Annual Audit Letter
London Borough of Lewisham

Year ended 31 March 2020

December 2020

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at London Borough of Lewisham Council (the Council) and its subsidiaries, (the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the group 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 on 4 November 2020.

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 £16,500,000, which is approximately 1.5% of the group's gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 26 November 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the group's land and buildings and the council's share of the pension fund's property, private equity and diversified alternative investments as at 31 March 2020 given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the group's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We are in the progress of completing our work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 26 November 2020.
Certificate	We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we have certified completion of the prior year audits (certificates were previously held open due to prior year objections which have now been determined) and completed our work on the Whole of government Accounts return.

Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council.

The Council has faced extensive front-line challenges as a result of the pandemic such as administration of grants to businesses and closure of schools with additional complexities of reopening services under new government guidelines. The Council has responded well to the challenges caused by the pandemic.

Throughout the closedown period we held regular meetings with the Council's key finance staff to discuss the impact of Covid-19. We also discussed the financial implications in terms of asset valuations, going concern and provision for credit losses in advance of the submission of the financial statements.

There have not been any changes in key financial processes that impacted on our audit approach. Restrictions for non-essential travel have meant both teams have had to be flexible in approaches to sharing information. We agreed to use video calling to watch the finance team run the required reports to gain assurance over the completeness and accuracy of information produced by the Council.

We made more use of conference calls and emails to resolve audit queries. Both teams utilised a query log to track and resolve outstanding items. Weekly meetings were held with senior finance staff to highlight key outstanding issues and findings to date, ensuring that the audit process was as smooth as possible. The audit was completed ahead of the 30 November 2020 revised deadline.

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
December 2020

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the group's 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 group financial statements to be £16,500,000, which is approximately 1.5% of the group's gross cost of services. We determined materiality for the audit of the Council's financial statements to be £16,000,000, which is 1.5% of the Council's gross cost of services. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We set a lower threshold of £800,000, above which we reported errors to the Audit Panel in our Audit Findings Report.

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 to check it is consistent with our understanding of the Council 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 was based on a thorough understanding of the 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 Financial Statements

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
Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation. • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates. • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen. Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.	As part of our audit work we: • Worked with management to understand the implications of the response to the Covid-19 pandemic on the Council's ability to prepare the financial statements including updating financial forecasts and assessment of the implications for our materiality calculations. • Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. • Evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic. • Evaluated whether sufficient audit evidence could be obtained through remote technology. • Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates. • Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment. • Discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.	The Council's property valuation specialists reported that valuations of land and buildings were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. In addition, the fund managers for the Pension Fund's pooled property, Infrastructure, Private Equity and Private Debt investments declared material valuation uncertainties around the valuation of these investments. This impacts upon the valuation of the net defined benefit liability in the Council's balance sheet. Management have disclosed these uncertainties in Note 4 to the Council's financial statements. These disclosures were referred to in our auditor's report in emphasis of matter paragraphs. These references do not constitute qualifications of the audit opinions.

Audit of the Financial Statements

Significant Audit Risks - continued

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

Audit of the Financial Statements

Significant Audit Risks - continued

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

Audit of the Financial Statements

Significant Audit Risks - continued

These are the 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 internal controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. In particular journals, management estimates and transactions outside the course of business are areas susceptible to management override.	As part of our audit work we: • Evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determine the criteria for selecting high risk unusual journals. • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	We have not identified any material issues from our work.

Audit of the Financial Statements for 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
Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation. • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates. • For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions. • Whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.	As part of our audit work we: • Worked with management to understand the implications the response to the Covid-19 pandemic had on the pension fund's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. The draft financial statements were provided on 30 June 2020. • Evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic. • Evaluated whether sufficient audit evidence could be obtained through remote technology. • Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as the investment valuations. • Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment. • Discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.	Our audit opinion was unqualified including an Emphasis of Matter paragraph, highlighting the material uncertainties caused by Covid-19 disclosed by the Pension Fund Investment Managers in their valuation of Private Equity, Infrastructure and Property investments. The Emphasis of Matter is not a modified or qualified opinion and emphasises for readers of the accounts the Pension Fund Accounting policy Note X where the Pension Fund has disclosed more details on the uncertainty.

Audit of the Financial Statements Pension Fund

Pension Fund Significant Audit Risks - continued

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
Valuation of level 3 investments The Fund values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. 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 (£119 million) and the sensitivity of this estimate to changes in key assumptions 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. Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020.	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. • Obtained audited financial statements for all the Harbourvest Private Equity Funds (December 2019) and JP Morgan Infrastructure Fund (December 2019) and compared the audited fund valuation with the Fund Manager capital statements at the same period. We checked any cash movements between December 2019 and March 2020. • Considered the competence, expertise and objectivity of any management experts used. • Verified the investment balances to the fund manager and custodian reports.	Our audit opinion was unqualified including an Emphasis of Matter paragraph, highlighting the material uncertainties caused by Covid-19 disclosed by the Pension Fund Investment Managers in their valuation of Private Equity, Infrastructure and Property investments. The Emphasis of Matter is not a modified or qualified opinion and will just point readers of the accounts to the Pension Fund Accounting policy Note W where the Pension Fund has disclosed more details on the uncertainty. Subsequent to receipt of the draft financial statements, the Fund Manager Harbourvest provided updated 31 March 2020 capital statements which take into consideration impact on Covid 19. The valuations of the Harbourvest investments has fallen by £2,059k. The Fund has agreed to make the appropriate adjustment.

Audit of the Financial Statements Pension Fund

Pension Fund Significant Audit Risks - continued

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 internal controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. In particular journals, management estimates and transactions outside the course of business are areas susceptible to management override.	As part of our audit work we: • Evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determine the criteria for selecting high risk unusual journals. • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	We did not identify any material issues from our work.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the group's financial statements on 26 November 2020.

Preparation of the financial statements

The group presented us with draft financial statements at the end of June 2020 in advance of the amended timeframe. We are please to report that there has been an improvement in the timeliness responses to audit queries and requests for additional information this year despite the challenges of remote working.

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

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the group's Audit Panel on 4 November 2020. The key issues were as follows:

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

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the draft Statement of Accounts in July 2020.

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 the Council and with our knowledge of the Council.

Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of London Borough of Lewisham on 26 November 2020. We also reported the key issues from our audit of the pension fund accounts to the Council's Audit Panel on 4 November 2020.

Subsequent to receipt of the draft financial statements, the Fund Manager Harbourvest provided updated 31 March 2020 capital statements which take into consideration impact on Covid 19. The valuations of the Harbourvest investments had fallen by £2,059k from the balance disclosed in the draft financial statements. Management adjusted the pension fund financial statements.

Whole of Government Accounts (WGA)

We are still undertaking our work on the Council's Whole of Government Accounts.

Certificate of closure of the audit

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we have certified completion of the prior year audits (certificates were previously held open due to prior year objections which have now been determined) and completed our work on the Whole of government Accounts return.

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 April 2020 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 risks where we concentrated our work.

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

As part of our Audit Findings report agreed with the Council in November 2020, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Budget Management You are currently projecting a £5.4m overspend on the 2019/20 budget. There remain significant pressures in Children & Young Peoples and the Housing, Regeneration and Environment directorates. The anticipated overspend will increase the pressure into 2020/21.	As part of our work we have: • Reviewed the Council's in year budget monitoring and outturn reports. • Reviewed the Council's 2020-21 budget. • Reviewed the Council's updated Medium Term Financial Plans. • Reviewed the Council's Covid-19 returns to central government.	During 2019/20 the Council issued instructions to budget managers that re-affirmed the importance of controlling expenditure and delivering the Council's budget. Monitoring reports throughout the year forecast an overspent position. The final net revenue overspend of £5.9m is consistent with that being reported throughout the year. The impact of Covid-19 on the revenue outturn for 2019/20 was minimal due to the pandemic arising within the final few weeks of the period. However, the impact on the 2020/21 budget is significant in respect of increased expenditure and loss of income. The pandemic may also have a significant impact on the Council's ability to realise planned savings, efficiency programmes and service transformation within planned timeframes. The overspend of £5.9m is an improvement in the financial position delivered in 2017/18 and 2018/19, demonstrating that the Council has made some progress in controlling budgets. However, this is the third successive year in that the main element of the overspend has been expenditure on children's social care (£4.3m overspend). The Council is continuing to work at identifying and implementing plans to manage overspending in this area, but this has not been sufficient to balance the budget for 2019-20. As the position is improved on previous years and the Council has a good understanding of the reasons for overspends which are mainly in the demand led service of Children's services we do not propose an unqualified opinion. The Children services does not have any inadequate inspections from OSTED and is on an upward trajectory.

Value for Money conclusion

Value for Money Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Medium Term Financial Planning In the context of future funding uncertainty arising from the fairer funding review and longer term settlement decisions, combined with the reduction in your overall General und reserves (including earmarked) over recent years, in Spring 2020 you identified that you would be required to find £40m of savings in the three years to 2023/24 to maintain financial balance.	As part of our work we have: • Reviewed the Council's 2020-21 budget. • Reviewed the Council's stabilisation budget. • Reviewed the Council's updated Medium Term Financial Plans. • Reviewed the Council's Covid-19 returns to central government. • Reviewed the Council's most recent budget monitoring reports. • Compared the Council's levels of reserves with other London Boroughs.	The financial outlook for the Council remains challenging. During 2019/20 and in the period since the year-end, officers have put in place arrangements to ensure that risks and uncertainties are given due consideration in short and medium-term financial planning and the impact is effectively modelled to the best of their ability, drawing on external support where knowledge gaps or wider unknowns are identified. The outturn position for 2019/20 is in line with expectations. Management have an understanding of the key drivers for income and expenditure relating to core services and their ability to understand the impact of decisions taken is improving. The Council has sufficient resources in place to meet the expected shortfalls in income and increases in expenditure for 2020/21 arising from the Covid-19 pandemic. The Council is not facing the kinds of immediately challenging decisions to stop delivering services or consider Section 114 notices which comparable local authorities may face. In the medium term, the picture remains far more uncertain as the longer-lasting impact of the pandemic on the economy, in the context of wider financial risks beyond the control of officers or members, remains a significant unknown. Management is conscious of the need to remain responsive to emerging circumstances, whilst keeping sight of longer term strategic goals which underpin future investment decisions from use of reserves.

Value for Money conclusion

Value for Money Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Cultural change The new Chief Executive has spent her first few months listening to staff across the Council and has identified communication, IT, Inclusivity, People and Leadership as key areas of improvement for the Council. The Change Network has been tasked to develop the detail of programmes identifying "quick wins" and working up projects that will strengthen these key areas across the Council. Finally, the Council are currently in the process of realigning the directorate structure to better reflect future service delivery models	As part of our work we have: • Held discussions with senior officers. • Reviewed Chief Executive staff briefings. • Reviewed the communication of the Council's priorities.	The Council have consulted with staff and Members and are implementing the building blocks to assist with enhancing their culture and providing the time and space to enable collaboration, creativity and ideas that will assist with transforming services. At the end of the year the Council have made structural changes in the leadership model to help to tackle key issues. This will help the Council to modernise and to deliver key objectives within the corporate strategy. The Council have been on the front line in responding to the challenges created by Covid-19. This has, not surprisingly, been the main focus over the last few months. It will be important to ensure that momentum is maintained throughout the pandemic so that the quick wins are implemented and structures and governance arrangements are finalised that will help to modernise the Council. It is important that the Council continue to communicate progress to staff and key stakeholders so that they can see that their ideas and plans are being actioned and are making a difference to service delivery.

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	March 2020
Audit Findings Report	November 2020
Annual Audit Letter	December 2020

Fees

	Scale Fee	Agreed Planned Fee £	Agreed Actual fees £
Statutory audit	148,789	182,789	210,189
Audit of Pension Fund	16,170	25,000	28,750
Total fees	**164,959**	**207,789**	**238,939**

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of 164,959 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work.

We have been discussing the issue of the 'cost of Covid' with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19- guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.

Fee variations have been agreed with management, but are subject to PSAA approval.

A. Reports issued and fees

Fee variation for the Council		
Area	**Reason**	**Fee Agreed**
Raising the bar increased challenge and reduction in materiality.	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. For major audits, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling.	£11,500
Pensions – IAS 19	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.	£4,000
PPE Valuation – work of experts	We have engaged our own audit expert – (Gerald Eve) and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. We estimate that the cost of the auditors expert will be in the region of £5,000. The 2019/20 year also included detailed work on beacons.	£9,500
New standards /developments and requirement for group accounts	Additional work will be required for disclosures required in 2019/20 under IAS8 plus the audit of the group accounts which is not included within the scale fee.	£5,000
Audit delays	Delays in our work caused by the Council having to obtain a further IAS19 revaluation and a further valuation of surplus assets. There were also several adjustments though the statements which took additional time to test.	£4,000
Additional Covid costs 15%	The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: • Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. • Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. • Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. • Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.	£27,400
Total		£61,400

A. Reports issued and fees continued

Fee variation for the Pension Fund		
Area	**Reason**	**Fee Agreed**
Raising the bar increased challenge	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.	£5,000
Valuation of Level 3 Investments	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of level 3 investments this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion.	£3,830
Additional Covid costs 15%	The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: • Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. • Management's assumptions and estimates - there is increased uncertainty over many estimates including investment valuations. We have include an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values. • Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working.	£3,750
Total		£12,580

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	
- Teachers Pension Return	£6,500
- Pooling of Housing Capital Receipts	TBC
- Housing benefits subsidy claim	TBC
Non-Audit related services	
- None	

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the 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 group's auditor and have ensured that appropriate safeguards are put in place.

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