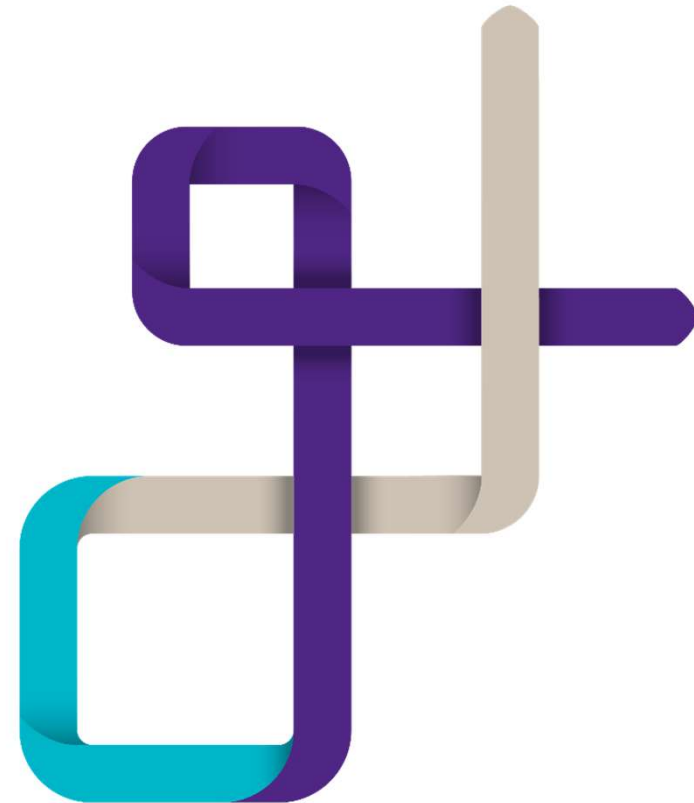


External Audit Plan

Year ending 31 March 2019

London Borough of Lewisham and London Borough of Lewisham Pension Fund
December 2018



Contents

Section	Page
1. Introduction	3
2. Headlines	4
3. Key matters impacting our audit approach of the Authority	5
4. Key matters impacting our audit approach of the Fund	6
5. Audit approach	7
6. Group audit scope and risk assessment	8
7. Significant risks identified	9
8. Other risks	12
9. Other matters	13
10. Materiality	14
11. Value for Money arrangements	15
12. Audit logistics & fees	17
13. Independence & non-audit services	18

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority and Fund or all weaknesses in your internal controls. 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.

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Introduction

Our Team



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Purpose

This document provides an overview of the planned scope and timing of the statutory audits of the London Borough of Lewisham ('You') and Lewisham Pension Fund "the Fund" for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Authority and the Fund. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audits

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Council, Group and Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Panel); and
- Your Value for Money arrangements in place for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Panel of your responsibilities.

Our audit approach is based on a thorough understanding of the your business and is risk based.

Headlines

Group Accounts	You are required to prepare group financial statements that consolidate the financial information of Lewisham Homes Limited and Catford Regeneration Partnership Limited.
Significant risks	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as follows:</p> <p>London Borough of Lewisham</p> <ul style="list-style-type: none">• management override of controls• valuation of property, plant and equipment being materially misstated• valuation of pension fund net liability being materially misstated• the implementation of the new general ledger resulting in material misstatements across the accounts <p>Lewisham Pension Fund</p> <ul style="list-style-type: none">• management override of controls• the valuation of Level 3 investments being materially misstatement• the implementation of the new general ledger resulting in material misstatements across the accounts <p>We will communicate significant findings in these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.</p>
Materiality - Authority	We have determined planning materiality to be £16.5m (PY £16.5m) for the group and £16.2m (PY £16.2m) for the Authority, which equates to 1.75% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £820k (PY £820k).
Materiality – Pension Fund	We have determined materiality at the planning stage of our audit to be £13m (PY £13m) for the Fund, which equates to 1% of your net assets for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £650k (PY £650k).
Value for Money arrangements (Authority Only)	<p>Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:</p> <ul style="list-style-type: none">• Budget Management• Savings plans and medium term financial planning• Transformation governance• Brexit
Audit logistics	<p>Our interim visit will take place in January and February 2019 and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report.</p> <p>Our fee for the audit will be £148,789 (PY: £193,233) for your audit and £16,170 (PY: £21,000) for the Fund, subject to you delivering a good set of financial statements and comprehensive and accurate supporting working papers, and responding to audit queries promptly.</p>
Independence	We have complied with 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..

Key matters impacting our audit

Key business risks

The wider economy and your financial position

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. You have set a balanced budget for 2018/19 which includes a £5.0m reserve transfer from the New Homes Bonus reserve to the General Fund for the third consecutive year and a further £3.6m one-off use of reserves. You have increased your share of council tax by 3.99% to provide an extra £10.2m, and identified planned further savings of £4.86m. The current forecast for 2018/19 is an overspend of £11.4m (at July 2018), of which £1.3m relates to previously agreed but as yet undelivered cuts. The Children and Young people directorate is responsible for the majority of the overspend with the key drivers being cost of placements for looked after children and staffing spend. To put your finances on a sustainable footing, the Medium Term Financial Strategy identifies the need for £30m of ongoing cuts in the two years to 2020/21 - £17m in 2019/20 and £13m in 2020/21. This is on top of the need to address the persistent in-year overspend in Directorate budgets.

Implementation of Oracle Cloud

During the year you have migrated your financial ledger from Oracle to Oracle Cloud, with Human Resources and payroll functions expected to migrate in April 2019. The move to the new financial ledger creates several risks including ensuring the quality of existing data on Oracle is verified and then transferred accurately and completely to Oracle Cloud. You also need to ensure that staff are properly trained on the new system and you continue to pay suppliers in accordance with agreed terms and conditions.

Changes in senior management and Members

The local elections in May 2018 resulted in changes to Members. The revised Cabinet includes six Members that are new to this role. Your Chief Executive has recently departed after only 7 months in post and you currently have interim arrangements in place. You are looking to provide a period of stability for the Council following a difficult 12 months.

Transformation

You are revamping your transformation governance arrangements following the identification of some significant weaknesses therein. Transformation is considered critical to your long term financial sustainability, and is required to help offset the significant risks presented by the savings requirements in the MTFS. Your plans are ambitious and complex and require robust arrangements. You are working to implement stronger arrangements to support the scale of transformation change envisaged and provide continuing improvements to tax payers.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of your group and will review related disclosures in the financial statements.
- We will consider your arrangements for supporting your ambitious transformation programme.
- We will follow up the previous year recommendations in our VfM work.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.
- We will invite members of your finance team to our local government final accounts workshops, to discuss financial reporting issues at an early stage and facilitate cross-council discussion in respect of key issues impacting the financial statements.

- You will see changes in the terminology we use in our reports that will align more closely with the ISAs
- We will ensure that our resources and testing are best directed to address your risks in an effective way.

- We identified a significant audit risk relating to the data migration to the new ledger .Our IT auditors will review the process over the data migration and ensure the data transfer is complete and accurate .
- We will continue to engage with Members and Senior Officers to assess how you are performing in addressing your challenges.

Key matters impacting our audit of the Fund

External Factors		Internal Factors	
<p>SI 493/2018 – LGPS (Amendment) Regulations 2018</p> <p>Introduces a new provision for employers to receive credit for any surplus assets in a fund upon ceasing to be a Scheme employer. This could potentially lead to material impacts on funding arrangements and the need for updated Funding Strategy Statements.</p> <p>Guaranteed Minimum Pension (GMP)</p> <ul style="list-style-type: none"> Pension funds are continuing to work through the GMP reconciliation process. In January 2018 the government extended its “interim solution” for indexation and equalisation for public service pension schemes until April 2021. Currently the view is that the October 2018 High Court ruling in respect of GMP equalisation is therefore not likely to have an impact upon the LGPS. 	<p>Changes to the CIPFA 2018/19 Accounting Code</p> <p>The most significant changes relate to the adoption of IFRS 9 Financial Instruments. In practice, IFRS 9 is anticipated to have limited impact for pension funds as most assets and liabilities held are already classed as fair value through profit and loss.</p> <p>The Pensions Regulator (tPR)</p> <p>tPRs Corporate Plan Corporate for 2018-2021 includes three new Key Performance Indicators (KPIs) directly related to public service pension schemes and TPR has chosen the LGPS as a cohort for proactive engagement throughout 2018 and 2019.</p>	<p>New audit methodology</p> <p>We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation and more easily incorporate our knowledge of the Pension Fund into our risk assessment and testing approach.</p>	<p>Implementation of Oracle Cloud</p> <p>As explained on page 5 the move to Oracle Cloud represents a significant risk and this risk will equally apply to the Pension Fund.</p> <p>Pooling</p> <p>The Fund remains committed to pooling its assets with the London Collective Investment Vehicle (LCIV) where suitable mandates become available. However, to date none of the funds launched by the LCIV have been funds that the Fund is invested in or planning to invest in. The Fund is implementing the manifesto commitment to move away from fossil fuel investments and is seeking investment opportunities in renewable energy within the infrastructure asset class or at the LCIV, for both steady income and the avoidance of stranded assets.</p>

Our response			
<ul style="list-style-type: none"> We will continue to monitor the position in respect of GMP equalisation and reconciliation. For pension funds the immediate impact is expected to be largely administrative rather than financial. 	<ul style="list-style-type: none"> We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops. As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code. We will keep under review any interaction the Fund has with tPR and tailor our audit approach where necessary. 	<ul style="list-style-type: none"> You will see changes in the terminology we use in our reports that will align more closely with the ISAs. We will be testing more of your controls over contributions and pensions payable. We will ensure that our resources and testing are best directed to address your risks in an effective way. 	<ul style="list-style-type: none"> We identified a significant audit risk relating to the data migration to the new ledger. See page 5. Our IT auditors will review the process over the data migration and ensure the data transfer is complete and accurate – refer to the audit plan risk table for help in completing this section Whilst we do not consider the transfer of assets to the pool as a significant risk we will tailor our approach to gain assurance in respect of the completeness and accuracy of the transactions should you take up any of the future mandates utilised by CIV.

Audit approach

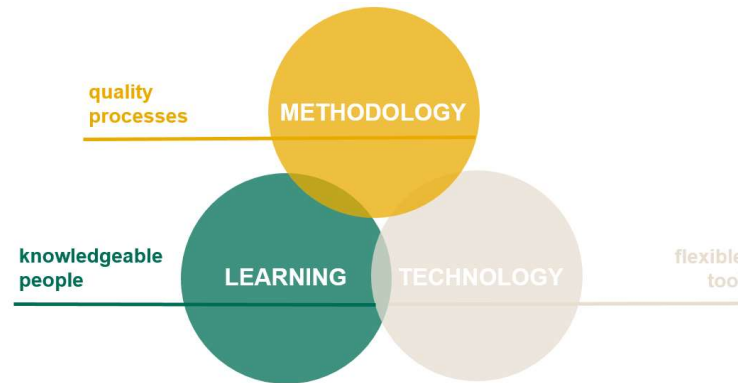
Use of audit, data interrogation and analytics software

LEAP



Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft



IDEA



- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also use other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

Appian



Business process management

- Clear timeline for account review:
 - disclosure dealing
 - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

Info



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



REQUEST & SHARE

- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring



ASSESS & SCOPE

- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment



VERIFY & REVIEW

- Automate sampling requests
- Download automated work papers



INTERROGATE & EVALUATE

- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs



FOCUS & ASSURE

- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance



INSIGHTS

- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as your group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The group audit does not include the Pension Fund.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
London Borough of Lewisham	Yes		<ul style="list-style-type: none"> • Management override of controls • Valuation of property, plant and equipment • Valuation of pension fund net liability • Implementation of new general ledger 	Full scope UK statutory audit performed by Grant Thornton UK LLP
Lewisham Homes Limited	No		<ul style="list-style-type: none"> • Management override of controls • Valuation of property, plant and equipment 	Audit or one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements.
Catford Regeneration Partnership Limited	No		None	Analytical review performed by Grant Thornton UK LLP.

Key changes within the group:

- There have been no significant changes within the group

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The risk that revenue includes fraudulent transactions	Council and Fund	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of your and the Fund's revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including yourselves, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for you.</p>
Management over-ride of controls	Council and Fund	<p>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. The group and Fund face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for you and the Fund, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals ; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Council	<p>You revalue your 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 (£2.6 billion) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2019.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuations were carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into your asset register and financial statements; and • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
Valuation of the pension fund net liability	Council	<p>Your pension fund net liability, as reflected in your balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£640 million in your balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of your pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that your pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out your pension fund valuation; • assess the accuracy and completeness of the information provided by you to the actuary to estimate the liability; • test 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; • undertake 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.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 Investments	Fund	<p>By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£30 million) and the sensitivity of this estimate to changes in key assumptions</p> <p>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.</p> <p>Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2019.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes for valuing Level 3 investments; • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met; • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2019 with reference to known movements in the intervening period; and • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert.
Incomplete or inaccurate financial information transferred to the new general ledger	Council and Fund	<p>In May 2018, you implemented a new cloud based general ledger system for the 2018/19 financial year. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system.</p> <p>We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • review your arrangements and controls over the transfer of data from the old system to the new system, and the controls over the completeness and accuracy of data transferred • map the closing balances from the 2017/18 general ledger to the opening balance position in the new ledger for 2018/19 to assess accuracy and completeness of the financial information, undertaking sample testing as appropriate; and • complete an information technology (IT) environment review to document, evaluate and test the IT controls operating within the new general ledger system.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 2 Investments	Fund	<p>While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.</p> <p>We therefore identified the valuation of the Fund's Level 2 investments as an other risk</p>	<p>We will:</p> <ul style="list-style-type: none"> gain an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls; assess the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; agree the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and seek explanations for variances; request year-end confirmations from investment managers and custodian; where necessary, test a sample of unit values used to value level 2 investments to externally quoted information sources, or where not quoted, to unit values provided by the investment manager's own independent custodian. We may consider the use of our specialist valuation team; and for direct property investments agree values in total to valuer's report and undertake steps to gain reliance on the valuer as an expert.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other matters

Other work

The Fund is administered by you, and the Fund's financial statements form part of your financial statements.

Therefore, in addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities in respect of you and the Fund, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with your financial statements and the Fund on which we give an opinion, and consistent with our knowledge of you.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about yours or Fund's 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
 - issue of a report in the public interest or written recommendations you or Fund under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of your audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

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 group or the Fund's 's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Matter	Description	Planned audit response
1	<p>Calculation and determination</p> <p>We have determined planning materiality (financial statement materiality determined at the planning stage of the audit) based on professional judgment in the context of our knowledge of you and the Fund, including consideration of factors such as stakeholder expectations, financial stability and reporting requirements for the financial statements.</p> <p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> – estimate the tolerable level of misstatement in the financial statements – assist in establishing the scope of our audit engagement and audit tests – calculate sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements 	<ul style="list-style-type: none"> • We have determined financial statement materiality based on a proportion of the gross expenditure of the group and you for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £16.5m (PY £16.5m) for the group and £16.2m (PY £16.2m) for the Authority, which equates to 1.75% of your prior year gross expenditure on cost of services. • For the Fund, we have determined financial statement materiality based on a proportion of the Fund's net assets. In the prior year we used the same benchmark. Our materiality at the planning stage is £13m (PY £13m) which equates to 1% of your actual net assets for the year ended 31 March 2018.
2	<p>Other factors</p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements. We design our procedures to detect errors in specific accounts at a lower level of precision which we deem to be relevant to stakeholders.</p>	<ul style="list-style-type: none"> • We have not identified any balances where we will apply lower materiality levels. We will undertake testing on senior officers remuneration which is below the materiality levels as these are considered sensitive disclosures.
3	<p>Reassessment of materiality</p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<ul style="list-style-type: none"> • We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of materiality
4	<p>Matters we will report to the Audit Panel</p> <p>Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Panel any unadjusted misstatements of lesser amounts, other than those which are 'clearly trivial', to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>	<ul style="list-style-type: none"> • In the context of the group and you, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £820k (PY £820k). • In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £650 (PY £650k). • If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Panel to assist it in fulfilling its governance responsibilities.

Value for Money arrangements

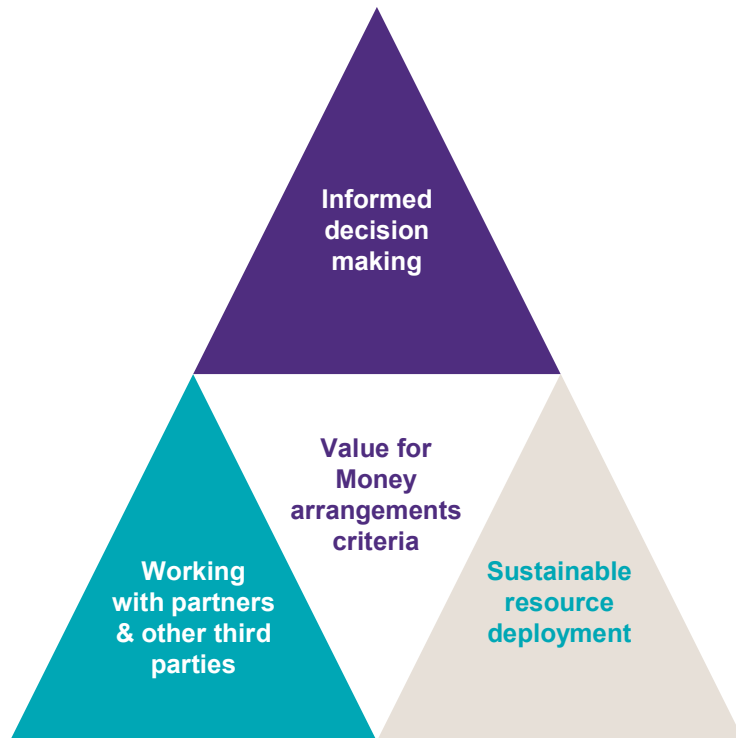
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, excluding Pension Funds, auditors are required to give a conclusion on whether you have proper arrangements in place to secure value for money.

The guidance 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:



Significant VFM risks – page 1 of 2

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



Budget Management

You are currently projecting a £11.4m overspend on the 2018/19 budget. This anticipated overspend is significant and should the position worsen then this will increase the pressure into 2019/20.

In response to this risk we will:

- Assess your understanding of, and responses to, the pressures and causal factors contributing to the 2018/19 overspend.
- Consider whether you have adequate arrangements to manage those pressures and to secure a sustainable financial position.
- Review your plans to respond to pressures within the Children and Young People Directorate
- Consider your approach towards the use of reserves.



Savings and medium term financial planning

You have set a balanced budget for 2018/19 which includes a £5.0m reserve transfer from the New Homes Bonus reserve to the General Fund for the third consecutive year, and a further £3.6m one-off use of reserves. You have increased your share of council tax by 3.99% to provide an extra £10.2m of income, and identified planned further savings of £4.86m. To put your finances on a sustainable footing, the Medium Term Financial Strategy identifies the need for £30m of ongoing cuts in the two years to 2020/21 - £17m in 2019/20 and £13m in 2020/21. This is on top of the need to address the persistent in-year overspend in Directorate budgets.

In response to this risk we will:

- Consider your arrangements to identify and deliver savings and efficiencies to support a sustainable medium term financial position.
- Consider the feasibility of planned savings and the assessed risk of achievement
- Review the arrangements for identifying and monitoring risk, and taking appropriate action in the event of non-realisation of planned savings
- Assess how well the MTFS reflects planned timescales for the delivery of savings from your transformation programme, and how well aligned the MTFS is with the planned financial benefits anticipated by the transformation programme.

Value for Money arrangements continued

Significant VFM risks – page 2 of 2

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



Transformation

You are currently re-engineering your governance arrangements to strengthen programme governance across your transformation schemes. This followed the identification of significant weaknesses in the previous arrangements, which you have acted to address. You are also reviewing and assessing the progress and potential benefits realisation across all current transformational schemes.

In response to this risk we will:

- Review your overarching programme management arrangements
- Assess the extent to which planned transformation outcomes are reflected within the MTFS
- Follow up the recommendations raised within our prior year value for money work.



Brexit

With the UK due to leave the European Union on 29 March 2019, there will be national and local implications resulting from Brexit that will impact on you, which you will need to plan for.

In response to this risk we will:

- Review your arrangements and plans to mitigate any risks on Brexit. Our review will focus on areas such as workforce planning, supply chain analysis and impacts on finances including investment and borrowing as well as any potential impact on the valuation of your assets.

Audit logistics, team & fees



Paul Grady, Engagement Lead

Paul will be the main point of contact for the Chief Executive, statutory officers and Members. Paul will share his wealth of knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Senior Management and the Audit Panel. Paul will ensure our audit is tailored specifically to you and is delivered efficiently. Paul will review all reports and the team's work focussing his time on the key risk areas to your audit.

Paul Jacklin, Senior Audit Manager

Paul will work with the senior members of the finance and executive teams, ensuring early delivery of testing and agreement of accounting issues on a timely basis. Paul will attend Audit Panel meetings, undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable to all. Paul will work with Internal Audit to secure efficiencies and avoid duplication, providing assurance for your Annual Governance Statement.

Andy Ayre, Audit Manager

Andy will support Paul in his work to ensure the early delivery of audit testing and lead on a number of complex accounting issues. He will oversee the implementation of Grant Thornton's new audit methodology and perform reviews of the team's work.

Lakshmi Forster, Audit Incharge

Lakshmi will lead the onsite team and will be the day to day contact for the audit. Lakshmi will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Lakshmi will undertake the more technical aspects of the audit, and coach the junior members of the team.

Audit fees

The planned audit fees are £148,789 (PY: £193,233) for the financial statements audit of the group, and £16,170 (PY: £21,000) for the financial statements audit of the Fund, completed under the Code, which are inline with the scale fees published by PSAA. In setting your fee, we have assumed that the scope of the audits, do not significantly change.

Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, you must ensure that:

- All audit queries in our interim and final work are responded to in a timely manner and all required samples provided to enable completion of the interim audit prior to the March Audit Panel.
- The draft accounts are provided to us by 31 May and are fully accurate with minimal errors. Supporting schedules to all figures in the accounts and other working papers are provided to us by 31 May and in accordance with the agreed upon information request list. This must include all notes, the narrative report and AGS.
- The agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples. All supporting schedules are clearly presented and agree to figures in the accounts.
- Key management and accounting staff identified in our information request list are available throughout the duration of our audit visits to help us locate information and to provide explanations.
- All audit queries are resolved promptly and fully and within agreed timescales.

If any of the above requirements are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters. 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 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. 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 December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority and the Fund. The following other services were identified.

Service	£	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work for 2017/18 was £3,500 in comparison to the total fee for the audit of £148,789 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 mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers' Pension return	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work for 2017/18 was £6,500 in comparison to the total fee for the audit of £148,789 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 mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefits claim	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work for 2017/18 was £30,370 in comparison to the total fee for the audit of £148,789 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 mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
Place Analytics subscription for 3 years from 2016/17	26,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this for 3 year period from 2016/17 was £26,000 in comparison to the total fee for the audit of £148,789 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 mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Panel. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.



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