



The Audit Findings Report Addendum for the London Borough of Lewisham and Lewisham Pension Fund

Year ended 31 March 2021

December 2021



Audit Adjustments

Since submitting the Audit Findings Report to the Audit Panel, we have identified the following adjusted misstatements in the Council's financial statements which we are required to report to you.

Detail	CIES £'000	Balance Sheet £' 000	Reason for not adjusting
The Council's financial statements included a provision of £3 million for backdated holiday pay for term-time only support staff in schools dating back several years. Our review of the provision identified that the total provision should have been £4.7m. The Council has made the £1.7m adjustment.	Dr Children and young People services directorate 1,700	Cr Provisions (1,700)	Not applicable.
Overall Adjustments from the Audit Findings Report presented on 10 November 2021	33,150	(33,150)	
Total Adjustments including this addendum	34,850	(34,850)	

Unadjusted misstatements

Since submitting the Audit Findings Report to the Audit Panel, we have identified the following unadjusted misstatements in the Council's financial statements which we are required to report to you.

Detail	CIES £'000	Balance Sheet £' 000	Reason for not adjusting
Our testing of Property Plant and Equipment revaluations identified 3 assets whereby the Gross Internal Area of the assets used in the valuation did not agree to the documentation supplied to substantiate the areas. We extrapolated the misstatement and the impact was to increase Property Plant and Equipment Balances by £1.2m with an associated increase in the revaluation reserve.		Debit Property Plant and Equipment 1,219 Credit Revaluation Reserve (1,219)	This is an extrapolated misstatement and is not material.
Our testing of 16 Receipts in Advance identified the following issues: <ul style="list-style-type: none"> 3 items where insufficient information audit evidence was provided to support the balance 1 item incorrectly contained interest that overstated the receipt in advance 1 item was held as a receipt in advance when the deadline to use the receipt had expired. The amount was due back to the developer so should have been recorded as a creditor. The total impact of these errors is set out opposite	Cr Income (880) (£752k extrapolated and £128k actual)	Dr Receipts in Advance 3,150 (£3,022k extrapolated and £128k actual) Dr Debtors 752 (extrapolated) Cr Creditors (1,745) (actual) Cr Cash (1,278) (extrapolated)	Total Error of £3,902k. £128k is an actual error not adjusted as it is trivial and £3,774k is based on an extrapolation and is not material.
Our valuation testing of Lewisham Homes Limited dwellings in the group accounts identified two assets where the information provided to the valuer was not used. This has resulted in one asset being understated by £667 and one asset being overstated by £30,971 The total extrapolated error through the valuation of dwellings is £422,565 which is trivial.		Credit Group Property Plant and Equipment (423) Debit Group revaluation reserve 423	This is an extrapolated misstatement and is not material.

Unadjusted misstatements continued

Detail	CIES £'000	Balance Sheet £' 000	Reason for not adjusting
From our sampled valuation testing of the Catford Regeneration Partnership Limited investment properties we identified one asset where the information provided to the valuer was incorrect. This resulted in the asset being understated by £48,100. The total extrapolated error is £425,702.		Dr Group Investment Property 426 Credit Group Revaluation Reserve (426)	This is an extrapolated misstatement and is not material.
Overall unadjusted misstatements from the Audit Findings Report presented on 10 November 2021	4,198	4,198	
Total unadjusted misstatements including this Addendum on CIES	3,318	(3,318)	Total is below materiality levels

Disclosure Amendments

Since submitting the Audit Findings Report to the Audit Panel, we have identified the following additional disclosure misstatements in the Council's financial statements which we are required to report to you. The Council has agreed to adjust the accounts for each of these.

Disclosure / misclassification	Disclosure amendment	Adjustment agreed?
Disclosure	There was a misclassification of expenditure of £9,024k identified between the Corporate Service Directorate and the Housing, regeneration and Public Realm Directorate.	✓
Disclosure	The Expenditure Funding Analysis note was amended to show the difference between the Council's internal reporting and the reported disclosures in the note. This amendment ensured the financial statements met to the segmental reporting requirements.	✓
Disclosure	Note 31 Related party interests has been updated to include the transactions with companies of which the Council is a joint owner or shareholder as disclosed in Note 25.	✓
Disclosure	The Major Repairs Reserve was updated to demonstrate that this is only being used to finance capital expenditure. The accounts note 8 has been updated to ensure consistency with the amount of capital expenditure financed by Major Repairs Reserve. The Property Plant and Equipment note, HRA account and associated notes, the Consolidated Income and Expenditure Statement, Capital Financing Requirement and Capital Adjustment Account have also been updated accordingly.	✓
Disclosure	The Critical judgements relating to the accounting treatment for the pensions liability for Lewisham Homes Limited has been removed as the Council are following the accounting standards and there are no critical judgements applied.	✓
Disclosure	The estimation uncertainty narrative relating to the impairment allowance for doubtful debt was updated to add that the "Calculation of expected credit loss is forward looking and doesn't just rely upon historic information without considering if that needs to be adapted to reflect current and future conditions. The calculation of the impairment allowance takes into account current and forecast future conditions".	✓

Disclosure Amendments continued

Disclosure / misclassification	Disclosure amendment	Adjustment agreed?
Misclassification	Included in the Non Domestic Rates Income of £102,653k within the Consolidated Income and Expenditure Statement is Section 31 funding of £6,918k. This funding should be classified as General Government Grants. The Council has corrected the misclassification error.	✓
Disclosure	In the Group Movement in Reserves Statement the Council columns were updated to reflect the removal of intra group transactions in the consolidation. An additional column "Authority Share of Subsidiaries" and "total reserves" was added along with an additional row "Adjustments between group accounts and authority accounts. The adjustments between the accounting basis and funding basis in the group were amended to reflect the single entity Movement in Reserves statement. Prior year comparators have also been updated. The Council re-worked the group financial statements to ensure that they were prepared in accordance with the CiPFA collaboration guidance.	✓
Disclosure	The depreciation accounting policy for vehicles, plant and equipment has been updated to a range of 5-40 years to reflect the years that assets are being depreciated over.	✓
Disclosure	<p>A Prior Period Adjustment note has been added to detail the adjustments to prior year comparators in respect of the following:</p> <ul style="list-style-type: none"> • Major Repairs Reserve adjustments on page 4 • Financial instruments prior year note was re-stated for money market funds that have now been categorised as being valued at fair value through profit and loss. • The impact of the reorganisation structure on the Consolidated Income and Expenditure Statement and the Expenditure and Funding Analysis note • Amendments to the prior year Group Accounts to comply with CiPFAs collaboration guidance. 	✓

Audit Adjustments Pension Fund

Since submitting the Audit Findings Report to the Audit Panel, we have identified the following adjusted misstatement which we are required to report to you. The fund has amended the financial statements.

Detail	Fund Account £'000	Net Assets Statement £'000	Reason for not adjusting
Our substantive testing on Level 3 investments identified that the financial statements were consolidated using outdated custodian balances for Harbourvest and JP Morgan. The custodian balances had not been updated to reflect the actual fund manager balances as at 31 March 2021. The updated 31 March capital statements provided by the fund managers has led to an uplift in the investments balance of £16,598k	Credit Change in market value of investments 16,598	Investments 16,598	Not applicable.
There were no adjustments impacting on the Pension Fund Accounts reported in the Audit Findings Report presented on 10 November 2021			

Audit Fees

We set out below our fees for the audit and provision of non-audit services as set out in the audit plan.

Audit fees	Proposed fee	Final fee
Council Audit	£233,289	264,530
Pension Fund Audit	£35,500	£40,500
Total audit fees (excluding VAT)	£268,789	£302,530

Non-audit fees for other services	Proposed fee	Final fee
Agreed upon procedures relating to pooling of housing capital receipts	£5,000	£TBC
Agreed upon procedures relating to the Teachers' Pensions End of Year Certificate	£6,500	£TBC
Certification of Housing Benefit Subsidy Claim	£30,370	£TBC
Total non-audit fees (excluding VAT)	£41,870	£TBC

The proposed fees reconcile to the financial statements. The final fee takes account of the additional work that is set out on the next page.

Fees

Achieving the 30 September 2021 target for publishing audited financial statements remains a significant challenge for all local authorities. Achieving this for an organisation of your size and complexity, with a relatively lean finance team, some sickness absence issues, and with a key member of the finance team leaving the Council prior to closedown, is particularly difficult. The challenge has been further compounded this year with continued remote working, restructuring of your finance team and the transition of your payroll system onto Oracle Cloud, which increases the amount of audit work required in this area.

Management and officers have worked hard to mitigate these factors as far as possible, but they have led to significant delays in the audit team obtaining sufficient, appropriate evidence to complete our work on a timely basis. As a result, the audit scheduled to be completed at the end of September has overrun to be signed in December.

There has also been a number of issues identified where the audit team had to undertake additional work to satisfy ourselves that the potential errors would not be material. In addition, there have been a large amount of amendments to both the Council and Pension Fund financial statements which has led to several versions being submitted for audit. The audit team are required to check each of these versions and given the size and complexity of the statements this also takes additional time.

The following primary statements and notes were incorrectly presented in the draft accounts for the Council. They were audited, found to be incorrect, and required amendment. They were then subject to follow up audit. This therefore incurred significantly more audit time than planned.

- Comprehensive Income and Expenditure Statement
- Movement in Reserves Statement
- Balance Sheet
- Cashflow Statement
- Accounting Policies
- Note 1 Expenditure and Funding Analysis, Adjustment between Funding and Accounting Basis and Segmental Income and Expenditure
- Note 3 Critical Judgements in applying Accounting Policies
- Note 4 Assumptions made about the future and other major sources of estimation uncertainty
- Note 8 Technical Note: Analysis of movement in Reserves statement adjustments between the accounting basis and funding basis
- Note 9 Earmarked Reserves
- Note 10 Non Current Assets , revaluations and movements in non current assets
- Note 12 Financial Instruments
- Note 14 Debtors Long term and Current, Impairment Allowances
- Note 16 Creditors
- Note 17 Revenue Receipts in Advance
- Note 18 Provisions

Continued overleaf

Fees

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- Note 21 Revaluation Reserve
- Note 22 Capital Adjustment Account
- Note 23 Expenditure and Income Analysis by Nature
- Note 24 Agency Services and pooled Budgets
- Note 27 Officers Remuneration and Termination Benefits
- Note 28 External Audit Costs
- Note 29 Dedicated Schools Grant
- Note 30 Grant Income
- Note 31 Related Party Transactions
- Note 32 Capital Expenditure and Capital Financing
- Note 34 Private Finance Initiatives
- Note 35 Capital Contractual Commitments
- Notes 43-47 Cash Flow statements
- Note 48 Prior Year Restatements

Housing Revenue Account (HRA)

- HRA movement in reserves
- HRA Note 6 Repairs and Maintenance
- HRA Note 9 Non Current Asset Valuation
- HRA Note 10 Depreciation
- HRA Note 13 Housing Capital Expenditure
- HRA Note 14 Major Repairs Reserve
- HRA Note 15 Reserves and Balances

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Fees

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Collection Fund Revenue Account

- Collection Fund Note 3 Balance split into attributable parts
- Collection Fund Note 4 Council Tax income
- Collection Fund Note 6 Arrears and Impairment Allowances

Group Accounts

- Group Accounts Comprehensive Income and Expenditure Statement
- Group Accounts Movement in Reserves Statement
- Group Accounts Balance Sheet
- Group Accounts Cashflow Statement
- Group Accounts Note 3 Accounting Policies
- Group Accounts Note 4 Movements in Non Current Assets
- Group Accounts Note 6 Pensions IAS 19 Disclosures (not included in accounts submitted for audit)

The following primary statements and notes were incorrectly presented in the draft accounts for the Pension Fund

Fund Account

- Net Asset Statement
- Note 1 Basis of Preparation of Financial Statements
- Note 2 Summary of Significant Accounting Policies
- Note 3 Critical Judgements in applying accounting policies
- Note 4 Assumptions made about the future and other major sources of uncertainty
- Note 5 Contributions Receivable
- Note 6 Benefits Payable

Continued overleaf

Fees

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- Note 7 Management Expenses
- Note 8 Investment Income
- Note 11 Investment Analysis
- Note 12 Reconciliation in Movement in Investments
- Note 13 d Valuation of Financial Instruments carried at Fair Value
- Note 14 a Classification of Financial Instruments
- Note 14b Net Gains and Losses on Financial Instruments
- Note 15 a ii Financial Instruments Other Risks Sensitivity Analysis
- Note 15 a vi i Financial Instruments Currency Risk Sensitivity Analysis
- Note 17b Current Liabilities
- Note 23 Additional Voluntary Contributions
- Note 24a Scheduled Bodies
- Note 25 Membership

The following notes were missing from the Pension Fund accounts submitted for audit. These were identified as omissions and presented for subsequent audit.

- Note 13 a Basis of Fair Valuation
- Note 13 b Sensitivity of Assets valued at Level 3
- Note 13e Reconciliation of Fair Value Measurements within Level 3
- Note 15 a iv Financial Instruments Interest Rate Risk Sensitivity Analysis
- Note 19 Actuarial Present Value of Promised Retirement Benefits
- Note 22 Key Management Personnel Remuneration

The scale of error, amendment and re-audit required as a result of the above is significant. We have absorbed some of the additional costs incurred within our existing fee. We have set out the residual costs in the final fees: an increase to the audit fee to the Council audit of £31,241 and for the pension fund by £5,000. These proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.