Grant Thornton

Annual Audit Letter

Year ending 31 March 2018

London Borough of Lewisham

February 2019

Contents

key Grant Thornton team members are:

Paul Grady
Engagement Leader
T: 020 7865 2017
E: paul.d.grady@uk.gt.com

Paul Jacklin
Engagement Senior Manager
T: 020 7728 3263
E: paul.j.jacklin@uk.gt.com

Andy Ayre
Engagement Manager
T: 020 7728 2328
E: andy.j.ayre@uk.gt.com

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at the London Borough of Lewisham Council ('you' or the Council) and its subsidiaries (the group) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to you and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Panel as those charged with governance in our Audit Findings Report dated September 2018 and our Value for Money report dated February 2019.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £17,004,000, which is 1.75% of the group's gross revenue expenditure. We determined materiality for the audit of the pension fund accounts administered by the Council to be £12,746,000, which is 1% of the pension fund's net assets.
Financial Statements opinion	We gave an unqualified opinion on the Council and group's financial statements on 28 September 2018. We gave an unqualified opinion on the pension fund accounts of the London Borough of Lewisham Pension Fund on 28 September 2018.
Whole of Government Accounts (WGA)	We completed work on your consolidation return following guidance issued by the NAO. in October 2018. We issued an assurance statement which did not identify any issues for the group auditor to consider on 5 October 2018.
Value for money conclusion	We completed our work on your arrangements for securing value for money in February 2019. On 6 March 2019 we gave a qualified 'except for' conclusion on your arrangements, due to matters we identified in respect of your transformation governance arrangements. Except for the matters identified in respect of your transformation governance arrangements, we were satisfied that you put in place proper arrangements to ensure economy, efficiency and effectiveness in your use of resources. This was reported within our Value for Money report in February 2019.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Certification of Grants	We carry out work to certify your Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim was finalised on 28 November 2018. The claim was subject to amendment and qualification. The detailed results of this work will be reported to the Audit Panel in our Annual Certification Letter.
Certificate	We are unable to certify that we have completed the audit of the accounts of the London Borough of Lewisham until we have completed our review of matters raised by a local elector in an objection to the 2016/17 financial statements.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
March 2019

Audit of the Accounts

Our audit approach

Materiality

In our audit of your financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council and group accounts to be £17,004,000, which is 1.75**%** of the group's gross revenue expenditure.
We used this benchmark as, in our view, users of your financial statements are most interested in where you have spent your revenue in the year.

We set a lower threshold of £850,000, above which we reported errors to the Audit Panel in our Audit Findings Report.

Pension Fund Materiality

For the audit of the London Borough of Lewisham Pension Fund accounts, we determined materiality to be £12,746,000, which is 1% of the Fund's net assets. We used this benchmark as, in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a threshold of £637,000 above which we reported errors to the Audit Panel.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts and the narrative report, annual governance statement and Annual Report published alongside the Statement of Accounts to check they are consistent with our understanding of the Council/group and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Council/group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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. We identified management override of controls as a risk requiring special audit consideration	As part of our audit work we: • Reviewed the accounting estimates, judgments and decisions made by management. • Reviewed the journal entry process and selection of large and unusual journal entries for testing back to supporting documentation. • Reviewed unusual significant transactions.	Our audit work did not identify any evidence of management over-ride of controls.
Valuation of property, plant and equipment The Council revalues its land and buildings on an rolling programme to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration	As part of our audit work we: • Reviewed management's processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of any management experts used. • Reviewed the instructions issued to valuation experts and the scope of their work. • Discussed the basis on which the valuation was carried out with the Council's Valuer, challenging the key assumptions. • Tested revaluations made during the year to ensure they were input correctly into the asset register and financial statements. • Reviewed and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. • Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.	Our audit work did not identify any significant issues in relation to the risk identified.

Audit of the Accounts continued

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	As part of our audit work we: • Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Reviewed the competence, expertise and objectivity of the actuary who carried out the pension fund valuation. • Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from the actuary.	Our audit work did not identify any significant issues in relation to the risk identified

Audit of the Accounts Pension Fund

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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. We identified management override of controls as a risk requiring special audit consideration.	As part of our audit work we: • Reviewed entity controls. • Reviewed accounting estimates, judgements and decisions made by management. • Reviewed unusual significant transactions.	Our audit work did not identify any evidence of management over-ride of controls.
The valuation of Level 3 investments is incorrect Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. We identified the valuation of level 3 investments as a risk requiring special audit consideration	As part of our audit work we: • Gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls. • Reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investment. • Considered the competence, expertise and objectivity of any management experts used. • Verified the investment balances to the fund manager and custodian report. • Tested the valuations by obtaining and reviewing the audited accounts, at the latest date for individual investments and agreeing these to the fund manager reports at that date. We reconciled those values to the values at 31 March 2018 with reference to known movements in the intervening period.	Our audit work did not identify any significant issues in relation to the risk identified

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council/group's financial statements on 28 September 2018.

Issues arising from the audit of the accounts

We reported the key issues from our audit to your Audit Panel on 12 July 2018 and 20 September 2018.

We did not identify any adjustments to the financial statements that impacted on your financial position. Adjustments made to the accounts were in respect of classification and presentational errors.

Annual Governance Statement and Narrative Report

We are required to review your Annual Governance Statement and Narrative Report. You published them on your website within the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by you and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on your Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which did not identify any issues for the group auditor to consider on 5 October 2018.

Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of the London Borough of Lewisham on 28 September 2018.

We also reported the key issues from our audit of the pension fund accounts to your Audit Panel on 12 July 2018. We did not identify any adjustments to the Fund's financial position.

Certificate of closure of the audit

We are unable to certify that we have completed the audit of the accounts of the London Borough of Lewisham until we have completed our review of matters raised by a local elector in an objection to the 2016/17 financial statements.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

Whilst we were completing our work the new chief executive, who took up his position in May 2018, departed the Council in December 2018. We identified this as a fourth area and considered this within our work in respect of your arrangements to support value for money.

Overall Value for Money conclusion

Based on the work we performed to address the significant risks set out in the audit plan we concluded that, except for the matters we identified in respect of transformation governance arrangements, the Council has proper arrangements in all significant respects.

We therefore issued, on 6 March 2019, a qualified ‘except for’ conclusion on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risks

Additional risk identified during the audit year	How we responded to the risk	Findings and conclusions
Recruitment and departure of the chief executive – May 2018 to December 2018	We have reviewed the arrangements followed and the reasonableness of the decisions taken	**Chief executive: March 2018 to December 2018** In March 2018, as set out on your website, Members appointed a new chief executive, “following a rigorous selection process by an appointments panel consisting of Sir Steve Bullock, (former) Mayor of Lewisham, and a cross-party group of eight councillors. Organisations from across the Lewisham borough also took part in the selection process, including: • Lewisham Hospital • the Police • Goldsmiths, University of London • Phoenix Community Housing • SE London Chamber of Commerce.” In November 2018, Members announced they had decided to “take a new direction….with no negative reflection on [the then chief executive]”. The chief executive left the Council after only 7 months in post. Dealing with this matter unavoidably consumed additional management capacity at a senior level. This capacity, in the absence of this matter, could have been better utilised and directed towards the other significant challenges the Council faces, particularly given the significant issues with transformation governance that needed to be addressed. Taken as a whole, and considered in the context of our review into the Council’s overall arrangements to secure value for money in the use of its resources, this was an undesirable turn of events which Members will wish to avoid in the recruitment of a replacement chief executive. There may be lessons to be learnt in respect of this matter. Members should reflect on what those lessons may be and how future recruitment can be undertaken to minimise the risk of recurrence.

Value for Money conclusion

Key Value for Money Risks

Risk identified in our audit plan dated February 2018	How we responded to the risk	Findings and conclusions
Transformation You are planning a significant transformation programme. This will be technology enabled and seek to drive the right cultural outcomes from, and for, people, facilitating innovation to drive transformational benefits – financial and non-financial – resulting in service improvements and better working with residents. Any transformation programme of this scale, complexity and ambition carries inherent risk.	We responded to this risk by: • Updating our understanding of overarching programme management arrangements. • Considering whether the Council have adequate arrangements to manage the interdependencies, identifying and realising planned benefits and ensuring robust and effective programme governance. • Assessing the extent to which transformational plans and medium term financial planning is aligned, and whether assumptions in financial plans align with programme ambitions.	• Management was aware of potential significant weaknesses in the transformation governance arrangements and were investigating. As a Council, you have confirmed and concluded that such weaknesses did exist. You have decided the transformation programme, as originally constituted, was not appropriately designed, and have decided to pause elements of the programme in its previous form whilst the overarching governance arrangements are redesigned. Various reviews have taken place and you have accepted the recommendations, and are putting action plans in place, to revamp the transformation programme and associated governance and programme management arrangements. • The Council is to be commended for taking action to address the significant deficiencies within the programme, which were present during the past year. The Council is also to be commended for being sufficiently flexible to adopt a fulsome redesign of the programme architecture, acknowledging the mistakes of the previous arrangements and seeking to strengthen the robustness of arrangements in the future transformation programme going forward. It was clear from our discussions with senior officers that the deficiencies in the previous arrangements were understood, and there was clear vision articulated in terms of the changes that needed to be made, along with a good understanding of governance requirements going forward. • Notwithstanding this, the arrangements in place during the year of audit were not sufficient. They did not address or support the needs of a transformation programme of this scale and complexity. Arrangements fell short due to a combination of inappropriate governance and insufficient skills and experience at the detailed level. Governance was unclear, or not operating effectively, and the skills deployed and in place within the programme and individual projects were not suitable for a programme of this size. At an operational level, individuals within the programme raising issues of concern were not always listened to. Governance concerns expressed at an operational level were not escalated upwards sufficiently. Oversight boards and committees did not always recognise the problems that were arising or, if they did, did not always fully appreciate the significance of these issues and ensure they were escalated and mitigated. • Effective organisations have three 'lines of defence' in terms of assurance and control. Level 1 refers to the assurance to be gained from the appropriate operation of controls by having effective arrangements in place at the ground level. Level 2 refers to the assurance to be gained from the effective operation of review committees, programme boards, risk committees, and other oversight mechanisms, which either provide assurance over arrangements or escalate issues reported to it. Level 3 refers to independent assurance functions, such as internal audit, or external inspection.

Value for Money conclusion

Key Value for Money Risks

Risk identified in our audit plan dated February 2018	How we responded to the risk	Findings and conclusions
Continuation of risk from the previous page.	Continuation of risk from the previous page.	• None of the Council's assurance mechanisms identified the significance of these problems at an early stage, meaning action was not taken as early as it could have been in response. Risk and issues at ground level were not always heeded. None of these issues were identified by any independent assurance reviews. Furthermore, action was only taken when the interim chief executive paused the programme upon becoming concerned at requests for additional funding, or when governance issues were articulated and pursued by individuals outside of the Council's core assurance, governance and oversight mechanisms. It was only once this took place that senior management became fully aware of the potential deficiencies in place and, once aware, took action. Once senior management was made aware, their response was appropriate and effective. Had assurance and governance mechanisms and arrangements functioned more effectively, senior management would have been in a position to have identified the issues and taken action sooner. • As such, the programme continued to operate with insufficient arrangements for longer than it needed to. This may have resulted in decisions being made, and costs being incurred, unnecessarily. The Council's view is that, whilst this may be the case, costs incurred are not 'wasted' costs, as they have supported the Council's learning and development in the evolution of the programme arrangements and, the Council contends, many necessary changes were still delivered. However, the insufficient arrangements mean progress against this significant risk area has been slower than planned, consuming significant quantities of management time and preventing the Council from moving forward more quickly in developing its transformation of services for residents and taxpayers. It is also not clear whether certain decisions, which have incurred cost for the Council and taxpayers, would still have been made had the governance arrangements operated more effectively and had the potential risks and issues been articulated and considered more fully at the time investment decisions were made.

Value for Money conclusion

Key Value for Money Risks

Risk identified in our audit plan dated February 2018	How we responded to the risk	Findings and conclusions
Budget Management You are projecting a £12.9m overspend on the 2017/18 budget. Should the Council utilise the risk and other budget pressures reserve in full this will reduce the overspend to £11.6m. This anticipated overspend is larger than the prior year overspend of £7m. Should the position worsen then this will increase the pressure into 2018/19.	In response to this risk we have: • Updated our understanding of the pressures affecting the 2017/18 budget. • Considered whether the Council have adequate arrangements to manage those pressures and to secure a sustainable financial position. • Considered your approach towards the use of reserves	• Your 2017/18 outturn position delivered a net £16.5m (7.1%) overspend. This resulted from a significant directorate overspend of £20.6m offset by directorate underspends of £2.8m and £1.3m contingency held corporately for risks and other budget pressures. • The Children and Young People directorate overspend of £15.6m (32%) is particularly significant. The Council need to gain a clear understanding of the circumstances that have driven the overspend and put in place robust measures to address these, as well as consider the sufficiency of the budgets in these areas. • There is no guarantee non-departmental underspends will continue, so vigilance over future positions is critical. Failure to deliver to budget could have a significant impact on the Council's financial health. • You increased Lewisham's share of council tax by 4.99% for 2017/18 but, as service pressures are expected to grow, substantial efficiency and transformation savings will continue to be required across the organisation.
Savings and Medium Term Financial Planning You have set a balanced budget for 2018/19 which includes an overall increase in the total Council Tax of 4.20%, and savings of £4.9m. In addition, the budget proposals include a transfer of £5m from the New Homes Bonus reserve to the General Fund, the use of £3.6m reserves. The Council have also set aside £13.4m for identified and unidentified corporate risks and pressures. Going forward the Council will need to identify further savings of circa £35m for 2019/20 and 2020/21. The Council's Medium Term Financial Strategy anticipates that post 2020 approximately £10m per year of savings will be required.	In response to this risk we have: • Considered your arrangements to identify and deliver savings and efficiencies towards achieving a sustainable medium term financial position. • Updated our understanding of how you are working with partners in the local health economy to achieve savings.	• For 2018/19, you have set a balanced budget, with generally robust underlying assumptions. You have increased your share of council tax by 3.99% but, as service pressures are expected to grow, substantial efficiency and transformation savings will continue to be required. • The Medium term financial strategy shows the budget has been balanced for 3 years with the use of reserves. The Council will need to make savings of around £53.6m between 2019/20 and 2022/23 – a significant requirement which highlights the importance of specifically monitoring savings scheme delivery and understanding shortfalls, over and above the existing budgetary monitoring processes. Savings required in 2019/20 are higher than in previous years, when lower levels of savings were not delivered. • There are longer term pressures from demand led services that could continue to manifest in 2018/19 and beyond. • You have have £13m of general fund reserves to cushion against the on-going financial challenges that you face over the medium term. However, these represent only 1.4% of the annual spend, and should be used to invest in future transformation, rather than propping up budgetary overspends. • The first financial forecast for 2018/19 presented to the Public Accounts Select Committee up to May 2018 is forecasting a deficit of £14.8m, with a majority (£13.5m) again due to the Children and Young People directorate. This indicates weaknesses in the budget setting arrangements as the assumptions around the provision of children's social care appear not to have taken into account issues that led to similar overspends in 2017/18. This may indicate further improvements over the accuracy of activity assumptions are required

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	February 2018
Audit Findings Report	20 September 2018
Value for Money report	February 2019
Annual Audit Letter	March 2019

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council/group audit	193,233	193,233	193,233
Audit of Pension Fund	21,000	21,000	21,000
Housing Benefit Grant Certification	30,370	30,370	41,235
Total fees	**244,603**	**244,603**	**255,468**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA) Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for non-audit services

Service	Fees £
Audit related services	
- Teachers Pensions Claim	6,500
- Pooling of Capital Receipts Return	3,500
Non audit services - Place analytics subscription. Fee is for a three year subscription from 2016-17	26,000

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/group. The table above summarises all non-audit services which were identified.

- We have considered whether non-audit services might be perceived as a threat to our independence as the Council/group's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council/group's policy on the allotment of non-audit work to your auditor.

B. Recommendations

We identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management. 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.

	Recommendations	Response
1	As you re-design your programme governance arrangements, consider the role of your assurance functions in providing assurance over the programme as a whole, and with 'deep dives' as appropriate. Ensure there is sufficient segregation of duties between management and oversight of the programme (a level 2 line of defence), and independent assurance provided by audit functions (a separate, level 3 line of defence).	
2	Clearly annotate your overarching transformational strategy and vision so that all officers are clear on the aims and objectives and what the future service delivery entails.	
3	Ensure you consider fully the required skills, resource and expertise is required, and undertake a capability and skills audit against current establishment to identify potential skills gaps and mitigate the risks arising.	
4	Map interdependencies across projects.	
5	Prior to relaunching any of the paused projects detailed benefits realisation assessments need to be undertaken. Business cases should include a detailed assessment of strategic, financial and non-financial benefits to be gained and a clear implementation strategy (including required training) for realising said benefits.	
6	Ensure the Project Management Office is independent from day to day project activity, and plays an effective role in assuring information is accurate and supported before it is presented to the programme board.	
7	Ensure routine gateway reviews are undertaken at key stages of the programme and projects.	
8	Ensure a culture is in place which encourages "bad news", as well as "good news" to be reported.	
9	The transformation project needs to be aligned to your Medium Term Financial Strategy with clear financial analysis of the expected savings that will be generated from projects.	
10	Implement the new governance structures that will give senior management the strategic oversight and responsibility for delivering the transformation projects. Ensure risk identification is supported with appropriate skill-set and capability within projects, and that escalation and reporting arrangements are robust and effective.	
11	Undertake robust post implementation reviews across all transformation projects and ensure success factors and lessons learned are spread across projects.	
12	There may be lessons to be learnt in the recruitment of a replacement chief executive. Members should reflect on what those lessons may be and how future recruitment can be undertaken to minimise the risk of recurrence of the experience in 2018.	

B. Recommendations

	Assessment	Issue and risk	Recommendations
1	●	The savings programmes were not directly monitored, as monitoring was undertaken only on overall budgets. In our view, this results in a lack of transparency and clarity in identifying whether the overspends are the result of under-delivery of savings plans or genuine unavoidable pressures from demand increases. Without this clarity, you may not be able to properly assess the robustness of future plans and make an informed judgement as to the deliverability of the £13.0m of additional savings in the 2018/19 budget. This also risks hampering your ability to make informed decisions in response, and your ability to properly assess performance in delivering transformational savings.	We would recommend strengthening governance in this area by specifically monitoring the delivery of savings programmes and the success of the schemes involved and, importantly, where savings are not delivered as planned, identifying and explaining the reasons behind this. This will also enable you to determine whether overspends are due to failed savings programmes or deficiencies in the budget setting and delivery processes. It is important to understand these distinctions as the responses needed in each case may differ.
2	●	The financial forecast reports contained mitigations that were expected to be achieved in the first half of the year but were not, which reduced the forecast deficit position until the end of the year. This prevented management and members from gaining a full understanding of the levels of and reasons behind overspends.	We recommend presenting more information around the mitigations included in the forecast outturn reports to enable closer scrutiny of these, to enable greater monitoring in respect of unexpected deterioration of the financial position at the end of the year.
3	●	Your reserves strategy could be enhanced; at the moment it does not set an explicit minimum level of General Fund reserves with which you are comfortable. In addition, the strategy should detail the plans you have over the use of the reserves and, given their one off nature, the 'return on investment' you hope to achieve from strategic investment of these reserves over the medium term to support your transformation programme and efficiency schemes.	We recommend you develop a more comprehensive reserves strategy, detailing the plans you have over the use of the reserves and the 'return on investment' you hope to achieve from strategic investment of these reserves over the medium term. This would support one-off monies being used effectively to support the transformation needed to remain financially sustainable.

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