

# London Borough of Lewisham and London Borough of Lewisham Pension Fund audit plan

Year ending 31 March 2021

March 2021



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# Key matters

## Factors

### Impact of Covid 19 pandemic

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the Council's normal operations. Throughout the pandemic the Council has managed to keep critical services going. The Council has delivered food parcels, accommodated rough sleepers, boosted hardship funds, made welfare calls to vulnerable people, assisted tenants struggling to pay rents and service charges, provided further support to residents in receipt of Council Tax Support, replenished food banks and provided more parking permits for key workers throughout the pandemic. The Council has also assisted with testing programmes and vaccine administration by helping with site preparation and logistics and in communications and engagement with local communities to encourage uptake of the vaccine.

Since the start of the pandemic, the Council has been on the front line in distributing grants to businesses in Lewisham to help them offset the impacts of Covid-19. Grants have been made available through a number of Government schemes, such as the business rates grants launched in spring 2020, and the Local Restrictions Support Scheme which was introduced with the tier system in late autumn 2020. The Council has also delivered the 2020/21 business rates holidays promised by the government.

The Council is now considering how to take forward the benefits from remote working necessitated by the pandemic. This includes further use of flexible working, effective use of office space and reviewing service delivery models to ensure that residents and local communities continue to receive cost effective, efficient quality services.

In addition the Council is implementing an income generation strategy and the development of the new 'Lewisham Way', utilising commercial enterprise and entrepreneurial activities to enhance the fundamental delivery of services. Work has included the development of a commercial culture with the necessary skillset fostered and supported organisationally where barriers to income generating activity are reduced and removed.

### Regeneration

Like the rest of London, Lewisham has gone through a period of rapid growth. This is expected to continue. There are pressing needs for more genuinely affordable homes, modern workspace and jobs along with community facilities and other infrastructure to support a growing population, as well as to tackle deprivation and inequality. Lewisham's Local Plan outlines a number of improvements in specific areas across the borough, proposing a strengthened focus on Lewisham's places to ensure that development is positively managed with communities over the long-term. The plan is focussed on tackling the causes of deprivation and impacts of inequalities, as well as responding to the climate emergency. It seeks to address the opportunities and challenges facing the borough, its communities and people, including those presented by Coronavirus (COVID-19). Despite the current uncertain circumstances brought on by the public health pandemic it will be vital to plan proactively towards a recovery, particularly for the local economy.

There is an increasing lack of council housing across Lewisham: there are currently around 2,300 Lewisham families in temporary accommodation, of which over 700 people are in nightly paid accommodation. The Council is working in partnership with Lewisham Homes on innovative pre-manufactured approaches to develop high-quality housing which can be built quickly and effectively.

## Our response

- We will consider your arrangements for managing the impact of the Covid-19 pandemic as part of our Value for Money work.
- We will consider your arrangements for service transformation and cultural change as part of our Value for Money work.

# Key matters (Continued)

## Factors

### Finances

The Council's financial position over the coming years is challenging. This was already the case before the Covid-19 pandemic with growth pressures in demand led services, such as Children's housing and social care, changing economic conditions and a much greater reliance on income generated locally. The pandemic has resulted in additional spending pressures and a hit to the Council's income streams. In the short term the government is providing financial support to meet some of these pressures, but the Council is utilising reserves and contingencies to reduce the overall financial impact in the current year.

The 2019-20 forecast position as at Quarter 3 shows that there is a forecast overspend of £2.6m after application of £40.3m of additional government funding to support the local authority's response to the Covid-19 pandemic, and after including the forecast extent of irrevocable losses through sales, fees and charges and collection fund income for council tax and business rates. The Children and Young People Directorate continues to have the highest non Covid-19 overspend (£5.2m). The Directorate are undertaking the following measures with a view to reducing costs:

- Ensuring that partner contributions for placements are obtained.
- A high cost placements review board chaired by the Executive Director to ensure that high cost placements are kept to a minimum
- Reviewing and reducing the number of interim and agency staff employed within the directorate
- Introducing directorate specific recruitment controls
- Reviewing all external contracts for care, starting with those of the highest value

The future of local authority funding remains uncertain as new Local Government funding arrangements that were meant to be in place by April 2020 have been delayed. The Fair Funding Review and Business Rate Retention consultations are now due to conclude in 2022/23 at the earliest. The Council has an anticipated budget shortfall of circa £26m over the years 2020/23 to 2024/25. The Council has closed the budget gap for 2021/22 and is proposing a balanced budget which includes £28m of revenue budget cuts, £10m are to address persistent service overspending pressures and £18m will be a reduction in directorate cash limits. There is also £8m of corporate budget risks and pressures from 2020/21 including the £1.5m gain for the reduced cost of concessionary fares. The budget assumes a 4.99% in Council Tax including the 3% increase for Social Care precept.

From 2021/22 and over the following three years, the Council will also invest £518m in the borough's roads, infrastructure, the environment and buildings including £416m for the Housing Revenue Account to invest in the Council's housing stock.

## Our response

- We will consider your arrangements for managing and reporting your financial resources and assessing your financial resilience as part of our audit in completing our Value for Money work. Our work will focus on the measures being undertaken within the Children and Young People directorate to managed budgets.

# Key matters (Continued)

## Factors

## Our response

### Pension Fund developments

Regulatory changes are anticipated to have an impact on the Fund's liabilities. The Fund's actuary expects that the impact of the McCloud case, though not significant, will add approximately 0.9% to the value of overall Fund liabilities, or around £15m at current valuations. Allowances for McCloud were made in the 2019 triennial valuation, and as such it is not expected that employer contribution rates will be materially impacted by the final remedy once announced. The impact of the Goodwin case is expected to increase Lewisham's liabilities by 0.3%, or around £5m at current valuations. However, as with McCloud, allowances were made for the Goodwin changes in the 2019 triennial valuation, and as such the impact on funding and employer contribution rates will be negligible.

The Pension Fund investments continue to recover from the pandemic shock. In the last quarter alone the Fund value increased in value by 5.9% to £1,590 million as at 31 December 2020. In February 2020, following the results of the 2019 triennial valuation, the Pensions Investment Committee agreed to make changes to the Fund's investment strategy to align it with long term funding targets. As part of the review the Pensions Investment Committee has decided on investing 3% of the fund (approximately £48m) with Legal and General Investment Management's (LGIM) UK Build to Rent Fund. This will be financed through disinvesting in Invesco.

In April 2020 the Council transitioned its payroll from Resource Link to Oracle. This will impact on the amount of work we need to complete on the Council's and Pension Fund's accounts to ensure the completeness and accuracy of data that has migrated onto the new payroll system. We will also need to undertake work to assess the design of controls on the new system.

### Accounting and auditing developments

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM) There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Although the implementation of IFRS 16 has been delayed, audited bodies still need to include disclosures in their 2020/21 statements to comply with the requirements of IAS 8. As a minimum, we would expect the Council to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, the accounts should state this.

In the prior year the Council's valuer reported a material uncertainty regarding the valuations of properties due to the Covid 19 pandemic. In addition, there was a material uncertainty in relation to the valuation of the pension fund's private equity, private debt and infrastructure and property investments which impacted both the Council's and Pension Fund position. We will monitor the position for the 31 March 2021 valuations.

- We will undertake audit procedures to ensure the valuation of the Pension Fund's property is fairly stated within the financial statements.

- We will perform additional procedures to gain assurance over the completeness and accuracy of the data transfer to the Oracle payroll system.
- Where any actions have been agreed in respect of matters identified through previous audit work, either on the financial statements or in respect of work on arrangements to secure VFM, we will assess the progress against previously agreed recommendations.
- Members of the finance team attended our annual final accounts workshop during February, hosted by our highly experienced public sector assurance team as they help you prepare for your 2021 financial statements audit by highlighting potential risk areas and providing you with practical advice
- We will continue to provide you with sector updates via our Audit Committee updates.
- We will liaise with the Council's valuer and Pension Fund managers to clarify any potential material uncertainties in 2020-21.

# Introduction and headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of London Borough of Lewisham ('the Council') and the London Borough of Lewisham Pension Fund (the Pension 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 agreed Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council and Pension Fund. We draw your attention to both of these documents.

## Scope of our audit

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's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Panel); and
- Value for Money arrangements in place at the Council 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. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

## Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of Lewisham Homes Limited and Catford Regeneration Partnership Limited.

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

### Council

- The risk that the valuation of land and buildings in the accounts is materially misstated.
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated.
- The risk of management override of controls.
- Incomplete or inaccurate financial information is transferred to the new payroll system

### Pension Fund

- The risk of management override of controls.
- The risk that the valuation of level 3 investments and direct property investments in the accounts is materially misstated
- Incomplete or inaccurate financial information transferred to the new payroll 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 (ISA 260) Report.

## Materiality

### Council

We have determined planning materiality to be £16m for the Council and £16.3m for the Group (PY£16m Council and £16.5m Group), which equates to approximately 1.5% 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 £0.8m (PY £0.8m).

### Pension Fund

We have determined materiality at the planning stage of our audit to be £13 (PY £13m) for the Pension Fund, which equates to approximately 1% of the 2019/20 net assets. 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 £0.65m (PY £0.65m).

# Introduction and headlines cont.



## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

- The Council's arrangements in response to the Covid-19 pandemic and capitalising on the benefits from the different models of service delivery and ways of working bought about by the pandemic.
- The Council's arrangements for setting the Medium Term Financial Plan and achieving financial sustainability.
- The Council's arrangements for service transformation and cultural change.
- The Council's arrangements for working with its key partners to deliver services efficiently and improve the lives of local residents.

## Audit logistics

Our interim visit will take place in March 2021 and our final visit will take place July – September 2021. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £233,389 (PY: £210,189) for the Council and £35,500 (PY: £28,750) for the Pension Fund, subject to the Council and Pension Fund delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

# Group audit scope and risk assessment

In accordance with ISA (UK) 600, as 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.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
London Borough of Lewisham Council	Yes		<ul style="list-style-type: none"> <li>• Management override of controls</li> <li>• Valuation of property, plant and equipment</li> <li>• Valuation of pension fund net liability</li> <li>• Implementation of new payroll system</li> </ul>	Full scope audit performed by Grant Thornton UK LLP
Lewisham Homes Limited	No		<ul style="list-style-type: none"> <li>• Management override of controls</li> <li>• Valuation of property, plant and equipment</li> </ul>	Specific scope procedures on valuation of property plant and equipment to be performed by our audit team.
Catford Regeneration Partnership Limited	No		<ul style="list-style-type: none"> <li>• Management override of controls</li> <li>• Valuation of Investment Property</li> </ul>	Specific scope procedures on valuation of investment property to be performed by our audit team.

## Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one 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 revenue cycle includes fraudulent transactions (rebutted)	Council and Pension 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 the Council and Pension Fund 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"> <li>• There is little incentive to manipulate revenue recognition.</li> <li>• Opportunities to manipulate revenue recognition are very limited.</li> <li>• The culture and ethical frameworks of local authorities, including London Borough of Lewisham, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore, we do not consider this to be a significant risk at for the London Borough of Lewisham or London Borough of Lewisham Pension Fund.</p>	
Management over-ride of controls	Council and Pension 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 council faces 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, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Evaluate the design effectiveness of management controls over journals.</li> <li>• Analyse the journals listing and determine the criteria for selecting high risk unusual journals.</li> <li>• Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.</li> <li>• Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence.</li> <li>• Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

# 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>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 (£2.4 billion) and the sensitivity of this estimate to changes in key assumptions. Management has engaged the services of a valuer to estimate the current value as at 31 March 2021. 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"> <li>• Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work.</li> <li>• Evaluate the competence, capabilities and objectivity of the valuation expert.</li> <li>• Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met.</li> <li>• Engage 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.</li> <li>• Test revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements.</li> <li>• Assess the value of a sample of assets in relation to market rates for comparable properties.</li> <li>• Test 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.</li> </ul>
Valuation of the pension fund net liability	Council	<p>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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£518 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Update 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.</li> <li>• Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work.</li> <li>• Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation.</li> <li>• Assess 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, Goodwin and Guaranteed Minimum Pension cases.</li> <li>• Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability.</li> <li>• 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.</li> <li>• 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.</li> </ul>

# 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)	Pension Fund	<p>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.</p> <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 (£71 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 and/or custodians as valuation experts to estimate the fair value as at 31 March 2021.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Evaluate management's processes for valuing Level 3 investments.</li> <li>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.</li> <li>Independently request year-end confirmations from investment managers and the custodian.</li> <li>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 2020 with reference to known movements in the intervening period.</li> <li>In the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert.</li> <li>Where available review investment manager service auditor report on design and operating effectiveness of internal controls.</li> </ul>
Incomplete or inaccurate financial information transferred to the new payroll system	Council and Pension Fund	<p>Following an options appraisal in the autumn of 2016 Mayor &amp; Cabinet agreed for officers to work towards the implementation of an integrated finance, procurement, payroll and human resources solution. The Oracle Cloud ledger financial system was implemented in the previous year. The change from the Resource Link payroll system to the Oracle payroll system was delayed with the first payroll run undertaken in April 2020.</p> <p>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 any data transfer from the previous system.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Complete an information technology (IT) environment review to document and evaluate the IT controls operating within the payroll system.</li> <li>Map any closing balances from the legacy payroll system to the opening balance position in the new payroll system to ensure accuracy and completeness of the financial information.</li> <li>Sample test information from the old system to agree to the new system, and from the new system to the old system.</li> <li>Document controls in place around the data transfer, including liaising with Internal Audit to understand their work on this.</li> </ul>

# Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Completeness of non-pay operating expenditure and associated short-term creditors	Council	<p>Non-pay expenditure on goods and services represents a significant percentage (63%) of the Council's gross operating expenditure. Management uses judgement to estimate accruals of un-invoiced costs. In the prior year our sample audit testing identified payments that have been coded to the incorrect financial year.</p> <p>We identified completeness of non- pay expenditure and associated short-term creditors as a risk requiring particular audit attention.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness, including the use of de minimis level set.</li> <li>• Gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls.</li> <li>• Obtain and test a listing of non-pay payments made in April and May 2020 to ensure that they have been charged to the appropriate year.</li> </ul>

# Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Actuarial Present Value of Promised Retirement Benefits	Pension Fund	<p>The Fund discloses the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represents a significant estimate in the financial statements.</p> <p>The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£1.8 billion) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Update our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits is not materially misstated and evaluate the design of the associated controls.</li> <li>• Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work.</li> <li>• Assess the competence, capabilities and objectivity of the actuary who carried out the Fund's valuation.</li> <li>• Assess the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability.</li> <li>• Test the consistency of disclosures with the actuarial report from the actuary.</li> <li>• 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.</li> </ul>
Valuation of Level 2 Investments	Pension 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 a risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Gain an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls.</li> <li>• 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.</li> <li>• Review the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and seek explanations for variances.</li> <li>• Independently request year-end confirmations from investment managers and custodian.</li> <li>• Review investment manager service auditor report on design effectiveness of internal controls.</li> </ul>

# Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Contributions	Pension Fund	<p>Contributions from employers and employees' represents a significant percentage of the Fund's revenue.</p> <p>We therefore identified the completeness and accuracy of the transfer of contributions as a risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Evaluate the Fund's accounting policy for recognition of contributions for appropriateness.</li> <li>Gain an understanding of the Fund's system for accounting for contribution income and evaluate the design effectiveness of the associated controls.</li> <li>Agree changes in Admitted/Scheduled bodies to supporting documentation and agree total contributions for each employer to employer contributions reports.</li> <li>Test a sample of contributions to source data to gain assurance over their accuracy and occurrence.</li> <li>Test relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in member body payrolls and the number of contributing employees to ensure that any unusual trends are satisfactorily explained.</li> </ul>
Pension Benefits Payable	Pension Fund	<p>Pension benefits payable represents a significant percentage of the Fund's expenditure.</p> <p>We therefore identified the completeness, accuracy and occurrence of the transfer of pension benefits payable as a risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Evaluate the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness.</li> <li>Gain an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls.</li> <li>Test a sample of lump sums and associated individual pensions in payment by reference to member files.</li> <li>Test relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained.</li> </ul>

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.

# Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. We made a recommendation in our 2019/20 audit in relation to the Council's estimation processes.

## Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Panel members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



# Accounting estimates and related disclosures

## Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings and council dwellings
- Depreciation
- Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services, and any provisions / contingent liabilities including the HRA tenants water rates provision
- Provision for business Rates Appeals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments

## The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.





### Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

### Planning enquiries

As part of our planning risk assessment procedures we have sent inquiries to the management that will be presented at the Audit Panel as part of our Informing the audit risk assessment report. We would appreciate a prompt response to these enquires in due course.

### Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540\\_Revised-December-2018\\_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, 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 the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set 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 consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our 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 regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report.

# Materiality

## The concept of materiality

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.

## Materiality for planning purposes

### Council and Group

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £16m for Council and £16.3m for the group (PY £16m for Council and £16.5m for Group), which equates to approximately 1.5% of the Council's prior year gross expenditure for the year.

### Pension Fund

We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £13m (PY £13) for the Pension Fund, which equates to approximately 1% of the Pension Fund's prior year net assets.

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 planning materiality.

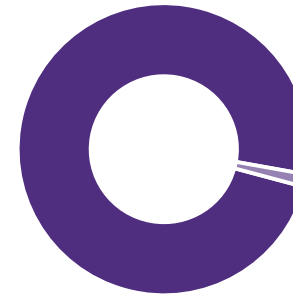
## Matters we will report to the Audit Panel

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 to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements 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. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.8m (PY £0.8m). For the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.65m (PY £0.65m).

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.

## Council prior year gross expenditure

£1,073m Council and  
£1,092m Group



■ Prior year gross...  
■ Materiality

## Materiality

£16m Council and  
£16.3m Group

Council financial  
statements materiality  
(PY: £16m)

£0.8m Council and  
£0.81m Group

Council misstatements  
reported to the Audit  
Panel  
(PY: £0.8m)

## Pension Fund prior year net assets

£1,352m



■ Prior year gross...  
■ Materiality

## Materiality

£13m

Pension Fund  
financial statements  
materiality  
(PY: £11m)

£0.65m

Pension Fund  
misstatements  
reported to the Audit  
Panel (PY: £0.65m)

# Value for Money arrangements

## Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



### Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



### Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



### Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



# Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. Whilst our planning assessment did not identify any significant weaknesses in arrangements at this stage, we have highlighted further key areas of focus which are listed below. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

## Key areas of focus

The Local Government operating environment has been significantly impacted by the pandemic and the future funding regime remains uncertain and this lack of certainty will impact on the Council's ability for long term planning. Our Value for Money work will primarily focus on the aspects listed below, but may increase in scope as further work is performed

- The Council's arrangements in response to the Covid-19 pandemic and capitalising on the benefits from the different models of service delivery and ways of working brought about by the pandemic.
- The Council's arrangements for setting the Medium Term Financial Plan and achieving financial sustainability.
- The Council's arrangements for service transformation and cultural change.
- The Council's arrangements for working with its key partners to deliver services efficiently and improve the lives of local residents.

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

# Audit logistics and team

Planning and risk assessment

Interim audit  
March 2021

Audit Panel  
June 2021

Audit Plan

Year end audit  
July to September

Audit Panel  
September 2021

Audit Findings  
Report/Draft  
Auditor's Annual  
Report

Audit  
opinion

Audit Panel  
November 2021

Auditor's  
Annual  
Report



## Paul Grady, Key Audit Partner

Paul is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Audit Panel, the Chief Executive and the Chief Financial Officer. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Paul will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit work. Paul will sign your audit opinion.



## Paul Jacklin, Senior Manager

Paul is responsible for overall audit management, quality assurance of audit work and output, and liaison with the Audit Panel, CFO and finance team. Paul will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable. Paul will be responsible for the delivery of our work on your arrangements in place to secure value for money.



## Lakshmi Forster, Assistant Manager

Lakshmi will support Paul in his work to ensure the early delivery of audit testing and lead on a number of complex accounting issues. Lakshmi will perform first reviews of the team's work. In addition, Lakshmi will also liaise with key members of the finance team to ensure audit testing and reviews are conducted on a timely basis.



## Lisa Lee Audit Incharge

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

## Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- Produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement.
- Ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- Ensure that 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 for testing. These reports should be cleansed so that reversing transactions are removed.
- Provide debtor and creditor listings that are the balances outstanding at the year end
- Ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- The Council's experts provide clarity and detail over their work to enable auditors to challenge the accounting and valuation judgements used.
- Respond promptly and adequately to audit queries.

# Audit fees

PSAA awarded a contract of audit for London Borough of Lewisham and the London Borough of Lewisham Chelsea Pension Fund to begin with effect from 2018/19. The scale fee in the contract was £148,789 for the Council audit and £16,170 for the Pension Fund. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

The 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £xxxx (xx%). This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISAs issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been agreed with the Executive Director of Corporate Resources

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Council Audit	£174,789	£210,189	£233,289
Pension Fund audit	£16,170	£28,750	£35,500
Total audit fees (excluding VAT)	£190,959	£238,939	£268,789

## Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

## Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

# Audit fees – detailed analysis Council

Scale fee published by PSAA	£148,789
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£20,500
Enhanced audit procedures for Property, Plant and Equipment	£9,500
Enhanced audit procedures for Pensions	£4,000
Covid-19 impact	£27,400
<b>Audit fee 2019/20</b>	<b>£210,189</b>
<i>Audit fee 2019/20 excluding Covid-19 impact</i>	<i>£182,789</i>
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£26,000
Increased audit requirements of revised ISAs	£17,000
Work on the migration of data to new payroll system	£7,500
<b>Proposed increase to agreed 2019/20 fee</b>	<b>£50,500</b>
<b>Total audit fees (excluding VAT)</b>	<b>£233,289</b>



# Audit fees – detailed analysis Pension Fund

Scale fee published by PSAA	£16,170
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£5,000
Enhanced audit procedures for Level 3 investments	£3,830
Covid-19 impact	£3,750
<b>Audit fee 2019/20</b>	<b>£28,750</b>
<i>Audit fee 2019/20 excluding Covid-19 impact</i>	<i>£25,000</i>
<i>New issues for 2020/21</i>	
Work on the migration of data to new payroll system.	£2,500
Increased audit requirements of revised ISAs	£8,000
<i>Proposed increase to agreed 2019/20 fee</i>	<i>£10,500</i>
<b>Total audit fees (excluding VAT)</b>	<b>£35,500</b>

# Independence and 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 (Revised 2019) 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

## Other services

The other services provided by Grant Thornton are set out in the table opposite

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 Council's policy on the allotment of non-audit work to your auditors. 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.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Capital receipts grant	30,370	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 is low in comparison to the total fee for the audit 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 all mitigate the perceived self-interest threat to an acceptable level.
Agreed upon Procedures relating to the Pooling of Housing Capital Receipts	5,000	As above	As above
Agreed upon Procedures relating to the Teachers' Pensions end of year certificate	6,500	As above	As above










# Appendix 1: Revised Auditor Standards and application guidance

## FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

# Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

# Appendix 1: Revised Auditor Standards and application guidance continued

	<b>Date of revision</b>	<b>Application to 2020/21 Audits</b>
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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