessed the actuaries, Hyman Robertson and Barnett Waddingham, to be competent, capable and objective.
- We have performed additional tests in relation to accuracy of contribution figures and benefits paid to gain assurance over the 2019/20 calculation carried out by the actuary.
- We have used PwC as our auditor's expert to assess the actuary and assumptions made by the actuary – see table below for out comparison of actuarial assumptions:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.30%	2.30%	Green
Pension increase rate	1.90%	1.80% - 12%	Green
Salary growth	2.60%	1% above CPI	Green
Life expectancy – Males current pensioners / future pensioner	20.9 / 22.2	20.5– 22.2 / 21.6 – 23.3	Green
Life expectancy – Females current pensioners / future pensioners	23.5 / 24.8	22.9 – 24.3 / 24.6 – 26.3	Green

- We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.
- We have confirmed there were no significant changes in 2019/20 valuation method.
- The pension disclosures within the financial statements were prepared using the actuary estimate of the 31 March 2020 investment balances. Due to Covid-19, there was a significant difference between the estimated value of the investment balances and subsequent actual assets. The Council obtained an updated IAS19 report from their actuary to reflect the year end actual balances. The assets had decreased by £7.4m. The Council has amended the financial statements

Assessment

- (Red) We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- (Amber) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- (Yellow) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- (Green) We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Going concern – Council

Our responsibility

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

Going concern commentary

Management's assessment process

The Council's financial statements have been prepared on a going concern basis, as disclosed in Note 1.

Management provided a narrative going concern assessment, cash flow forecast and Medium Term Financial Strategy extending to March 2025. Management's assessment acknowledges that the financial outlook for the Council is challenging, with a £40m budget gap having already been identified over the two years from 2021/22-2024/25 prior to the Covid-19 pandemic and its ensuing impact. The Council is implementing an outcomes-based budgeting and service transformation programme to align future spending plans to the Council's strategic priorities with the joint goals of bridging this gap and ensuring better outcomes for residents.

As a result of increased expenditure and diminished income, for instance from parking and commercial rents, due to the Covid-19 pandemic, the original 2020/21 budget is now forecast to overspend by over £25.6m. The majority of this will be offset by government funding, use of the prior year underspend, and use of the corporate contingency which had been set aside for the year. The residual £8.9m overspend will be filled through identification of additional savings opportunities, reductions in spending or, if necessary, use of reserves.

The situation beyond 2020/21 is more uncertain as the longer-term impact of the pandemic on individuals and businesses in the borough, and by consequence demand for services, remains unclear. However, management are confident that the Council retains sufficient levels of useable reserves which as a last resort can be used to withstand the pressures faced during the period of their assessment.

Work performed

We reviewed management's disclosures, going concern assessment, cash flow forecasts and Medium Term Financial Strategy, corroborating key inputs and assumptions to our wider knowledge gained through the audit process, and where applicable to supporting documentation. We considered, based on our understanding of the entity and the wider political and economic climate, whether material uncertainties may exist which were not explicitly covered by management's assessment.

We are satisfied that management's assessment is based on accurate information including prudent assumptions around future income and expenditure levels, and likely shortfalls based on known events and best available information. We are satisfied that the Council holds sufficient useable reserves to mitigate the risk of any short-term funding shortfalls which may arise throughout the period of management's assessment.

Concluding comments

We are satisfied from the work performed that:

- the going concern basis of preparation is appropriate for the Council's financial statements
- no events or conditions exist which may give rise to material uncertainties casting significant doubt on the Council's ability to continue as a going concern
- the disclosures in the Council's financial statements relating to going concern are adequate.

Our audit opinion in respect of going concern will be unmodified.

Other matters for communication

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	Auditor commentary
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 issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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.
Written representations	A Letter of representation have been requested from the Council.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all banking and investment counterparties. This permission was granted and the requests were sent. At the time of writing, the majority of these requests have been returned with positive confirmation. We are awaiting one confirmation relating to Beecroft school. We sent letters to those solicitors who worked with the Council during the year and responses were received.
Disclosures	Our review of disclosures found no material omissions in the financial statements. The changes made to disclosures during the course of the audit are summarised in Appendix C. The most significant omission was in relation to the material uncertainty in relation to the IAS19 pension investments.
Audit evidence and explanations/significant difficulties	There has been an improvement in the timeliness of information provided to audit this year. We are still identifying quite a few presentational errors that management have corrected. We will need to review the updated set of financial statements

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), 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 are still awaiting the updated version of the Annual Governance Statement.
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.
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 the Council's audited financial statements. We plan to complete this work following the completion of the audit of your financial statements.
Certification of the closure of the audit	We have completed the majority of work under the Code but are unable to issue our completion certificate until: • we have issued our completion certificates for the 2016/17, 2017/18 and 2018/19 audit years. The 2016/17 objection work on LOBOs and PFI schemes has now been completed and we plan to close all these audits at the end of November 2020. • we are yet to completed the required work on the consistency of the pension fund annual report with the audited financial statements. We will complete this work by the end of November 2020 in advance of giving our opinion. • we are yet to complete the work on the Whole of Government Accounts.

Value for Money

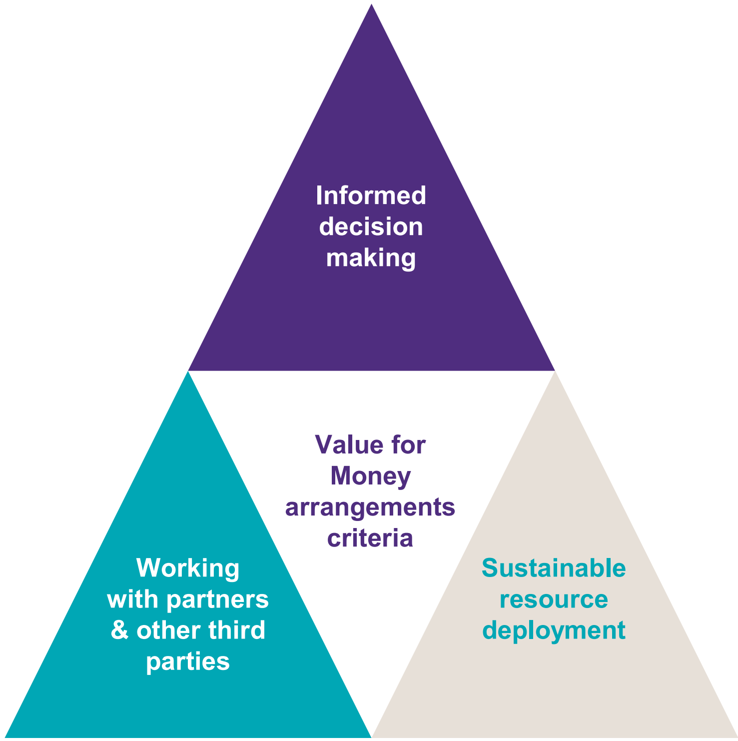
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 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 2020 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 2020 and presented to the March Audit Panel.

We have continued our review of relevant documents up to the date of giving our report. We have not identified any new VfM risks in relation to Covid-19, however we have considered and commented on the potential impact of Covid-19 on the Council's future financial sustainability, and plans for addressing the arising issues, as part of our work in addressing the previously identified significant VfM risk around the arrangements in place for Medium Term Financial Planning.

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 the Council's arrangements for delivering economy, efficiency and effectiveness.

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

- Revenue and capital outturn for 2019/20.
- Approved revenue and capital budget for 2020/21.
- Officer assessment of the impact of Covid-19 on forecasted costs and income for 2020/21 and future years, as reported to members.
- Medium term financial plan for 2020/21-2024/25.
- Organisational priorities and the need for change report.
- Analysis of reserves position relative to other comparable local authorities.

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 19 to 33.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council has proper arrangements for securing, economy, efficiency and effectiveness in its use of resources.

The text of our report which confirms this can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

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

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money – Budget Management

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 Conclusions
Budget Management You are currently projecting a £5.4m overspend on the 2019/20 budget. There remain significant pressures in Children & Young Peoples and the Housing, Regeneration and Environment directorates. The anticipated overspend will increase the pressure into 2020/21.	**2019/20 outturn** During 2019/20 you issued instructions to budget managers that re-affirmed the importance of controlling expenditure and delivering the Council's budget. Monitoring reports throughout the year forecast an overspent position. The final net revenue overspend of £5.9m is consistent with that being reported throughout the year. The impact of Covid-19 on the revenue outturn for 2019/20 was minimal due to the pandemic arising within the final few weeks of the period. However as explored in the following pages, the impact on the 2020/21 budget is significant in respect of increased expenditure and loss of income. The pandemic may also have a significant impact on the Council's ability to realise planned savings, efficiency programmes and service transformation within planned timeframes. The overspend of £5.9m is an improvement in the financial position delivered in 2017/18 and 2018/19, demonstrating that the Council has made some progress in controlling budgets. However, this is the third successive year in that the main element of the overspend has been expenditure on children's social care (£4.3m overspend). The Council is continuing to work at identifying and implementing plans to manage overspending in this area, but this has not been sufficient to balance the budget for 2019-20. The Children's Social Care budget for 2019/20 was £41.5m with a further £7m funded from corporate resources making a total resource available of £48.5m. It should be noted that the revised budget was uplifted to align with the 2018/19 outturn position and then reduced by the savings (£1.5m) proposals as agreed with Mayor and Cabinet. The main element within the Children's Social Care budget that has overspent is placements including Residential Care, Leaving Care 18+ and Special Guardianship Orders. The Council continues to have a high rate of Children Looked After (69) compared to statistical neighbours (62). The Council is continuing to work at bringing the rate down. Fewer children came into care this year (179) compared to 2018/19 (196) and the overall number and rate of Children Looked After has fallen from 489, to 475. However, the profile of children in care is shifting and the complexity of the children/young people's situations has intensified. Accordingly, the associated costs (including the need for specialist residential placements) have continued to increase despite a small fall in case loads. Strengthening family support services for children on the edge of coming into care and expansion of in-house Fostering Services to increase the number and diversity of placements continue to be a priority for Children's Social Care to further reduce the overall rate of Children Looked After and reliance on Independent Fostering Agencies. During the year, the Children's Social Care budget and coding structure was comprehensively reviewed. The Children's Social Care finance system (Controcc) that connects to the child's record (LCS) is also being redesigned. This work, supplemented by a financial management training package for managers, was finalised in the second quarter of 2020-21. Going forward, the changes are intended to enable more detailed and transparent financial management. Other overspends in the Children's Social Care budget were in respect of the Section 17 budget, which includes non-housing No Recourse to Public Funds spend. This is a demand led budget and spend exceeded the budget by £0.6m. The balance of the overspend is in respect of Legal Fees in this area was £0.3m, and the Looked after Children 'additional extras' overspent by £0.6m.

Value for Money – Budget Management

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 Conclusions
Budget Management Risk continued from previous page	The other main overspends occurred within the Housing, Regeneration and Environment Directorate which overspent by £3.2m. The most significant cost pressures for the directorate are within the Environment Division. Overspends remain on vehicle costs for refuse services, but these are reducing following the purchase of a number of new vehicles. However, at the year end there are still ten hired in vehicles in use, which is creating an overspend. Mayor & Cabinet have approved a report for the acquisition of a fleet of new Euro Low Emission Zone compliant vehicles. Once these vehicles have arrived, there should no longer be a need to hire refuse vehicles. However, there will be a delay in receiving these vehicles due to the Covid-19 outbreak. Other pressures still remain due to the hired vans used to deliver and collect bins to and from households and trade waste customers. Staff costs in the environment division exceeded the budget by £615k. Some £75k of this staffing overspend relates to the trade waste service and between £250k - £300k can be attributed to the two additional dry recycling collection rounds as each refuse vehicle has a driver and a crew of three staff. The additional bulk collection rounds adds another £130k staffing pressures. There is also a shortfall of income for trade refuse of £460k. This is £130k worse than the shortfall in 2018/19. The income budget for 2019/20 included an additional £150k savings target, but it has not been possible to achieve this target as numbers of trade customers have reduced. Work is being undertaken to analyse the customer base and develop more streamlined marketing, contract and debt collection processes to increase the income stream from trade waste. Overspends in Children and Young People and Housing, Regeneration and Environment were slightly offset by the Community Services directorate, which underspent by £2.5m. This is mainly due to the underspend on adult social care. The budget was increased in 2019/20 by the precept of £2m to fund the rise in London Living Wage costs and a rise in the improved Better Care Fund Grant of £2.8m. In addition, there were resources set aside for IT implementations which have not yet occurred and so the underspend is carried forward into 2020/21. The Housing Revenue Account (HRA) final position is a surplus of £14.6m. The HRA had budgeted for a surplus of £2.8m. Therefore, the additional surplus amount is £11.8m, of which £7.2m was received as an unbudgeted grant for fire related works which will be carried forward to 2020/21. The revised additional surplus is therefore £4.6m. The Capital Programme final spend for 2019/20 is £121.2m, which is 72% of the revised budget of £169.1m. The Council will need to continue to develop mechanisms to more accurately forecast capital expenditure, and the associated revenue costs and income. This will enable available resources to be identified where possible for investment in service redesign programmes and address the ongoing pressures beyond the current crisis in the medium term, whilst also ensuring timely delivery of capital projects to support better outcomes for residents in accordance with the Council's strategic priorities.

Value for Money – Budget Management

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 Conclusions
Budget Management Risk continued from previous page	**2019-20 savings programme** The Council approved £9.2m of savings in the 2019-20. The Council has monitored these savings programmes throughout the year separately from the budgetary monitoring. This is in line with a previous recommendation we made, and results in increased transparency of your financial reporting. The Council has delivered approximately 69% of the savings programme. Brief explanations are provided within reports that explain the underlying reasons why individual programmes have not delivered. The reports would be further enhanced by explaining the action that the Council is taking to bring the savings back on track and to highlight progress of alternative programs to mitigate the under delivery of the existing programs. The savings target of £1,575k for the Children's and Young Peoples directorate was not met with only £25k of the proposed savings delivered. Reasons for the savings not being delivered included insufficient experience within teams to deliver the required efficiencies, delays in implementation of systems to facilitate delivery of savings and an overestimate of the Council's ability to influence the local fostering market. Corporate Services savings were not achieved due to delays in reducing printing, delays in implementation of Payroll and Human Resources element of the Oracle Cloud project and insignificant improvements in housing benefit overpayment recoveries. As approximately a third of the proposed savings were not delivered the Council will need to review it's processes for identifying and delivering the proposed savings ensuring that proposals are appropriately scrutinised, risk rated and that the final approved savings are achievable.

Directorate	Savings program £000s	Outturn £000s	Variance £000s
Children & Young People	1,575	25	1,550
Community services	3,681	3,281	400
Housing, Regeneration & environment	1,500	1,226	274
Corporate Services	2,514	1,844	670
Total	9,270	6,376	2,894

Value for Money – Medium Term Financial Planning

Significant risk	Findings and Conclusions
Medium Term Financial Planning In the context of future funding uncertainty arising from the fairer funding review and longer term settlement decisions, combined with the reduction in your overall General und reserves (including earmarked) over recent years, in Spring 2020 you identified that you would be required to find £40m of savings in the three years to 2023/24 to maintain financial balance.	**2020/21 budget** <u>Original budget</u> For each of the past six years the Council has used reserves at an average of £3.5m per year to set a balanced budget. The ability to identify, agree, and implement further savings to service budgets has become ever more challenging. In February 2020, Full Council approved a balanced General Fund revenue budget for 2020/21 which incorporated the maximum permissible 1.99% Council Tax increase alongside an additional 2% for the Adult Social Care precept (expected to generate an extra £2.3m for Adult Social Care). The budget included the New Homes Bonus allocation of £6.176m. The business rates retention pool will continue in 2020/21 covering the GLA and the 33 London billing authorities. Although the locally retained share will revert back to the 2017-18 position – a 67% locally retained share split 37% for the GLA and 30% for the Council with the remaining 33% payable to MHCLG. Revenue support grant will be reinstated for the Council. Inflationary increases were built into the budget: 2% for pay and 2.5% non pay. Non pay inflation is higher than the forecast CPI inflation rates for 2020 to reflect the underlying commitments in Council contracts. Budget pressures of £6.5m including demographic and market pressures for children and adult services, unachieved savings in the prior year and further potential changes to funding as a result of government legislation and reform. The previous year budget gap of £7.4m was also incorporated into the balanced budget. All services uplifted their fees and charges annually in line with the Council's inflation assumptions, or for full cost recovery if this is higher, to allow for stability in real terms. On the 21 November 2018, the Mayor agreed and delegated £8.434m of budget saving proposals for 2020/21 and, on the 30 October 2019, a further £8.175m of budget savings for 2020/21 were agreed. These savings, totalling £16.609m across the directorates, have been included in the 2020/21 budget. This is over double the amount of savings that you were able to deliver in 2019/20 and may be ambitious, based on previous performance. The budget maintained the unearmarked General Fund working balance at £20.0 million. The Council holds Specific Earmarked Reserves for various future planned spending and to undertake one-off projects or work that does not happen every year. Examples include the transformation fund, redundancy provisions, elections, replacement of obsolete equipment and contractual claims that may become due (e.g. dilapidations that may become payable on properties we lease from the private sector to provide housing). Total Earmarked reserves as at 1 April 2019 were £147.1m. The Council has added £3.7m to these reserves in 2019/20. Management acknowledged in the budget report to members that the 2020/21 forecast had been set against a background of risk and uncertainty in the medium term with regard to future funding mechanisms both for formula grant funding in light of the Fair Funding Review, and one-off allocations which had been made in the 2020/21 settlement to ease demand-led social care pressures faced by local authorities, as well as wider macro-economic uncertainties posed by factors such as the UK's exit from the European Union. As such, the budget setting process had been undertaken with an underlying aim to ensure financial sustainability in the medium term as well as 2020/21. This is something which officers rightly continue to keep sight of in responding to the subsequent challenges faced in light of the Covid-19 pandemic, responding to spending need and reprofiling forecasts accordingly.

Value for Money – Medium Term Financial Planning

Significant risk	Findings and Conclusions
Medium Term Financial Planning Risk is continued from previous page	Assumed service growth included demographic pressures across demand-led services including housing and homelessness, Children's Services and Adult Social Care. Demand-led service growth assumptions are consistent with an observed increase in complexity in caseload in both Adults' and Children's Services, as well as increasing numbers within Children's Services, the statutory expansion of support to the age of 25 and increasing placement costs, all of which give rise to higher costs. Schools funding assumptions include the Dedicated Schools Grant allocation of £297.4m being based on an uplift of 1.84% for Primary and Secondary Schools. With falling rolls and pay inflation this represents a real term reduction for schools. In regards to special educational needs funding there is an increase of £3.4m following additional funding in this area. Early Years Funding - Increase of 8p per hour in the funding for two to four year olds, and supplementary funding to support the two Lewisham nursery schools will continue for 2020/21 at the current level. Pupil Premium - funding rates will remain the same at £12.1m. Concurrently to the General Fund revenue budget for 2020/21, the HRA revenue budget and General Fund and HRA capital programmes were also finalised and approved. In respect of the HRA, the key assumptions underpinning the draft 2020/21 revenue budget include a rent increase of 2.7% (an average of £2.56 per week) in respect of dwelling rents, 2.7% (average £0.94 per week) in respect of hostels, and a range of other proposed changes to service charges. The proposed annual expenditure for the Housing Revenue Account is £225.8m, including the capital and new build programme, for 2020/21. Planned capital investment in 2020/21 includes enhancement and expansion of facilities for provision of special education needs which will increase the places to support children. Highways maintenance includes approximately 30 roads (10km of carriageways) planned to be resurfaced plus essential footway replacement works of approximately 25 roads. There is a further £8.1m available to finance the replacement of vehicles in the Council's fleet in order to meet the approaching Low Emissions Zone (LEZ) changes in October 2020. £9m that has been set aside for Edward Street will provide 34 new high-quality temporary accommodation homes for local families in housing need. The majority of capital finance (£97.5m in 2020-21) is allocated to the building for Lewisham Programme. In January 2020, the Mayor and Cabinet approved recommendations to advance and expand the Council's housebuilding programme to meet the Council's corporate objectives. The programme is expected to deliver 1,422 new council homes for the borough. Funding has currently been agreed for the continuation of the former New Homes Better Places programme and for a series of additional sites. In addition, funding for feasibility and preparation of planning and tender information for major strategic projects at Ladywell, Achilles Street Estate and Catford have been allocated, as well as funding for wider feasibility studies for sites across the borough. There is a further £37.5m allocated to Lewisham Homes for ensuring council owned stock under their management is brought up to and maintained to a decent homes level, covering both internal and external works. Lewisham Homes is leading on the delivery of the programme (under delegated powers) in consultation and agreement with the Council. A full stock condition survey is being utilised to identify and prioritise the capital works required. There is a significant proposed borrowing increase of £302.5m over the capital program to 2023 to deliver the HRA plans. This is primarily to support the Building for Lewisham programme and will likely extend the HRA to its sustainable financial borrowing and cash flow limits. The external borrowing requirement is considered to be affordable and consistent with the Council's Treasury Management Strategy, in particular given that interest rates remain low and this is not expected to change in the short-term given the current economic climate. The General Fund resources available to finance capital projects decrease over the term of the Programme. This reflects the Council's prudent approach to long-term planning, with grants for later years not taken into account until they have been confirmed, and capital receipts only being taken into account when they have been received or are reasonably certain of being received. The Council prudently avoids entering into long-term expenditure commitments until there is more certainty as to how they can be financed.

Value for Money – Medium Term Financial Planning

Significant risk	Findings and Conclusions
Medium Term Financial Planning Risk is continued from previous page.	Impact of Covid-19 As a result of the Covid-19 pandemic, the original 2020/21 budget as set in February 2020 is now predicted to overspend by around £24.1 million. As at the end of June 2020, a forecast year-end gross overspend of £49.8m was being reported, where £32.6m is considered Covid-19 related and the balance of £17.2m is classified as service directorate pressures. The pressures are alleviated in part by additional government funding which is being received to provide some financial support to councils to undertake additional activities in recognition of the unplanned costs which have been incurred in responding to Covid-19. The amount received by the Council as at June 2020 totals £25.7m. Once applied to the gross spend projections, this has the effect of reducing the overall pressure down to £24.1m. The Executive Management Team working with Directors as the Senior Leadership Team are taking action to ensure that the overspend is reduced to mitigate the likely need to draw down from reserves in 2020/21. These actions include but are not limited to: • holding vacancies where possible and stronger controls on agency recruitment; • ensuring costs are fully recharged and income collected; • reviewing contractual commitments and pricing for the remainder of the year; and • recognising where activity will be less than expected this year so costs are lower Once delivered these actions are expected to reduce the non-Covid service variance of £17.2m noted above to £11.8m. These items are one-off in nature and are not considered to be permanent budget reductions but simply cost saving measures instigated during the year to manage down the overspend. From the outset of the pandemic the Council's executive leadership were acutely aware of the need to ensure that spend relating to the Covid-19 response was carefully monitored and recorded in a clear and transparent way within the Council's financial systems. The Council has established two separate cost centres within each directorate plus a central cost centre for capturing the direct and indirect Covid-19 costs. The Council is reporting monthly to MHCLG on both costs as well as income shortfalls and the Council's monthly budget monitoring has now been amended so that service budget reporting separately identifies Covid-19 pressures. Central Government has partially recognised the challenges faced by local authorities in respect of Covid-19 and in March and April 2020 allocated two tranches of central funding which totalled £3.2 billion nationwide. On 2 August 2020 a further £500m funding for local authorities was announced as part of a new funding package for councils to address coronavirus pressures. The Council's share of this income amounted to £21.1 million. The Council has allocated the majority of this funding to Adults and Children Social Care, Housing and Public Health budgets. The Council's latest return (August 2020 return to MHCLG) reported a full year general fund impact Covid-19 cost of £27.5m and HRA impact of £0.3m and a total estimated general fund income loss of £32.1m and £0.7m to the HRA. This results in an overall general fund impact of £59.6m and HRA impact of £1m. Without further government support which has not yet been committed the Council will have to use its reserves to get through the immediate challenges. To date some positive sentiments have been expressed, but the hard financial commitments of the scale necessary to match the shortfalls have not yet been confirmed. For 2020/21, the most significant areas of projected expenditure pressure relate to increased provision of Children's and Adults social care as a result of anticipated increased demand in these services as well as direct costs associated with response to the pandemic, including inception of the community support hub, acquisition of PPE, allocation of hardship funds and unachieved savings due to delays in implementation of service redesign initiatives. The key point to note is that the directorate overspending areas which, if not reduced in-year, consume reserves and add to future year savings requirements. In respect of income, the Council is forecasting a reduction of £10 million compared to budget for non collection fund income with the largest proportion being £2.6m reduced income from parking enforcement, £1.9m reduction in planning income and £2.0 million reduction in commercial income from rents.

Value for Money – Medium Term Financial Planning

Significant risk	Findings and Conclusions
Medium Term Financial Planning Risk is continued from previous page.	Collectability of both Council Tax and Business Rates is also expected to be significantly hindered as more residents and businesses are likely to face hardship as a result of the pandemic. In addition, the Government has announced proposals to fund 75% of 95% of lost budgeted fees and charges income for local authorities, which can unavoidably not be recovered in 2020/21 and are not already offset by other support. The guidance provided by MHCLG makes clear however that this does not include investment income or commercial rents, and only covers income directly related to the provision of services. Finally, the Government has also announced the re-phasing of repayments to meet Collection Fund deficits accrued in 2020/21 over three years rather than one. This will be beneficial to the Council in the short-term due to anticipated significant reductions in income, particularly relating to Business Rates in 2020/21. However, in terms of the Council's medium to long-term financial sustainability, this does not alleviate the impact as deficits will still need to be met from available resources by 2023/24. The combination of Central Government interventions set out above will potentially reduce the forecast overspend for 2020/21 to £24.1 million, although this is still subject to finalisation and further uncertainty; for instance in the event of a second wave of the pandemic. The Council holds sufficient earmarked useable reserves to cover the remaining shortfalls, whilst maintaining its £20 million General Fund working balance. However excessive use of earmarked reserves would significantly alter the medium-term picture, capacity for investment in more sustainable service delivery models which officers are planning in order to enable them to realise improved outcomes for residents over the years to come, and capacity to manage the impact of any further unforeseen future events which may arise. **Medium-term financial planning** The Government's intention is to implement new funding baselines for all local authorities. The new baselines will be centred on a review of local needs and resources (the Fair Funding Review) and a review of business rates. However, due to the pandemic, the Government has announced that these changes will be further delayed. The funding changes were expected to include the main local government grant, the Revenue Support Grant being phased out, changes to the business rates regime and associated fair funding assumptions, additional responsibilities transferred to local authorities, the rolling-in of some specific grants, changes to school funding (formula and paid direct to schools), the continuing impact of the move to Universal Credit, and further health and social care integration. All of these therefore remain unresolved and uncertain at the current time. In consequence, the Council is setting its medium term financial plan in the midst of a global pandemic and without any clarity or certainty on the funding which it can expect to receive from government in future years. Further announcements with regards to Covid-19 funding, an autumn Budget by the Chancellor, clarity on the outcomes of the comprehensive spending review and a provisional local government finance settlement will all be key announcements expected later in the year which will hopefully reduce the levels of economic and financial uncertainty facing the Council. In light of the extreme uncertainty surrounding government funding and the extraordinary in-year pressures it is incredibly challenging to set a medium term financial plan. The assumptions which this is based on will need to be tested and reviewed in light of future funding announcements and general economic forecasts.

Value for Money – Medium Term Financial Planning

Significant risk	Findings and Conclusions
Medium Term Financial Planning Risk is continued from previous page.	The Council has undertaken a review of the Medium Term Financial Strategy (MTFS) in August 2020. The MTFS shows the annual measures required to bridge the budget gap from 2021/22 to 2024/25 as £24.440m, £12.084m, £11.510m, and £7.398m, respectively in each year. A total of £55m over the four years to 2024/25, with over £40m required in the first three years. The key assumptions in the modelling are: • Rather than try and predict a new model of government funding, this MTFS extends the assumptions of the previous (2016 to 2020) four year funding approach, which was extended a further year to 2021. • The forecast assumes the reforms and the business rates reset will be implemented from 2022-23. This has not been confirmed. For this reason, any assumptions beyond 2020 at this stage are officer assumptions, pending confirmation from government on funding allocations. • The MTFS assumes a 1.99% increase in core Council Tax and 1.99% in each year thereafter. This reflects the assumption that the Council will apply the maximum increase allowed without a referendum in 2021/22 and beyond. In addition, the MTFS assumes a 0.75% average increase in the Council Tax base for the four year budget period, based on Planning Service's housing trajectory. In total over the period this will add approximately £14m to the Council Tax income base over the four year period to 2024/25. • Pay awards of 2% per annum and general inflation estimated at 1.5% in 2021/22, rising to 2% by 2024/25. • Fees and charges rise in line with inflation. • Cost pressures from ageing and increased population and government policy are included within the MTFS at an annual provision of £6.5m. • Assumes the Council's cash balances remain consistent. The Council has also modelled an optimistic case to show the effect that positive changes in the assumptions will have on the overall budget gap. Here the cumulative budget gap to 2024/25 reduces by approximately £7m to £48.5m. This is based on lower predicted cuts to baseline funding and higher increase in the Council Tax base. The pessimistic case scenario is the most unlikely scenario projected. The cumulative budget gap to 2024/25 increases by approximately £7m to £63m. This scenario demonstrates the difficulty the Council could potentially face if the very worst happens and the funding cuts are higher and Council Tax base and collection rates are lower than expected, and the future years impact of Covid-19 collection fund do not have support from government. In respect of the future budget gap, officers have started work on identifying proposed cuts to meet the 2021/22 budget gap forecast in this MTFS of £24m and for future years where change will take longer to implement but decisions on direction of travel will be needed now to prepare. Sessions of the Senior Leadership Team (SLT), comprising the Chief Executive, Executive Directors and Directors, have taken place in the period June to July, working collaboratively to identify cross-cutting efficiencies and savings that can be implemented in future years. The approach to making the next round of necessary budget cuts is through cross-service collaboration to present ideas around a set of emerging themes (joint working, productivity from new ways of working, service reconfiguration, reducing overspending, release of assets, changes to traded services, better demand management, reducing scope of services, income generation and contract management) intended to focus on solutions and service configuration challenges that first and foremost support the external needs of the community and partners in line with the Council's corporate priorities. This will help avoid the risk of prioritising silo or internal considerations if done solely through management hierarchies. The process is also aimed at ensuring fairness and challenge against the Council's strategic priorities. Cutting over £40m, given most services (some 70% of services whether insourced or delivered under contract or with partners) are people based, may mean job losses.

Value for Money – Medium Term Financial Planning

Significant risk	Findings and Conclusions
Medium Term Financial Planning Risk is continued from previous page.	The themes have been reviewed by the Executive Management Team (EMT) who are also leading on scrutinising the budget to capture possible reductions to in-year spending. They will lead SLT in the work to develop the detailed draft officer proposals for savings to be put to Members for scrutiny and decision in the autumn. All services are part of this process. The objective is to identify savings in a manner that will support the Council's recovery from Covid-19 and transition to delivering future services within the available financial resources on a secure and sustainable basis. The next steps are for EMT to lead SLT, with the support of the change networks in the Council, to develop draft officer proposals. These will be presented to Members in November . **Sustainability of reserves** It is critical that management continue to look beyond the current crisis and maintain sufficient reserves relative to likely future pressures as systemic change and transformation become embedded and begin to realise substantive recurrent savings, to mitigate risks posed by external factors outside of member and officer control. At 31 March 2020 the Council's available reserves were £20m unallocated and £150m earmarked. Of these approximately £60m are available to finance overspends. However, it is important to note that using any of the £60m removes the Council's ability to address any future financial shocks and removes the resources to be able to make investments (e.g. digital, service design) and to meet the costs of change in terms of items such as redundancies. Therefore, any reserves used in addressing Covid-19 or the MTFS gaps should be planned to be replenished as soon as possible and within the period of the MTFS. As at 31 March 2020, the Council held useable reserves both in terms of value and in terms of ratio to net revenue expenditure which was just above an average level for London Boroughs, as illustrated by graphs 1 and 2 in the following pages.

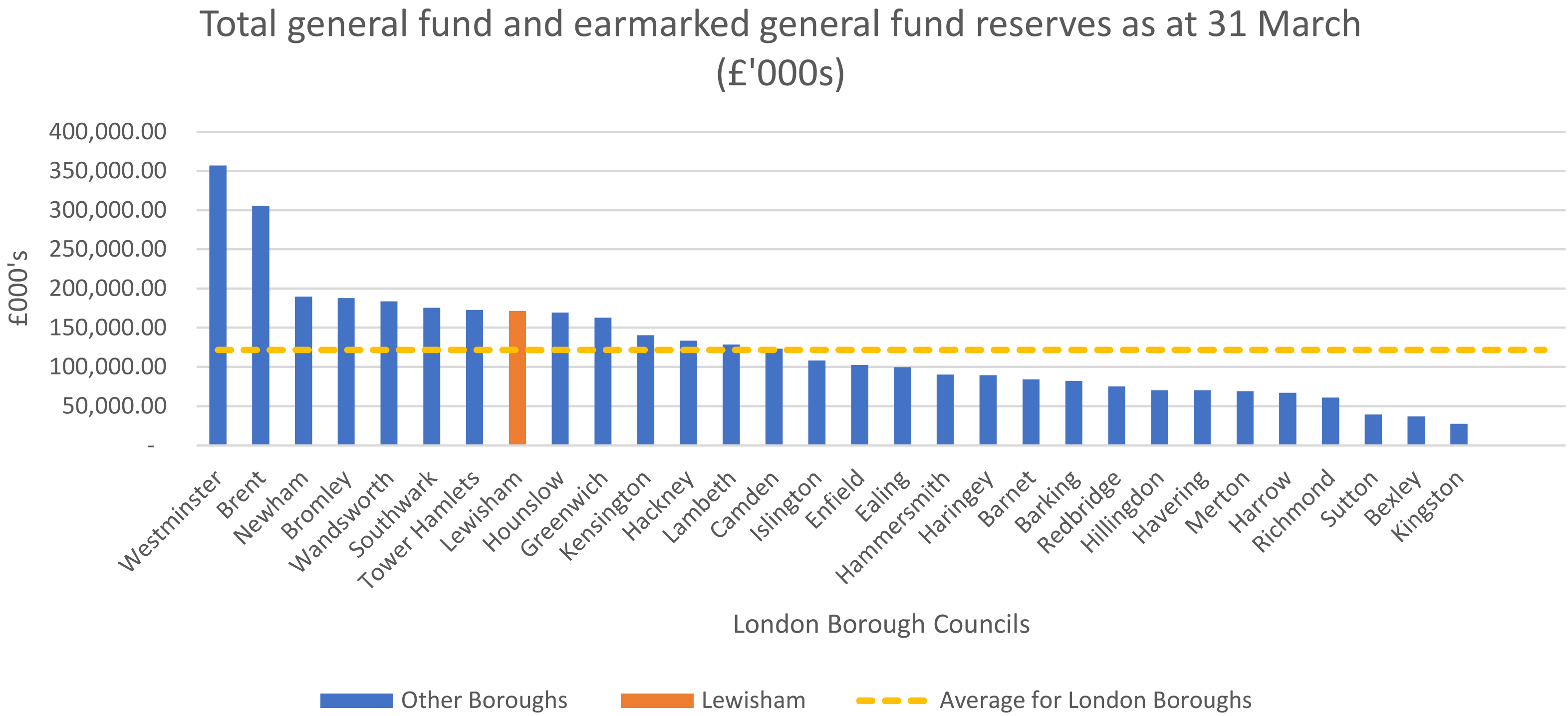
Value for Money – Medium Term Financial Planning

Significant risk | **Findings and Conclusions**

Medium Term Financial Planning

Risk is continued from previous page.

Graph 1: total general fund and non-schools earmarked general fund reserves as at 31 March 2020



Population: London Borough Councils which had published draft 2019/20 financial statements

The Council has plans in place to utilise a significant proportion of its existent reserves over the medium term in accordance with the purposes for which the reserves were designed and funds were originally set aside.

For instance, the specific revenue earmarked reserve is used to fund projects which focuses on service redesign and transformation, with the aim to give rise to significant recurrent efficiencies as invest to save initiatives. The PFI and Building Schools for the Future reserves enable services to make revenue contributions towards their committed PFI and Building Schools for the Future schemes in future years. In addition the Council has a £16.5m reserve which consists of unused grant from central government. The grant is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. Use of the reserve is not ring-fenced.

Value for Money – Medium Term Financial Planning

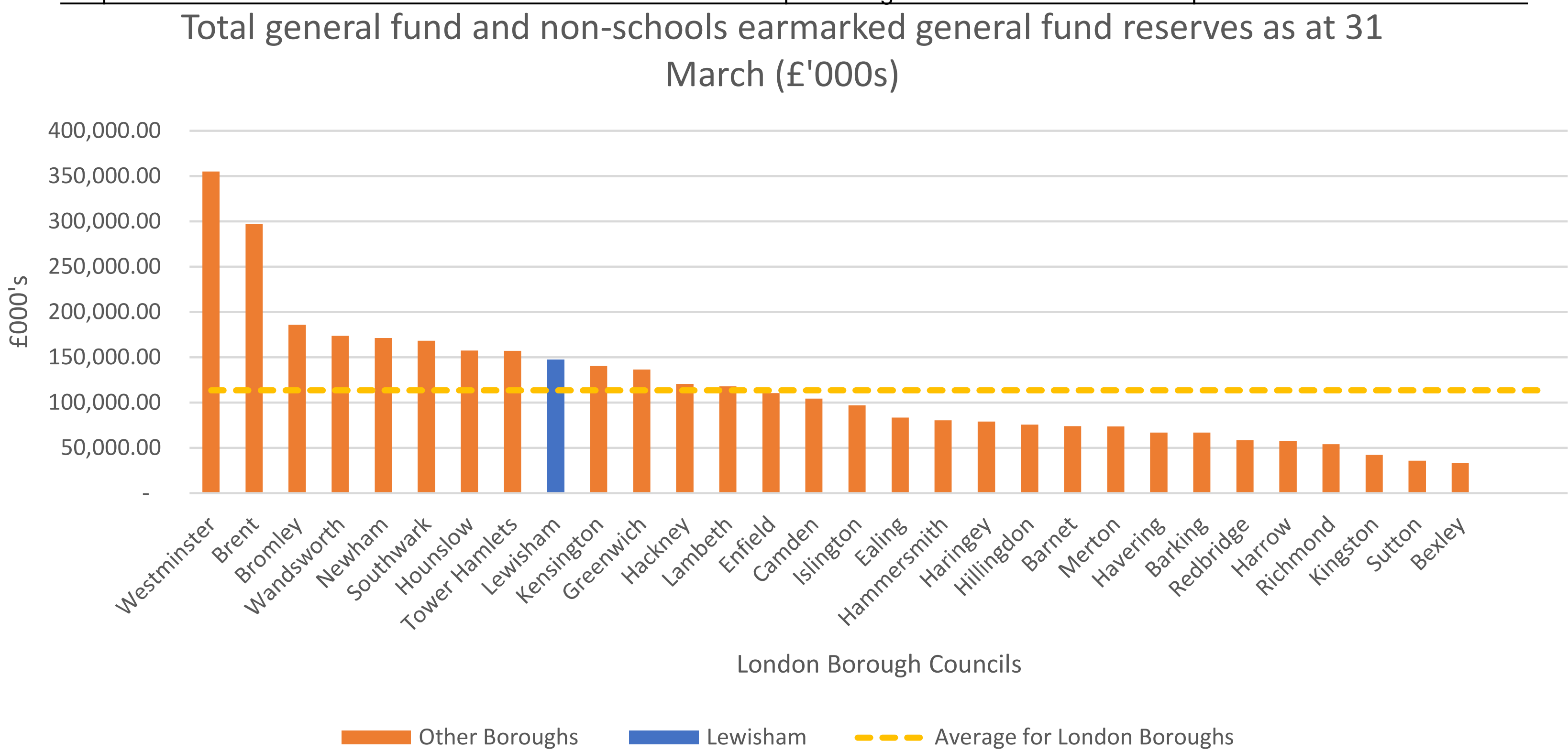
Significant risk

Medium Term Financial Planning

Risk is continued from previous page.

Findings and Conclusions

Graph 2: General fund and non-schools earmarked reserves as a percentage of net service revenue expenditure as at 31 March 2020



Population: London Boroughs which had published draft 2019/20 financial statements

The Council has been able to manage within the parameters set by the Dedicated Schools Grant and has an underspend of £551k as at the year end. The cumulative revenue balances for schools at year-end, including external funds, amounted to £23.5m. However, it should be noted that there were 11 schools with licensed deficit budgets at the year end, totalling £3.8m. There are also eight schools with local authority loans with a total balance of £2.2m, four of which have licensed deficit budgets. Overall the net position for schools has reduced from £21.6m to £19.3m. All schools with deficits have a budget recovery plan and work will continue this year to ensure that plans are delivered and the future position is sustainable.

Value for Money – Medium Term Financial Planning

Significant risk	Findings and Conclusions
Medium Term Financial Planning Risk is continued from previous page.	Whilst the Council appears to have a moderately healthy level of useable resources at its disposal, it is critical that members and officers do not become complacent or lose sight of the longer-term challenges in determining an appropriate response to the current crisis. Careful monitoring of realisation of anticipated benefits from change programmes and service transformation initiatives, which are planned to be invested in over the course of the MTFS, will be fundamental to enabling officers to revise and refresh the Council's financial strategy to ensure financial sustainability. **Conclusion** The financial outlook for the Council remains challenging. During 2019/20 and in the period since the year-end, officers have put in place arrangements to ensure that risks and uncertainties are given due consideration in short and medium-term financial planning and the impact is effectively modelled to the best of their ability, drawing on external support where knowledge gaps or wider unknowns are identified. The outturn position for 2019/20 is in line with expectations. Management have an understanding of the key drivers for income and expenditure relating to core services and their ability to understand the impact of decisions taken is improving. The Council has sufficient resources in place to meet the expected shortfalls in income and increases in expenditure for 2020/21 arising from the Covid-19 pandemic. The Council is not facing the kinds of immediately challenging decisions to stop delivering services or consider Section 114 notices which comparable local authorities may face. In the medium term, the picture remains far more uncertain as the longer-lasting impact of the pandemic on the economy, in the context of wider financial risks beyond the control of officers or members, remains a significant unknown. Management is conscious of the need to remain responsive to emerging circumstances, whilst keeping sight of longer term strategic goals which underpin future investment decisions from use of reserves.

Value for Money – Cultural change

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 Conclusions
Your new Chief Executive has spent her first few months listening to staff across the Council and has identified communication, IT, Inclusivity, People and Leadership as key areas of improvement for the Council. The Change Network has been tasked to develop the detail of programmes identifying "quick wins" and working up projects that will strengthen these key areas across the Council. Finally, you are currently in the process of realigning your directorate structure to better reflect your future service delivery models.	You have identified through staff surveys, Member and staff feedback and various focus groups that you need to increase your efforts to develop and embed a culture that encourages collaboration, creativity and leadership at all levels. Your staff play a critical role in the delivery of your Corporate Strategy and need to be clear on their purpose, priorities and objectives in order to maintain integrity, accountability and deliver better outcomes for your residents and service users. You understand that there is a need to enhance your focus on understanding residents' perspectives and shaping your services around their needs. You need to develop your usage of technology to improve online self-serve options so residents can access and use your services at times and places that suit them making this the first choice for residents to interact with you. You will also need to consider that some of your most vulnerable residents and customers may not be able to make use of digital options, irrespective of quality, so you still need to ensure that other channels of communication, including the phone and face-to-face. You realise that you need to stabilise and then improve your current ICT services as levels of performance and reliability remain variable. You need to take a firm grip on the current range of ICT-enabled change projects, ensuring resource implications and benefits are fully understood and realised. In undertaking this exercise you need to set expectations about what is realistic, affordable and deliverable with your existing systems and resources. We have raised in prior year Audit Findings Reports that you need to continue to improve the way you manage, monitor, deliver and evaluate your major projects and programmes, ensuring consistency of approach, modelling of good practice and sharing lessons learned. In particular management need a clear line of sight across the range of major projects and programmes in order to reduce duplication, clarify accountability, enable effective and timely reporting and provide assurance of delivery or intervention if projects start to fall behind on delivery. You have paused your approach and halted some of these programmes whilst you complete a thorough review of the existing governance and project management methodologies. You will also need to incorporate your review of service delivery throughout the pandemic to ensure that new ways of working that are delivering efficiencies are maintained with lessons learned and ideas for future delivery shared effectively across all services. Along with this you continue to review and update governance processes with the aims of moving to a system that supports swift and effective decision making, where risks are understood and mitigated appropriately. You also need to rationalise internal processes and review structures in order to minimise the levels of bureaucracy and enable more efficient decision-making. During the year you have refreshed an expanded and empowered Change Network together with launching your new staff-led programme of improvement based on the responses to the Listen to Learn initiative. Your Change Network is identifying "quick wins" across your areas of improvement. It is clear you are working hard to engage officers at all levels across the Council to develop and implement initiatives to ensure services are delivered efficiently with the resources available, and encourage investment and buy-in from key officers and budget holders. You began to build momentum in developing some short term projects prior to the pandemic. It will be a challenge to ensure this momentum is maintained whilst you are still coping with the demands of the pandemic. You will need to retain new methods of working developed during the pandemic which have led to increases in efficiencies without a decline in service delivery. These opportunities will assist you with your delivery of your medium and long-term improvement programme.

Value for Money – Cultural change

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 Conclusions
Risk is continued from previous page	As part of delivering your priorities going forward you have made some structural changes to the Council's senior leadership team. You have created five new Director posts, deleted eight Director posts and realigned some services to help you to focus on and deliver your Corporate Strategy at pace. These changes are aimed at creating a better critical mass of key services to be marshalled together, inject some capacity where it can have most impact and enable different approaches to be adopted, in order to tackle the key issues, so assisting the organisation to modernise and effectively deliver the corporate strategy swiftly. This is a net reduction of 2.2 FTE posts from the 2nd tier of the organisation. There is a net annual revenue saving from the proposed deletion/creation of posts of £271,000, including on-costs. Any one-off costs, such as redundancy payments, arising as part of the 'managing for change' process will be borne corporately from provisions. **Conclusion** You have consulted with your staff and Members and are implementing the building blocks to assist with enhancing your culture and providing the time and space to enable collaboration, creativity and ideas that will assist with transforming your services. At the end of the year you have made structural changes in the leadership model to help to tackle your key issues, that will help the Council to modernise and to deliver your key objectives within the corporate strategy. Like all Councils you have been on the front line in responding to the challenges created by Covid-19. This has, not surprisingly, been the main focus over the last few months. It will be important to ensure that momentum is maintained throughout the pandemic so that the quick wins are implemented and structures and governance arrangements are finalised that will help to modernise the Council. It is important that you continue to communicate your progress to your staff and key stakeholders so that they can see that their ideas and plans are being actioned and are making a difference to service delivery.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Independence and ethics

Audit-related 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 which were charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Agreed upon procedures relating to pooling of housing capital receipts (Council)	5,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £5,000 in comparison to the total fee for the audit of £182,789 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. To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports.
Agreed upon procedures relating to the Teachers' Pensions End of Year Certificate (Council)	6,500	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £6,500 in comparison to the total fee for the audit of £182,789 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. To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports.
Certification of Housing Benefit Subsidy Claim (Council)	30,370	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £30,370 in comparison to the total fee for the audit of £182,789 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. To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports.

Action plan

We have identified a number of 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 2020/21 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
High	The draft financial statements provided for audit continued to contain more misstatements than expected. A robust management review may have identified and corrected some of these misstatements prior to submission for audit.	Ensure that sufficient time is built into your closedown processes to enable a robust management and quality review to be completed prior to the financial statements being submitted for audit.
Medium	The Council did not request their external valuers to undertake a valuation of all their surplus assets in accordance with International Financial Reporting Standards	Check that the instructions given to your external valuers are in line with the accounting standards.
Medium	Our sample cut off testing from bank statements in April and May 2020 identified 4 expenditure items totalling £175k that related to 2019/20 that had not been accrued. This error extrapolated to £1,811k. Similarly our sample testing of invoices received in April and May 2020 identified expenditure items totalling £346k that related to 2019/20 that had not been accrued. We extended our testing and did not find any more errors. This error extrapolated to £4,842k. Your cut off procedures need strengthening to ensure that expenditure is coded in the year in which it relates.	All officers of the Council need to be reminded of the importance of coding expenditure to the year in which it relates. Review processes need to be enhanced to identify any potential unrecorded liabilities.
Medium	The Council requires Members to declare any interests at the beginning of meetings and to update their declarations if there are changes to their existing circumstances. These declarations are held in a central database and the Council's website updated accordingly. However, the Council does not have in place an annual declaration form for Members to complete as part of the accounts process. There is a risk that related party disclosures could be missed	All Members should be required to complete a year end declaration of interest form. Nil returns should be mandatory.

Controls

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

Action plan

Assessment	Issue and risk	Recommendations
High	Our testing of IT General Controls identified the following findings which have been reported in detail to management: • System Administrator accounts with excessive elevated business responsibilities • End-users with critical IT privileges within Oracle • Lack of defined IT processes for Oracle Fusion • Minimal password security within Oracle • Audit logging is not proactively monitored within Oracle • Lack of Periodic Third-Party Service Assurance Report Review for Oracle, ResourceLink and Academy • End-users, IT managers and leavers with Security Administration Rights within Academy, ResourceLink and Active Directory • Periodic Employee Acknowledgement of Infosec Policy Requirements • Removing Leavers' Access Rights within Academy and Active Directory • Inadequate Minimum Password Length Enforcement within ResourceLink • Lack of Policies, Processes and Security for Batch Processing	Management should implement the recommendations raised in the IT General controls report
Medium	Brief explanations are provided within reports, explaining reasons why individual savings programmes have not delivered. The reports would be further enhanced by explaining the action the Council is taking to bring the savings back on track and highlighting progress of alternative programmes to mitigate the under-delivery.	Explain in savings monitoring reports action the Council is taking to bring under performing savings programmes back on trach and the progress of alternative programmes which are mitigating the under-delivery.
Medium	A third of the proposed savings were not delivered. This indicates potential weaknesses in the arrangements for identifying suitable and realistic savings schemes and / or arrangements for ensuring effective implementation. The need to understand the reason for under delivery is particularly important given the increased savings requirements built into your future financial plans.	Review processes for identifying suitable savings schemes and ensuring proposals are appropriately scrutinised, risk rated and achievable. Review processes for effective implementation of approved savings schemes to ensure they can be implemented effectively and within the agreed timescales.

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 your 2018/19 financial statements, which resulted in 7 recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and note 4 are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	The draft financial statements provided for audit contained more misstatements than previous years. A robust management review may have identified and corrected some of these misstatements prior to submission for audit.	We are continuing to identify a high amount of errors in the financial statements. There was limited evidence that senior management had undertaken a robust review of the draft financial statements prior to them being provided to audit. We have re-raised this recommendation in Appendix A.
✓	You were unable to reconcile your general ledger to your fixed asset register. There is a risk that your assets could be materially misstated. Good practice is that this reconciliation should take place on at least a quarterly basis.	The Council provided a reconciliation between the fixed asset register and the general ledger.
✓	Responses to queries throughout the audit were generally not provided on a timely basis. This has a significant impact on the ability to progress the audit on a timely basis and carries increased costs for you. Obtaining information from the wider organisation has been difficult and external audit requests have not always been prioritised. Your finance team has been extremely supportive in seeking to overcome these issues, and have sought to expedite and resolve audit queries with the wider organisation, working in partnership with us. However, when information is requested from other departments, we encounter significant delays.	There has been an improvement in the timeliness of audit responses throughout the wider organisation during the post statements audit. This is despite the challenges of working remotely during the pandemic.
✓	Your financial reporting on the progress of delivery of savings does not give sufficient explanations of the underlying causal factors which prevented the savings from being delivered.	A savings tracker is now contained in the monthly financial monitoring report presented to the Executive Management Team and quarterly to the Public Accounts Select Committee and Mayor and Cabinet.
X	Our sample cut off testing from bank statements in April and May 2019 identified expenditure of £97k that related to the 2018/19 year, but the expenditure had not been accrued. The extrapolated error mounts to £378k. Similarly our sample testing of invoices received in April and May 2019 identified £37k of expenditure that related to 2018/19 that had not been accrued. This error extrapolated to £494k. Your cut off procedures need strengthening to ensure that expenditure is coded in the year in which it relates	Our testing continues to identify cut off errors. This year the errors are larger than the previous year. We have re-raised this recommendation in Appendix A.

Assessment

✓ Action completed

X Not yet addressed

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	The Council requires Members to declare any interests at the beginning of meetings and to update their declarations if there are changes to their existing circumstances. These declarations are held in a central database and the Council's website updated accordingly. However, the Council does not have in place an annual declaration form for Members to complete as part of the accounts process. There is a risk that related party disclosures could be missed	An annual declaration has not been performed in 2019-20. We have re-raised this recommendation in Appendix A.
X	Our testing of IT General Controls identified the following findings which have been reported in detail to management: • Excessive privileges assigned to default accounts in Oracle • Generic accounts inadequately controlled • Not all key areas are subject to audit logging. Audit logs for high risk areas and key database tables need to be periodically reviewed • There are 11 users who can access SQL forms which could potentially be used for changing bank details and passwords • There are 36 accounts where the password has not been updated for 45 days in line with the policy • A review of users that have unsegregated access across end to end processes • Active Directory user passwords are encrypted rather than hashed making them easily decrypted	We have identified several similar IT General controls issues and we have reported these within Appendix A.

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

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	CIES £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
The Council had not obtained a 31 March 2020 year end valuation for all its surplus assets as required by International Financial Reporting Standards. The Council has since obtained a valuation for those surplus assets that had not been revalued. The financial statements will need updating for these assets. The Council has calculated the potential change to the Net Book Value of assets is an increase of £25,115k.	Nil	Dr Surplus Assets 25,115 Cr revaluation reserve 25,115	Nil
The pension disclosures within the financial statements were prepared using the actuaries estimate of the 31 March 2020 investment balances which were calculated prior to the year end. Due to Covid-19, there was a significant difference between the estimated value of the investment balances and the subsequent actual year end value. The Council obtained an updated IAS19 report from their actuary to reflect the year end actual balances. The total change was an increase in the net pensions Liability of £7,391k	Dr Remeasurement of the net defined benefit liability 7,391	Dr Liability related to defined benefit pension scheme 7,391 Cr Pensions Reserve 7,391	Nil
Our testing of the floor area data used in the valuation of the 3 modern schools identified a variance between the floor areas used for these schools as per the valuer workbooks and the floor plans. This error resulted in an overall reduction of the valuations of £11.,519k.	Nil	Cr Property Plant and Equipment Land and buildings 11,519 Dr Revaluation Reserve 11,519	Nil
Testing identified that Lee Green Depot valuation of £1.3m was omitted from the valuation report and Wearside depot the valuation of £188,420 should have been £1,888,420. Total amendment £3,010k	Nil	Dr Property Plant and Equipment Land and buildings 3,010 Cr Revaluation Reserve 3,010	

Audit adjustments continued

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Detail	CIES £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
Three school blocks of a combined value of £1.5m had not been included within the revaluation report		Dr Property Plant and Equipment Land and buildings 1,521 Cr Revaluation Reserve 1,521	
Overall impact	**7,391**	**Net 10,736**	**Nil**

Audit adjustments

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 amendment	Detail	Adjusted?
Note 27c Exit packages agreed in the year	The Exit packages Note 27c was prepared using details from the pensions system. However, this missed some of the exit packages paid in the year. The Council has since redrafted the note from data from the payroll system. The note has been amended.	✓
Note 10b accumulated depreciation bought forward	The bought forward accumulative depreciation of £95,535k is incorrect and should be £103,028k and agree to last year. The Council has made a casting error. The total bought forward accumulated depreciation has been amended.	✓
Note 3 to Collection Fund	The Council had re-stated the previous year audited Non Domestic Rates Surplus balances. The adjustment was below materiality levels and should not have been made. The Council has made the adjustment.	✓
Note 4 to Collection Fund	There was a misclassification error between the Gross Council Tax due and the adjustment to Council tax charge of £677,052k. The Council has amended the note to state Gross Council Tax income of £185,318k and adjustments to charge of £1,036k.	✓
Note 5 to Collection Fund	The business rates multiplier had not been updated for 2019/20. The multipliers for 2019/20 need amending to 50.4p standard rate and 49.1p small business rate.	✓
Note 5 to Collection Fund	The prior year comparators for Gross NDR Collectable, Mandatory Relief and Discretionary were the 2017/18 values rather than the 2018/19 audited values. The Council has amended the note.	✓
Note 29b Disclosure of Senior Employees Remuneration for financial year.	The disclosure note relating to the Director for Children and Young People stated the post was covered by an interim from 01-Jan-20 to 31-Mar-20. However, our review of invoices shows the director worked 2 days in December 2019. The total payment was correct. The Council has updated the disclosure note.	✓
Note 28 External Audit costs – Certification of Grant claims and Returns	We identified that the £5k external audit fee for pooling of housing and capital receipts was not included within Note 28. The Council have agreed to amend the note to adjust the figure in the note for Grant claims and return fees from £37k to £42k.	✓
Note 12 Financial instruments	The Council had made some minor changes to the 2018/19 balances which meant that they did not agree to the audited accounts. The Council has now re-stated these balances.	✓
Note 12 Financial instruments	The Investment balance in note 12 of £381,982k did not agree to supporting working papers and the accrued interest was double counted. The investment balance needs updating to £381,437k.	✓

Audit adjustments – Council

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 amendment	Detail	Adjusted?
HRA Note 8 HRA outstanding Debt	The note needed the comparator balance of £57.5m	✓
Note 33b Council as a lessor	The Lessors schedule included leases that relate to the Council's subsidiary Catford Regeneration Partnership Limited and should therefore not be included within this note. The Council has agreed to amend the note.	✓
Note 35 Capital Commitments	The note needed a comparator of £19.7m	✓
Note 2 Accounting standards issued, not adopted in the 2019/20 accounts	The Council had disclosed the potential impact of implementation of the new leases standard was that the current annual charge to the CIES of £1.5m will increase slightly to £1.6m, and the Existing Use Value of the leases would add approximately £20m to the balance sheet. However, the Council are at an early stage with this work and cant fully substantiate these figures so they have since been removed.	✓
Note 4 Assumptions made about the future and other major sources of estimation uncertainty	An additional disclosure was added to reflect material valuation uncertainties relating to property, private equity, infrastructure and private debt held by the Pension Fund as these impact upon the net defined benefit liability in the Council’s balance sheet.	✓
Note 31b – Related Party transactions	Note 31b - related parties subsidiaries associated companies, expenditure, income, debtor and creditor balances to be revised to agree to disclosures in the group accounts.	✓
Note 10b classification	PPE Opening balances: Requested amendment of classification of incorrectly classified vehicles, plant and equipment with NBV of £1,601 811	✓
Group accounts	A Covid-19 note to be included within the group accounts relating to valuation and potential material uncertainty	✓
Other presentational and disclosure issues	You have also agreed to amend all other minor and presentational issues highlighted in the audit.	✓

A number of other minor presentational amendments including adjustment of prior period comparatives to match the audited 2018/19 financial statements were made during the audit.

Audit adjustments – Council

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 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	CIES £'000	Balance Sheet £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Our sample cut off testing from bank statements in April and May 2020 identified 4 expenditure items totalling £175k that related to 2019/20 that had not been accrued. This error extrapolated to £1,811k. Similarly our sample testing of invoices received in April and May 2020 identified expenditure items totalling £346k that related to 2019/20 that had not been accrued. We extended our testing and did not find any more errors. This error extrapolated to £4,842k.	Dr Net Cost of Services 6,653	Cr Creditors 6,653	Increase expenditure of 6,653	This is an extrapolated error of £6,653k which is not material and so management have taken the decision not to adjust the financial statements.
Our sample testing of creditor balances identified one item of £9k that had incorrectly included VAT; thus the creditors balance was overstated. This error extrapolated to £167k	Cr Net Cost of services 167	Dr Creditors 167	Reduction of expenditure 167	This is an extrapolated error of £9k which is not material and so management have taken the decision not to adjust the financial statements.

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	£182,789	£TBC
Total audit fees (excluding VAT)	**£182,789**	**£TBC**

The proposed fees reconcile to the financial statements. Final fees will be confirmed at the conclusion of the audit.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services:		
• Housing benefit subsidy claim	30,370	TBC
• Pooling housing capital receipts grant	5,000	TBC
• Teachers' pensions end of year certificate	6,500	TBC
Total non- audit fees (excluding VAT)	**£41,870**	**TBC**

Audit opinion

We anticipate we will provide the Council 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 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Housing Revenue Account Movement in Reserves statement, the Collection Fund Revenue Account, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement 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 2019/20.

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 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Director of Corporate Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Audit opinion

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 Director of Corporate Resource's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Corporate Resources 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.

In our evaluation of the Director of Corporate Resources conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and pension fund investments

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's and group's land and buildings and the Authority's share of the pension fund's property, infrastructure, private equity, and private debt investments] as at 31 March 2020. As, disclosed in note 4 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's valuation reports. Our opinion is not modified in respect of this matter.

Other information

The Director of Corporate Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the Authority and group financial statements and, our auditor's report thereon and our auditor's report on the pension fund financial statements. 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 audit 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 Edition' 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.

Audit opinion

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

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 Report 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 issue a report 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 make 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 make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Director of Corporate Resources 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 Director of Corporate Resources . The Director of Corporate Resources 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Director of Corporate Resources 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 Director of Corporate Resources 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 there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Panel are Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

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.

Audit opinion

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

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 2020. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Use of our report

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.

[Signature]

Paul Grady, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London