



Audit Panel

Report title: Final Accounts 2020/21 – LBL Response to Grant Thornton's Audit Findings Report

Date: 10 November 2021

Key decision: No

Class: Part 1

Ward(s) affected: All

Contributors: Executive Director for Corporate Resources

Outline and recommendations

The purpose of this report is to respond to the external auditor's Audit Findings Report on the 2020/21 audit of the Council's Main Accounts and Pension Fund Accounts. It should be noted that some of the officer responses are provisional, pending finalisation of the audit, and a further update will be provided at the next Audit Panel.

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

Lateness: This report was not available for the original despatch date as officers were delayed by the ongoing audit queries and the need to incorporate the latest audit changes into the documents now being submitted.

Urgency: It is important for the Audit Panel to take the report now as it will enable the audited accounts to be agreed by full Council on 24 November 2021.

Where a report is received less than 5 clear days before the date of the meeting at which the matter is being considered, then under the Local Government Act 1972 Section 100(b)(4) the Chair of the Committee can take the matter as a matter of urgency if he is satisfied that there are special circumstances requiring it to be treated as a matter of urgency. These special circumstances have to be specified in the minutes of the meeting.

1. Summary

The purpose of this report is to respond to the external auditor's Audit Findings Report on the 2020/21 audit of the Council's Main Accounts and Pension Fund Accounts. Some of the officer responses are provisional, pending finalisation of the audit. It is intended that a further update on these will be provided at the next Audit Panel.

2. Recommendation

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

3. Background

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

"... the key findings and other matters arising from the statutory audits of the London Borough of Lewisham ('the Council') and Lewisham Pension Fund ('the Pension Fund') and the preparation of the Council and Pension Fund's financial statements for the year ended 31 March 2021 for those charged with governance...(and whether) the Council and Pension Fund's financial statements give a true and fair view of the financial position of the Council and Pension Fund..."

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

4. Audit of Accounts

- 4.1. The deadline for the preparation of the pre-audit financial statements was 01 August 2021 and the date for audited financial statements was 30 September 2021. These dates had been brought forward from the previous year's dates of 31 August and 30 November, respectively, because of the lessening of the impact of the Covid pandemic nationally.
- 4.2. The pre-audit deadline was achieved on 06 July 2021, but the deadline for the audited accounts of 30 September was not achieved as a result of the various factors set out on page 3 of the Audit Findings Report, the principal ones being the more detailed audit and the challenges brought about by continued remote working. It is anticipated that approval of the audited accounts will take place at full Council on 24 November 2021 (which is in line with the previous year's approval date of 25 November 2020).
- 4.3. Since the pre-audit accounts were completed, they have been subject to extensive external audit by Grant Thornton. The audits are now substantially complete and Grant Thornton report that, subject to outstanding queries being resolved, they anticipate providing unqualified opinions on the financial statements. Grant Thornton will give a verbal update on progress at the meeting and, along with senior council officers, will answer any questions as required.
- 4.4. The external auditor requests that Members note the adjustments to the financial statements in the Audit Findings Report.
- 4.5. Under the Council's constitution these matters are for the Council to determine. At full Council on 24 November 2021, Members will note the Audit Findings Report and are expected to approve the audited Statement of Accounts.
- 4.6. The Value for Money (VFM) findings will follow via the Auditor's Annual Report, to be made available by 28 February 2022 under the new Code of Audit Practice.

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5. Audit Findings

- 5.1. The headlines are shown on pages 3, 4 & 5 of the Audit Findings Report. The audit has been more thorough overall, and this has naturally led to more queries. And although Finance staff are well accustomed to remote working, there have inevitably been some delays in resolving certain audit queries.
- 5.2. The main issues to note from the Audit Findings Report are shown in Appendix A – Action Plan on pages 31 to 33 and summarised below, together with officer comments on each issue. The officer responses to some of the points will be elaborated on at the next Audit Panel, by which time the final version of the Audit Findings Report will have been issued and the points assessed in more detail.
 - i. IT General Controls – several weaknesses in IT controls have been separately reported in detail to management. These include: (1) insufficient evidence over migration of data to Oracle Payroll; (2) absence of formally-approved project-related documentation; (3) lack of formal approval by management on IT policy; (4) lack of formal review of audit logs.

All these points are accepted by officers, and their comments are as follows:-

- (1) The project did not migrate data but created it from scratch through a process of parallel running against Resource Link. Each payroll run was rigorously reconciled by the Project and Payroll teams, to ensure any discrepancies remained within agreed tolerances. These were reviewed regularly by the Programme Board. (2) The project had a number of interim programme managers, all of whom have ended their contracts with the Council. New project governance arrangements have since been implemented through the corporate Project Management Office, with all significant projects now having a dedicated repository in MS Teams. (3) The Council has an overarching Information Security Policy which is signed by the Director for IT and Digital Services and published on the corporate intranet. (4) Officers will review the level of logging available from the Cloud and, if it is available, will implement regular review procedures around it. Target date: various / to be confirmed
- ii. Fixed Assets Register – there were found to be 123 assets on the register with a net book value of nil. As recommended in the report, officers will carry out a review of these and assess whether the current depreciation policy is appropriate. Target date: 31 January 2022
- iii. Bank Account Reconciliations – reconciliations of schools' bank balances were not performed in detail as at 31 March 2021. This has been caused partly by new accounting software used in schools since 2019/20. In addition, there was a minor unexplained difference on the Eurobank reconciliation of £7k. Officers will carry out a catch-up exercise on these reconciliations and update the position for 2021/22 well in advance of 31 March 2022. Target date: 28 February 2022
- iv. ImagePay Bank Account – several un-presented cheques were identified as being over 6 months old. As recommended in the report, officers will review these and place stops as necessary. Target date: 31 December 2021
- v. Section 106 Receipts in Advance – these had not been fully reconciled on a 3-way basis between the Exacom system, the S106 agreement documents, and Oracle General Ledger. This is largely a historical problem which was discussed in some detail between officers from Finance and Planning during the audit. The

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recommendation to reconcile all sources in detail is accepted. A plan and timetable for this piece of work will need to be discussed firstly between Finance and Planning, before agreeing a target date. Target date: to be confirmed / detail to follow

- vi. Schools' Expenditure Reconciliation – there is currently no reconciliation between the school finance reports and the source data. Officers will resolve this as part of the work in reconciling the schools' bank balances (see para. 5.2.iii above). Target date: 28 February 2022
- vii. New Employee Contracts – the audit review in 2020/21 identified that HR were not receiving signed contracts from starters. This point is accepted by officers – a review of HR processes is underway and we will ensure that addressing this risk is included. Target date: to be confirmed / detail to follow

5.3. The issues to note from the Pension Fund accounts are as follows:-

- i. Pension Fund Coding Structure – this needs to be realigned to fit more closely with reporting requirements, and is a recurring item from 2019/20. Implementation has been delayed because of the departure of the Pension Fund accountant before the 2020/21 closedown. This vacancy is now being filled. Target date: to be confirmed / detail to follow
- ii. Admitted and Scheduled Bodies – there was found to be an absence of monthly reconciliations of remittances and contributions with Oracle General Ledger. This point is accepted by officers, and the recruitment currently underway will provide the capacity to add this control into the current workflow. Target date: to be confirmed / detail to follow

6. Annual Governance Statement

- 6.1. This is the final version of the Annual Governance Statement and it is expected to be approved by Council on 24 November 2021.

7. Financial implications

- 7.1. There are no direct financial implications resulting from this report.
- 7.2. The cost of the external audit of the Main Accounts for 2020/21 was £233k, plus £42k for the certification of grant claims. There was also a cost of £24k for other audit services, being resolution of objections dating back to 2016/17. The Pension Fund external audit cost was £36k.

8. Legal implications

- 8.1. The Accounts and Audit (England) Regulations 2015 (as amended for the Accounts and Audit (Amendment) Regulations 2021) require authorities to publish their Statement of Accounts after the external audit is completed no later than 30 September. It is fully anticipated that the sign-off will now be achieved immediately following approval of the audited accounts by full Council on 24 November 2021.
- 8.2. It is the role of the Audit Panel to receive, review and where appropriate, advise and make recommendations to the Council in relation to the external auditor's opinion and report to Members, and to monitor management action in response to issues raised by external audit.

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9. Consultation

- 9.1. Sections 25 to 27 of the Local Audit and Accountability Act 2014 give electors the right to inspect and make copies of the Accounts; also to question the auditor and make an objection. The Accounts are required to be available for public inspection for 30 working days prior to the planned conclusion of the audit and an advertisement is placed on the Council's website to publicise this fact. The public inspection period for 2020/21 lasted from 09 July to 19 August 2021.
- 9.2. No objections to the Accounts were received in 2020/21. In addition, Grant Thornton certified the conclusion of the 2016/17 audit and subsequent years, following resolution of the objections for those prior years, and this fact was advertised on the Council's website.

10. Equalities implications

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

11. Climate change and environmental implications

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

12. Crime and disorder implications

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

13. Health and wellbeing implications

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

14. Background papers

- 14.1. None

15. Report author and contact

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