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

Year ended 31 March 2021

November 2021

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

Paul Grady
November 2021

1. Headlines

This table summarises the key findings and other matters arising from the statutory audits of the London Borough of Lewisham('the Council') and Lewisham Pension Fund ('the Pension Fund') and the preparation of the Council and Pension Fund's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council and Pension Fund's financial statements give a true and fair view of the financial position of the Council and Pension Fund, and the Council and Pension Fund's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during July-November. Our findings are summarised on pages 6 to 26. We have identified x adjustments to the financial statements that have resulted in a £xm adjustment to the Council's Comprehensive Income and Expenditure Statement . We have not identified any adjustments that impact on the financial position of the Pension Fund.

We received your draft financial statements on the 1 July 2021 in accordance with the statutory target date. The draft financial statements did not include the Pension Fund and Group accounts which followed on 6 July 2021. The working papers followed over the next two weeks.

Due to the pandemic the audit is being delivered remotely. The Council's finance team are well set up for remote working and we are able to deliver the audit as if we are on site by utilising 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. However, as we have reported previously, auditing wholly remotely is significantly more time consuming than auditing on site. This, together with the significantly increased regulatory requirements, technical complexity and volume of work now required, is reflected in the longer duration required to complete an audit.

As a result of the above, achieving the 30 September 2021 target for publishing audited financial statements remains a significant challenge for all local authorities. Achieving this for an organisation of your size and complexity, with a relatively lean finance team, some sickness absence issues, and with a key member of the finance team leaving the Council prior to closedown, is particularly difficult. The challenge has been further compounded this year with continued remote working, restructuring of your finance team and the transition of your payroll system onto Oracle Cloud, which increases the amount of audit work required in this area. Management and officers have worked hard to mitigate these factors as far as possible, including identifying and utilising additional resource within the Council and responding dynamically and swiftly to local resource crunch-points. The audit has however taken longer than anticipated, but we are still planning on giving an unmodified opinion by the end of November in line with the prior years.

The quality of the draft financial statements presented to audit were an improvement on the prior year and the statements had been subject to more rigorous management reviews. The Council are on an improvement journey, but our reviews and testing are still identifying high level of audit adjustments to the financial statements, albeit the majority of these are presentational in nature.

Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

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1. Headlines continued

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council and Pension Fund's financial statements give a true and fair view of the financial position of the Council and Pension Fund, and the Council and Pension Fund's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

At the time of writing, our work remains in progress, with the following matters remaining outstanding;

- completion of the work on the group financial statements;
- receipt of outstanding documentation and resolution of audit queries in relation to valuations of land and buildings;
- resolution of audit queries in relation to sample testing of the schools bank reconciliation, group consolidation, Capital Financing note, reserves and provisions;
- resolution of queries undertaken from the technical review of your financial statements;
- resolution of audit queries in relation to Pension Fund including financial instruments, investment income, schedule and admitted bodies contributions;
- receipt of supporting documentation and resolution of audit queries in relation to testing of Council starters;
- senior manager and engagement leader quality review of the audit file and satisfactory resolution of any residual queries;
- receipt of management representation letter; and
- review of the revised final set of financial statements.

There are no matters of which we are aware, as at the date of writing, that would require modification of our audit opinions (Appendix E) or material changes to the financial statements. This is subject to satisfactory resolution of the items listed above.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit opinions for the Council and the Pension Fund will be unmodified.

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1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	Our Value for Money procedures are in progress. Our detailed commentary will be set out in the separate Auditor's Annual Report. This will be communicated in advance of the National Audit Office's revised deadline which has been set at three months after the date of the audit opinion on the financial statements. We are satisfied from the procedures undertaken to date that no matters have been identified which would impact our proposed opinion on the financial statements. To date, we have not identified any significant weaknesses in arrangements.
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report by 28 February 2022, and the completion of our work on your Whole of Government (WGA) accounts. The NAO has not yet issued the guidance to enable this work to take place.
Significant Matters	The financial statements were published and provided to the audit team on 30 June 2021 with the pension fund statements provided on 7 July 2021. Management has completed a more robust review of the financial statements prior to them being submitted to audit than in previous years. Some challenges were encountered with obtaining supporting documentation required for the audit from other department outside of finance. Management and officers have worked hard to ensure information is provided in the required timeframe, but delays have occurred due to capacity issues and staff absences.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by management, the finance team and other staff amidst the pressure they were under during these unprecedented times.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council and Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Council and Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you on 29 June 2021.

Conclusion

Our audit of the Council and Pension Fund's financial statements is nearing completion. Subject to the outstanding matters set out on page 4 being resolved, we anticipate issuing unqualified audit opinions following the full Council meeting on 24 November, as detailed in Appendix E.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by management, the finance team and other staff throughout the audit process.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have revised the materiality due to the actual gross expenditure increasing from that at the planning stage.

For the Pension Fund, we revised materiality levels from those reported in our Audit Plan as a result of significantly increased gross investment asset values as at 31 March 2021 when compared to those held as at 31 March 2020.

We detail in the table our determination of materiality for the London Borough of Lewisham and Lewisham Pension Fund. The entries within brackets are the materiality levels presented to you at the planning stage. These have been updated following receipt of the draft financial statements.

	Council Amount -final (£)	Group Amount - final (£)	Pension Fund Amount - final (£)
Materiality for the financial statements	18m (16m)	18.2m (16.3m)	16m (13m)
Performance materiality	11.7m (10.4m)	11.83m (10.595m)	11.2m (9.1m)
Trivial matters	0.9m (0.8m)	0.91m (0.815m)	0.8m (0.65m)

2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Risk relates to	Commentary
The revenue cycle includes fraudulent transactions (rebutted)	Council and Pension Fund	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. In the Audit Plan, we reported that having considered the risk factors set out in ISA240 and the nature of the Council and Pension Fund revenue streams, we had determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of local authorities, including London Borough of Lewisham, mean that all forms of fraud are seen as unacceptable. Therefore, we did not consider this to be a significant risk for the London Borough of Lewisham and Lewisham Pension Fund. There have been no changes to our assessment as reported in the Audit Plan.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. 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.	Council and Pension Fund	In response to the risk identified we have: • 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 from our testing of journal entries any material misstatements or indications of management override of controls. However, we do not test every journal and there may be undetected fraud or error. Subject to the satisfactory completion of outstanding matters set out on page 4, there are no further material findings in respect of this risk which we are required to report to those charged with governance.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of land and buildings The Council revalues its land and buildings, Heritage Assets and Surplus Assets 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 (£1.8 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, heritage assets and investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	Council	In response to the risk identified we have: • 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 and financial statements. • 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 detailed on page 4, at the time of writing, our audit procedures in response to this risk are ongoing. To date, we have identified the following issues which require reporting to those charged with governance. • We identified £5,469k of assets classified as Surplus Assets that were not revalued but should have been classified as Assets under Construction. This is a disclosure change with no change in the Property, Plant and Equipment overall balance. Management has agreed to make the required amendment. • Componentised assets including roofs and boilers were not updated in line with the external valuation, resulting in double counting of assets to the value of £3,263k. Management has agreed to make the required amendment. • A number of assets to the value of £5,070k were combined into a singular asset by the valuer, but were not updated on the Fixed Asset Register. Management has agreed to make the required amendment. • The valuation of the Council's car parks was understated by £5,494k as some source data on income collection was not submitted to the valuers. Management has agreed to make the required amendment. Subject to the satisfactory completion of outstanding matters set out on page 4, there are no further material findings in respect of this risk which we are required to report to those charged with governance, based on the work carried out to date.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of the pension fund net 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 (£84 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of Practice on Local Authority Accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	Council	In response to the risk identified we have: • 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 evaluated 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, Goodwin 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. • Undertaken 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. Our audit procedures in this area are nearing completion. Subject to management reviews, as detailed on page 4, no findings have been identified in response to this risk which are required to be reported to those charged with governance. Should any reportable findings arise, these will be communicated to Committee members in advance of the issue of our auditor's report on the financial statements.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of Level 3 Investments The Pension 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 (£125 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 2021.	Pension Fund	In response to the risk identified we have: • Evaluated management's processes for valuing Level 3 investments. • Reviewed 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 were met. • Independently requested year-end confirmations from investment managers and the custodian. • For a sample of investments, tested 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. Reconciled those values to the values at 31 March 2021 with reference to known movements in the intervening period. • Where available, reviewed investment manager service auditor report on design and operating effectiveness of internal controls. Subject to the satisfactory completion of outstanding matters set out on page 4, no findings have been identified in response to this risk which are required to be reported to those charged with governance.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Incomplete or inaccurate financial information transferred to the new payroll system. The Council changed its Resource Link payroll system to the Oracle payroll system, integrating its payroll and human systems. The first payroll run was undertaken in April 2020. 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.	Council and Pension Fund	In response to this risk identified we have: • Completed an information technology (IT) environment review to document, evaluate and test the IT controls operating within the new payroll system. • Mapped the 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. • Sample tested information from the old system to agree to the new system, and from the new system to the old system. • Documented the controls in place around the data transfer, including liaising with Internal Audit to understand their work on this. Our audit procedures reviewed the mapping of closing balances from the Resource link legacy payroll system to the new Oracle system. Our work has not identified any matters that would lead us conclude that the Council's payroll expenditure is materially misstated. However, the Council's own documentation relating to reconciliation and parameter testing during this period was not retained. Management should ensure for future systems implementation that the project plan tasks include reviews and senior management sign off and that this evidence is retained. The plan should also include a review of controls by Internal audit before the system goes live. Our work also identified that segregation of duties between the HR and payroll function need to be strengthened. This finding has also been identified by Internal Audit. As a result we have performed additional sample testing over new starters to ensure they have a signed contract, exist and are employed and working at the Council or its schools. At the time of writing this testing remains in progress.

2. Financial Statements - Other risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Completeness of non-pay operating expenditure Non-pay expenditure on goods and services represents a significant percentage (61%) of the Council's gross operating expenditure. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenditure and associated short-term creditors as a risk requiring particular audit attention.	Council	In response to this risk we have: • Evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness, including the use of de minimis level set. • Gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls. • Obtained and test a listing of non-pay payments made in April and May 2020 to ensure that they had been charged to the appropriate year. Our testing from bank payments made identified 3 payments totalling a value of £537k made in April and May 2021 that related to 2020/21 but had not been appropriately accrued for. The extrapolated error from our testing was £5,078k. This estimated error is not material and so management has taken the decision not to adjust the financial statements.

2. Financial Statements - Other risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Actuarial present value of promised retirement benefits The Pension 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. The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£2.3 billion) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Pension Fund's Actuarial Present Value of Promised Retirement Benefits as a risk of material misstatement.	Pension Fund	In response to the risk identified we have: • Updated 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 evaluated 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 Fund's valuation. • Assessed the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability. • Tested the consistency of disclosures with the actuarial report from the actuary. • Undertaken 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. Subject to the satisfactory completion of outstanding matters set out on page 4, no findings have been identified in response to this risk which are required to be reported to those charged with governance.
Valuation of level 2 investments 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. We therefore identified the valuation of the Fund's Level 2 investments as a risk of material misstatement.	Pension Fund	In response to the risk identified we have: • Gained an understanding of the Fund's process for valuing Level 2 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 investments. • Reviewed the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and sought explanations for variances. • Independently requested year-end confirmations from investment managers and custodian. • Reviewed investment manager service auditor report on design effectiveness of internal controls. Subject to the satisfactory completion of outstanding matters set out on page 4, no findings have been identified in response to this risk which are required to be reported to those charged with governance.

2. Financial Statements - Other risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Contributions Contributions from employers and employees represent a significant percentage of the Fund's revenue. We therefore identified the completeness and accuracy of the transfer of contributions as a risk of material misstatement.	Pension Fund	In response to the risk identified we have: • Evaluated the Fund's accounting policy for recognition of contributions for appropriateness. • Gained an understanding of the Fund's system for accounting for contribution income and evaluated the design effectiveness of the associated controls. • Agreed changes in Admitted/Scheduled bodies to supporting documentation and agreed total contributions for each employer to employer contributions reports. • Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence. • Tested 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 were satisfactorily explained. Subject to the satisfactory completion of outstanding matters set out on page 4, no findings have been identified in response to this risk which are required to be reported to those charged with governance.
Pension benefits payable Pension benefits payable represents a significant percentage of the Fund's expenditure. We therefore identified the completeness, accuracy and occurrence of the transfer of pension benefits payable as a risk of material misstatement.	Pension Fund	In response to the risk identified we have: • Evaluated the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness. • Gained an understanding of the Fund's system for accounting for pension benefits expenditure and evaluated the design of the associated controls. • Tested a sample of lump sums and associated individual pensions in payment by reference to member files. • Tested 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 were satisfactorily explained. No findings have been identified in response to this risk which are required to be reported to those charged with governance, subject to the satisfactory conclusion of outstanding matters set out on page 4.

2. Financial Statements – key judgements and estimates – Council

This section provides commentary on key estimates and judgements within the Council's financial statements, in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations: Other Land and Buildings £1,065.2m Surplus assets £58.98m	Other land and buildings which were revalued during the year comprise £930.6m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£134.6m) are not specialised in nature and were required to be valued at existing use value (EUV) at year end. The Council engaged Wilks Head and Eve to complete the valuation of properties as at 31 March 2021. 99% of total other land and buildings assets were revalued during 2020/21. All surplus assets have been revalued during 2020/21. The total year end valuation of land and buildings was £1,065.2m, a net decrease of £9.3m from 2019/20 (£1,074.5m). This net decrease arises from the valuation process in combination with additions to and enhancements of property assets during the year.	• We have assessed management's expert, Wilks Head and Eve, to be competent capable and objective. • The valuer has correctly prepared the valuation using DRC on a modern equivalent asset basis for specialised properties, and EUV for non-specialised properties. • 99% of properties have been valued as at 31 March 2021. • We engaged our own valuation specialist, Gerald Eve, to provide a commentary on the instruction process for WHE, the valuation methodology and approach, and the resulting assumptions and any other relevant points. • We have carried out testing of the completeness and accuracy of the underlying information provided to the valuer used to determine the estimate and have no issues to report. • Valuation methodologies applied are consistent with those applied in the prior year. • We have agreed the valuation reports provided by management's expert to the fixed asset register and to the financial statements. See results from the valuation testing on page 10.	Light purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates – Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Housing - £817.9m	The Council owns 13,762 dwellings (6,691 in the Housing Revenue Account and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council engaged Wilks, Head and Eve (WHE) to complete the valuation of these properties as at 31 March 2021. The year end valuation of Council Housing was £1,393.4m, a net increase of £110.3m from 2019/20 (£1,283.1m).	• We have assessed management's expert, Wilks, Head and Eve to be competent, capable and objective. • The valuer has correctly prepared the valuation using the stock valuation guidance issued by MHCLG, and has ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH) value disclosed within the accounts. • All properties have been valued as at 31 March 2021, with 20% of beacon properties being fully revalued as at this date and the remaining 80% updated on a desktop basis, informed by the results of the revaluation. • We engaged our own valuation specialist, Gerald Eve, to provide a commentary on the instruction process for WHE, the valuation methodology and approach, and the resulting assumptions and any other relevant points	Light purple

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates – Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £771m	The Council's total net pension liability at 31 March 2021 is £771m (PY £518.5.m) comprising the Lewisham Pension Fund and the London Pension Funds Authority and an immaterial amount of unfunded defined benefit pension scheme obligations. The Council uses Hymans Robertson (Council scheme) and Barnett Waddingham(LPFA scheme) to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed as at 31 March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a net increase of £252.5m in the overall pension fund liability in 2020/21.	• We have assessed the actuary, Hymans Robertson, to be competent, capable and objective. • We have performed additional tests in relation to accuracy of contribution figures and benefits paid to gain assurance over the 2020/21 calculation carried out by the actuary. • We have used PwC as our auditor's expert to assess the actuary and assumptions made by the actuary – see table below for out comparison of actuarial assumptions: (see table below) • We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate. • We have confirmed there were no significant changes in 2019/20 to the valuation method. • Our work confirms that the increase in the IAS 19 estimate is reasonable.	Light purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.00%	1.95% - 2.05%	●
Pension increase rate	2.9%	2.80% - 2.85%	●
Salary growth	3.6%	1.00% above CPI	●
Life expectancy – Males current pensioners /future pensioners	21.4 22.8	20.4- 22.7 21.8 – 24.3	●
Life expectancy – Females current pensioners /future pensioners	24.0 25.8	23.2 – 24.9 25.2- 26.7	●

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates – Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation - £605.2m	The government has provided a range of new financial support packages to the Council and all local authorities throughout the Covid-19 pandemic. These included additional funding to support the cost of services or offset other income losses, and also grant packages to be paid out to support local businesses. The Council has needed to consider the nature and terms of each of the various Covid-19 measures in order to determine the appropriate accounting treatment, including whether there was income or expenditure to be recognised in the Comprehensive Income and Expenditure Statement (CIES) for the year. In doing so, management has considered the requirements of section 2.3 of the Code of Practice on Local Authority Accounting which relates to accounting for government grants, as well as section 2.6 which describes how the accounting treatment for transactions within an authority's financial statements shall have regard to the general principle of whether the authority is acting as a principal or agent, in accordance with IFRS 15. The three main considerations made by management in forming their assessment were: • Where funding is to be transferred to third parties, whether the Council was acting as a principal or agent, and therefore whether income should be credited to the CIES or whether the associated cash should be recognised as a creditor or debtor on the Balance Sheet • Whether there were any conditions outstanding at year-end, and therefore whether the grant should be recognised as income or a receipt in advance • Whether the grant was awarded to support expenditure on specific services or was in the form of an un-ringfenced government grant – and therefore whether associated income should be credited to the net cost of services or taxation and non-specific grant income within the CIES	• We are satisfied that management has effectively evaluated whether the Council is acting as the principal or agent for each relevant support scheme, which has determined whether any income is recognised. • Schemes for which the Council has recognised income include the Business Rates Relief S31 Grant (£30.4m) and Covid-19 Local Authority Support Grant (£53m), We are satisfied from review that this treatment is consistent with the nature and terms of the relevant schemes. • We have evaluated the completeness and accuracy of the underlying information used to determine whether there were conditions outstanding (as distinct from restrictions) at the year-end that would determine whether the grant should be recognised as a receipt in advance or income, and concluded that this was appropriate. • We have considered management's assessment, for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES. We are satisfied that the presentation in the CIES is appropriate. • Management's disclosure of the Council's accounting treatment for grant income in both the financial statements and Narrative Report is sufficient. As reported in Appendix C the Council did not treat a few of the Covid 19 grants in line with the requirements. As a result, the assessment is grey.	Grey

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates – Pension Fund

This section provides commentary on key estimates and judgements in the Pension Fund financial statements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Private Equity and Infrastructure Investments – £144.1m	The Pension Fund has investments in private equity and infrastructure funds that in total are valued on the net assets statement as at 31 March 2021 at £144.1m. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management relies on information provided by the General Partners to the private equity funds, who prepare valuations in accordance with the International Private Equity and Venture Capital Valuation Guidelines, and produce accounts to 31 December 2020 which are audited. The value of the investment has increased by £9m in 2019/20, due to a combination of purchases, sales and changes in market value.	• We have assessed the appropriateness of the underlying information used to determine the estimate, including fund manager and custodian reports, and audited accounts of the private equity and infrastructure funds as at 31 December 2020. • We have assessed the consistency of the estimate against peers and industry practice. • We have reviewed the reasonableness of the increase in the estimate. • We have assessed the adequacy of disclosure of estimate in the financial statements.	Light purple
Level 2 Investments – £1,350m	The Pension Fund has investments in pooled equity and property funds that in total are valued on the balance sheet as at 31 March 2021 at £1,350m. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management make use of evaluated price feeds, with the exception of the valuation of property investments which is based on evaluation of market data. The value of the investments have increased by £163m in 2020/21, largely driven by changes in market value.	• We have assessed the appropriateness of the underlying information used to determine the estimate. • We have assessed the consistency of the estimate against peers and industry practice. • We have reviewed the reasonableness of the increase in the estimate. • We have assessed the adequacy of disclosure of estimate in the financial statements.	Light purple

Assessment

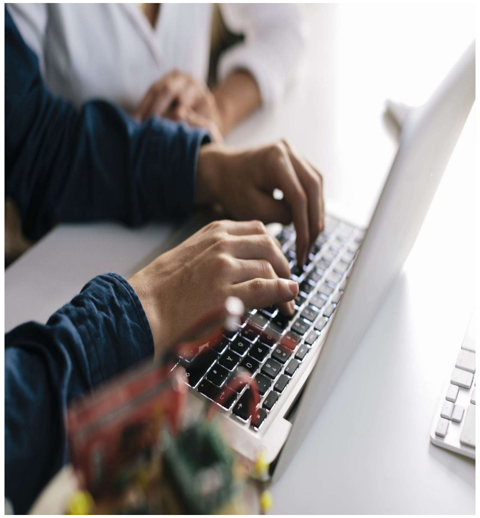
- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Panel. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including specific representations relating to issues identified during the audit, which is appended and included in the Audit Panel papers.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council and Pension Fund's banking and investment counterparties. This permission was granted and the requests were sent. All requests have now been received. We wrote to your legal team, to confirm the completeness of provisions and contingent liabilities. All responses requested have been received.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management were provided, with the exception of those relating to the outstanding matters detailed on page 4 which, as at the date of writing, have not yet been provided. The financial statements were published and provided to the audit team on 30 June 2021 with the pension fund statements provided on 7 July 2021, which was two months ahead of the statutory deadline for publication. Management have completed a more robust review of the financial statements prior to them being submitted to audit than in previous years. Some challenges were encountered with obtaining supporting documentation required for the audit from other department outside of finance. Management and officers have worked hard to ensure information is provided in the required timeframe but delays have occurred due to capacity issues and staff absences.

2. Financial Statements - other communication requirements

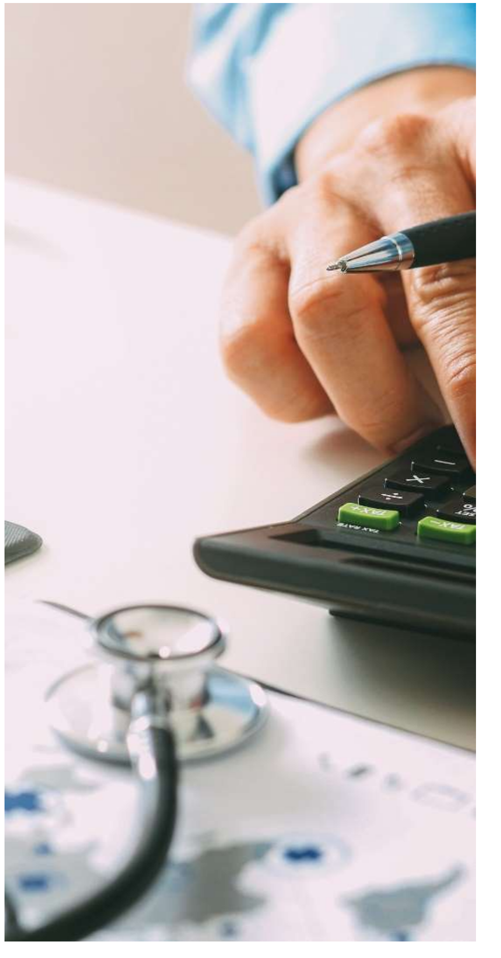
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses. We have nothing to report on these matters.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council's gross cost of services exceeds the expected group reporting threshold of £500m, we will examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements and carry out the procedures required by the NAO. This work is not yet completed as the group audit instructions are yet to be issued by the NAO. Once these instructions are provided, we will agree with management an appropriate timeframe to carry out this work.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of the London Borough of Lewisham and Lewisham Pension Fund in the audit report, as detailed in Appendix E. This is because: • We have not yet completed our value for money procedures for 2020/21 under the revised Code of Audit Practice. We intend to complete this work and issue our Auditor's Annual Report in advance of the deadline which is three months after the date of the audit opinion. • The group instructions for the assurance statement on the Whole of Government Accounts return are yet to be issued and the associated audit procedures have therefore not been undertaken. Once these instructions are provided, we will agree with management an appropriate timeframe to carry out this work.

3. 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.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at 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 the three specified reporting criteria.

Our VFM work is in progress. Our detailed commentary will be set out in our separate Auditor's Annual Report. We are satisfied from the work we have undertaken to date that no matters have been identified that would impact on our proposed audit opinion on the financial statements.

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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are 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

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and Pension Fund. The following non-audit services were identified. We have detailed below the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Agreed upon procedures relating to pooling of housing capital receipts (Council)	5,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £5,000 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. To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports.
Agreed upon procedures relating to the Teachers' Pensions End of Year Certificate (Council)	6,500	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £6,500 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. To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports.
Certification of Housing Benefit Subsidy Claim (Council)	30,370	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £30,370 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. To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports.

Appendices

A. Action plan – Audit of Financial Statements – Council

We have identified a number of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	Our testing of IT General Controls identified the following findings which have been reported in detail to management: • Insufficient evidence over the completeness and accuracy of data migration of the payroll system. • Absence of formally approved project related documentation. • Lack of formal approval by management on IT policy. • Lack of formal review of audit logs.	Management should implement the recommendations raised in the IT General controls report Management response
Medium	Our review of your fixed asset register identified 123 assets that have a Net Book Value of nil. You should undertake an exercise to verify that these assets still exist. If the Council are still using the assets they will need to determine whether the current depreciation policy is appropriate.	Management should undertake a review of all assets that have a nil Net Book Value. You will need to review whether these assets are still in use and if so whether your depreciation policies are appropriate. This is unlikely to give rise to a material misstatement in depreciation. Management response
Medium	The school bank account reconciliations provided to audit were not reconciled to the bank statement as at 31 March 2021. There was a subsequent delay in providing the audit team with appropriate year end reconciliations. Our review of the Eurobank reconciliation also identified a trivial unreconciled difference of £7,082 between the trial balance and the ledger which management have not been able to explain.	Management should provide complete reconciliations that reconcile the schools ledger balance to the bank statement as at 31 March. Evidence for any reconciling items should be retained as part of the evidence submitted to audit. Management response

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements – Council (continued)

Assessment	Issue and risk	Recommendations
Low	Our review of the bank reconciliation for the image pay bank payment account identified several cheques that are over 6 months old which have not been stopped. These should be stopped and written back.	Management should review and stop all out dated cheques. Management response
Medium	You had difficulties in providing us with evidence to support the accounting entries within Receipts in Advance and Creditors associated with your Section 106 agreements.	Management need to review all Section 106 agreements to ensure that you are appropriately recording and tracking the receipt and expenditure associated with these agreements. Management need to fully reconcile the Section 106 recording system (Exacom) to the ledger on an agreement by agreement basis. Management response
Medium	During our walkthrough of the schools expenditure process we identified that there is currently no reconciliation between the school finance reports used to journal the data in to the ledger and the source data (i.e. bank reconciliation or the school payroll reports).	Management should reconcile the schools finance reports to source data prior to journaling the entries into the ledger. Management response
Medium	Our review of 20/21 starters identified that HR were not receiving signed contracts from new employees.	Management should obtain and retain signed and dated contracts of employment for all staff. Management response

A. Action plan – Audit of Financial Statements – Pension Fund

We have identified a number of recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	The current set up of the general ledger is not conducive for financial reporting. This results in management having to make several significant adjustments each year outside of the ledger to consolidate the pension fund financial statements. This makes the process more time consuming and increases the potential for errors/omissions to occur.	Management should reconfigure the ledger so that it is in line with external reporting and minimizes (or eliminates) the need for manual adjustments. Management response
Medium	Our testing of Admitted and Scheduled bodies monies identified an absence of monthly reconciliations of remittances made by admitted and schedule bodies to expected receipts and to posting on the ledger. In addition, there was no reconciliation of monthly payroll contribution data from the Administering Authority (Council) to posting in ledger	Management should reconcile contributions income received by admitted and scheduled bodies from the bank account to the ledger. A monthly reconciliation of contributions from the administering authority payroll records to the ledger also needs to be undertaken. Management response

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations – Council

We identified the following issues in the audits of the Council's 2019/20 which resulted in three recommendations being reported in our 2019/20 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	The draft financial statements provided for audit contained more misstatements than previous years. A robust management review may have identified and corrected some of these misstatements prior to submission for audit.	**Auditor evaluation** The Council had undertaken a more robust review of the financial statements in 2020/21. We are still identifying a lot of presentational amendments to the financial statements. Management need to build in more time to ensure that all the recommended changes to the financial statements identified from their reviews are completed prior to submission of the accounts to the auditors.
✓	The Council did not request their external valuers to undertake a valuation of all their surplus assets in accordance with International Financial Reporting Standards	**Auditor evaluation** This issue did not recur during the 2020/21 audit and as such we are satisfied that this recommendation has been satisfactorily addressed.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations – Council (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	Our sample cut off testing from bank statements in April and May 2020 identified 4 expenditure items totalling £175k that related to 2019/20 that had not been accrued. This error extrapolated to £1,811k. Similarly our sample testing of invoices received in April and May 2020 identified expenditure items totalling £346k that related to 2019/20 that had not been accrued. We extended our testing and did not find any more errors. This error extrapolated to £4,842k. Your cut off procedures need strengthening to ensure that expenditure is coded in the year in which it relates.	Auditor evaluation The Council had undertaken a more robust review of cut off arrangements in 2020/21. However, our testing identified 3 items that were paid in April/May that related to the 2020/21 year that had not been accrued for one of these items was for £524k.
✓	The Council requires Members to declare any interests at the beginning of meetings and to update their declarations if there are changes to their existing circumstances. These declarations are held in a central database and the Council's website updated accordingly. However, the Council does not have in place an annual declaration form for Members to complete as part of the accounts process. There is a risk that related party disclosures could be missed	Auditor evaluation This issue did not recur during the 2020/21 audit and as such we are satisfied that this recommendation has been satisfactorily addressed.
Majority implemented	Our testing of IT General Controls identified the following findings which have been reported in detail to management: • System Administrator accounts with excessive elevated business responsibilities • End-users with critical IT privileges within Oracle • Lack of defined IT processes for Oracle Fusion • Minimal password security within Oracle • Audit logging is not proactively monitored within Oracle • Lack of Periodic Third-Party Service Assurance Report Review for Oracle, ResourceLink and Academy • End-users, IT managers and leavers with Security Administration Rights within Academy, ResourceLink and Active Directory • Periodic Employee Acknowledgement of Infosec Policy Requirements • Removing Leavers' Access Rights within Academy and Active Directory • Inadequate Minimum Password Length Enforcement within ResourceLink • Lack of Policies, Processes and Security for Batch Processing	Auditor evaluation The majority of the recommendations have been implemented. We have raised updated recommendations within Appendix A. We have repeated the recommendation over review of audit logs.

B. Follow up of prior year recommendations – Pension Fund

We identified the following issues in the audit of the Pension Fund's 2019/20 financial statements, which resulted in one recommendation being reported in our 2019/20 Audit Findings report. We have followed up on the implementation of our recommendations and note this is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	The current set up of the general ledger is not conducive for financial reporting. This results in management having to make several significant adjustments each year outside of the ledger to consolidate the pension fund financial statements. This makes the process more time consuming and increases the potential for errors/omissions to occur	Not yet implemented. The fund is undertaking a significant number of mandate changes and transition of funds. The team is also experiencing significant personnel changes currently which has slowed plans for this work. This action will be picked up once the above are stabilised

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments – Council

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	CIES £'000	Balance sheet £' 000
General debtors relating to South East London Clinical Commissioning Group was found to be overstated by £3,478k	Debit CIES Cost of Services 3,478	Credit Debtors 3,478
One of the Local Restrictions Support Grants was credited to the Consolidated Income and Expenditure Statement - Taxation and non-specific grant income and transferred to earmarked reserves. You should have treated the grant as if you were the agent, therefore, the grant income needs to be removed from the CIES and Reserves and processed into creditors.	Debit CIES taxation and non specific grant income 29,114	Credit Creditors 29,114
Our additional grant income testing identified a further local restrictions grant that was treated as the Council being the principal rather than agent, and the amount of £1,970k was transferred to earmarked reserves. This has resulted in £1,970k that needs to be transferred from reserves into creditors.		Debit Reserves 1,970 Credit Creditors 1,970
The Covid-19 hardship fund Grant was incorrectly treated. The Council are required to correct the accounting and move the income from General Fund Reserves into the Collection fund to match the discounts given (£3,141,k). The surplus (£53k) will be accounted for as a Creditor due to be repaid to the Government. In effect, earmarked reserves needs to be reduced, General Fund reserves need to be moved to the collection fund and creditors.		Debit Earmarked Reserves 3,194 Credit Collection Fund Reserves 3,141 Credit Creditors 53

C. Audit Adjustments – Council

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	CIES £'000	Balance sheet £' 000
Componentised assets including roofs and boilers were not updated in line with the external valuation resulting in double counting assets to the value of £3,263k.	Debit Cost of Services 768	Credit Property Plant and Equipment Land and Buildings 3,263 Debit Revaluation Reserve 2,495
The valuation of the Council's car parks was understated by £5,424k as some source data on income collection was not submitted to the valuers.	Credit Cost of Services 579	Debit Property Plant and Equipment Land and Buildings 5,424 Credit Revaluation Reserve 4,845
A number of assets to the value of £6,571k were combined in to a singular asset by the valuer but were not updated on the Fixed Asset Register.	Debit Cost of Services 321	Credit Property, Plant and Equipment Land and buildings 6,571 Debit Revaluation Reserve 6,250
Unidentified income of £1,612k was incorrectly allocated twice when the income had already been matched.	Credit unidentified income in CIES Cost of Services 1,612	Debit Receipts in Advance 1,612

C. Audit Adjustments – Council

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	CIES £'000	Balance sheet £' 000
The Council's Council Tax bad debt provision was based on an estimate as at 31 January. The revised updated estimate based on outstanding debtors as at the 31 March 2021 led to an increase in the provision by £2,294k	Debit Income from Council Tax 2,294	Credit Council Tax Impairment allowance 2,294
The Council had not received a valuation for Deptford Lounge Library as this had incorrectly assumed to be part of another asset valuation. This has increased the valuation by £4,058k	Credit Cost of Services 4,058	Debit Property Plant and Equipment 4,058
Overall impact	33,150	(33,150)

C. Audit Adjustments – Council

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Disclosure / misclassification	Disclosure amendment	Adjustment agreed?
Disclosure	Note 13 to the Housing Revenue Account - The note did not agree to supporting work papers. The entries should be as follows: Expenditure £23,966k Financed by: Capital Receipts £9,337k, HRA contribution £13,877k and Major repairs reserve £752k	✓
Disclosure	Note 28 - External Audit Fees for grant claims states £37k but should state £42k per audit plan. The other services of £24k needs to include narrative to explain this amount is due to work on prior year objections finalised during 2020/21.	✓
Disclosure	Note 34c - There is a typo on the end of note 34c which refers to £67.7m impairment, but the correct figure in the table is £66.7m. The Council has agreed to amend. The £66.7m should also be split between the revaluation reserve £45,617k and the Income and Expenditure account £21,120k.	✓
Disclosure	Note 29 – Dedicated Schools Grant prior year figures to be updated with correct 2019/20 audited figures	✓
Disclosure	Note 35 - Capital Commitments: The Housing Revenue Account capital commitments need to be amended from £29.4m to £65.1m in line with the working papers.	✓
Misclassification	Note 30 - Grant Income. The Improved Better Care Fund grant needs to be amended from £13,134k to £14,502k. As a result the other grant income balance needs to be amended from £51,430 to £50,062k.	✓
Misclassification	Note 9 -The Business Rate Reliefs Underestimation Grant was correctly coded as taxation and non-specific income but was brought into the specific earmarked revenue reserve instead of earmarked covid-19 reserves. An adjustment is required to reduce the specific revenue earmarked fund reserve by £2,741k and increase earmarked covid-19 reserves by £2,741k.	✓
Misclassification	Note 30 – A £8.4 million social care grant was classified as a Covid-19 grant rather than an 'other' grant in Non-Specific Grant Income. This is a disclosure change with no impact on the overall grant income.	✓
Misclassification	Note 10 -. We identified £5,469k of assets classified as Surplus Assets that should have been classified as Assets under Construction. This is a disclosure change with no change in the Property, Plant and Equipment overall balance.	✓
Misclassification	Note 10 and Consolidated Income and Expenditure Statement - The transfer of Sedgehill School (Gross Book value £66,986k) from a School to an Academy in the draft accounts was initially treated as a transfer from Other Land and Buildings to Surplus Assets and then impaired to nil instead of being treated as a disposal. The Council have also treated the asset as a 'loss of control' as opposed to a disposal so the Consolidated Income and Expenditure Account adjustment is to remove the entry from the Cost of Services and add to the Financing and Investment Income and Expenditure" area of the statement.	✓

C. Audit Adjustments – Council

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Disclosure / misclassification	Disclosure amendment	Adjustment agreed?
Misclassification	Note 10 - The Council has stated that 11 assets with a net book value of £3,981k were incorrectly transferred to surplus assets before being disposed of. One further asset of £3,174k was incorrectly transferred from assets under construction to infrastructure assets.	✓
Disclosure	Movement in Reserves statement – The Movement In Reserves Statement - Transfers to/ from reserves includes unusable reserves entry of £2.375m. Any movement affecting unusable reserves should be in MIRS adjustment between accounting basis and funding basis. The movement affecting usable reserves should net to zero.	✓
Disclosure	Movement in Reserves Statement. The transfer to major repairs reserve should also be part of the MIRS adjustment between accounting basis and funding basis. MIRS reports transfer of £649k and no additional Credit to Major Repairs Reserve evident at note 8. In prior year the MIRS reports £17.7m as transfer, again no additional Cr to the Major Repairs Reserve evident at note 8.	✓
Disclosure	Consolidated Income and Expenditure Statement and Expenditure Funding analysis. The Council has re-stated the 2019/20 Consolidated Income and Expenditure Statement and Expenditure Funding Analysis. The changes made to the classification of services are material. The disclosures required by the code 3.4.2.32 need including.	✓
Disclosure	The adjustments reported in the EFA of £113.754m should mirror those reported in the Movement in Reserves adjustment note 8 as affecting the General Fund and Housing Revenue Account which report £112.029m	✓
Disclosure	Note 3 - The Critical Judgements note required expanding to explain the rationale why some schools land and buildings are included and others are not and the judgement in determining where control of the asset lies. For groups the Council need to make it clearer that all entities have been consolidated.	✓
Disclosure	The narrative report incorrectly referred to a material uncertainty in relation to Property, Plant and Equipment valuations. This has now been removed.	✓
Disclosure	Note 4 – There is no risk of material change to depreciation and impairment of debtors over the next financial year so the notes has been deleted accordingly. The estimation uncertainty regarding the pension funds Level 3 - private equity and infrastructure Level investments needed adding to the Council's material uncertainty note.	✓
Disclosure	Note 8 – amendment made to note 8 to explain the London Pension Fund levy	✓

C. Audit Adjustments – Council

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Disclosure / misclassification	Disclosure amendment	Adjustment agreed?
Disclosure	Note 8 - There should be a Credit to the major repairs reserve with Debit to Housing Revenue Account as depreciation is a real charge to the HRA. Per Housing Revenue Account note 14 this is £23.380m.	✓
Disclosure	Note 10 - The disclosures required by IFRS 13 for non current assets measured at fair value (ie surplus assets) need adding to include a description of the valuation technique and the level of the hierarchy that applies. Additional disclosures are required for any significant unobservable inputs.	✓
Disclosure	Note 12 d - Financial instruments financial assets measured at amortised costs includes £74.164m described at note 5 as 'money market funds' these should be categorised as fair value through profit and loss.	✓
Disclosure	Accounting policy Income – The disclosure needs updating to reflect the requirements of IFRS 15.	✓
Disclosure	Note 24 – The pooled budget note needs updating to make it clear that there is joint control and the Council is accounting for a share of expenditure.	✓
Disclosure	Note 31 – The note has been amended to delete disclosures where Members do not have a controlling interest in organisations that they are Board members/ trustees of.	✓
Disclosure	Movement on the Housing Revenue statement. The adjustments between accounting basis and funding basis under statute have been updated to ensure that they are consistent with that reported in the HRA column of note 8.	✓
Disclosure	Group accounts - Where the group accounts differ materially from the single entity accounts, then disclosures at the group level are required in order be compliant with the Code requirements. Disclosures were required for the defined benefit pension liability – as set out in Code 6.4.3.45. and there are some additional disclosures regarding valuation of PPE set out in Code 4.1.4.3. In addition the Group MIRS has been updated to reflect points made above in relation to the single entity accounts.	✓
Disclosure	Note 32 – The note disclosure has been enhanced in relation to the PFI scheme adjustment to the prior year restatement of the Capital Financing note.	✓
Disclosure	Note 27c – The note includes incorrect pension recharge costs and redundancy / compensation for a number of officers, resulting in an amendment to number and totals in Exit Packages banding categories.	✓

C. Audit Adjustments – Council

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit panel is required to approve management's proposed treatment of all items recorded within the table below.

Detail	CIES £'000	Balance Sheet £' 000	Reason for not adjusting
Our testing from bank payments made identified 3 payments total value £537k made in April and May 2021 that related to 2020/21 had not been appropriately accrued for. The extrapolated error from our testing was £5,078k. This and estimated error and is not material and so management have taken the decision not to adjust the financial statements	Debit Gross Cost of Services 5,078	Credit Creditors 5,078	Amendment is based on an estimated extrapolation and is well below materiality levels.
A number of errors were found within the receipts in advance balance totalling to £912k as these items were found to not be true receipts in advance. This is made up of a £784k overstatement error extrapolation and an £128k error of classifying interest as receipts in advance rather than cash.	Credit Cost of Services 880	Debit Receipts in Advance 912 Debit Debtors 752 Credit Cash 784	Amendment is based on an estimated extrapolation and is well below materiality levels.
Overall impact	4,198	4,198	

C. Audit Adjustments – Pension Fund

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted and unadjusted misstatements

At the time of writing, no misstatements affecting the Fund Account or Net Assets Statement had been identified through audit testing, therefore no adjustments to the financial statements were proposed. This position will be updated to the date of issuing our audit opinion. There were no unadjusted misstatements reported in the prior year to be evaluated for their continuing impact.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Disclosure / Misclassification	**Disclosure amendment**	**Adjustment agreed?**
Misclassification	Note 13: Haberdashers' Aske's Knights Academy is a scheduled body. The contributions by the Academy are included under scheduled bodies within the financial statements. However, in Note 16 Membership numbers the members of Haberdashers' Aske's Knights Academy are disclosed under the Administering Authority.	✓
Disclosure	Accounting policy v) Critical judgements/estimation uncertainty – The disclosures needed to be updated to clarify the specific judgement being made.	✓
Disclosure	Accounting policies – Financial instruments. Disclosure needed to be added for the fair value levels for each class, observable and unobservable inputs for Level 2 and 3 investments. key sensitivities for Level 3 investments required to be disclosed. There was no reconciliation of fair value measurements within Level 3 as required by the Code 2.10.4.1 3 e and f.	✓
Disclosure	Key Management Personnel – There was no key management personnel disclosures - required by the Code 3.9.4.2	✓
Disclosure	Financial instruments risk management note 5d – The note requires some quantitative analysis for interest rate risk as any changes in interest rates would be expected to impact the Fair Value of bonds. Financial instrument Note 5D e) ii) also refers to stock lending credit risk, but there is none so the note required deleting. Financial instruments Note 5e – The note referenced futures/foreign exchange contracts which are not applicable so this was deleted.	✓
Disclosure	Accounting policy c refers to IAS 39 - this is no longer applicable, should refer to IFRS 9. In addition, accounting policy u the definition of assets at amortised cost as 'assets that have fixed or determinable payments but are not quoted in an active market' does not appear to be in line with IFRS 9.	✓

C. Audit Adjustments – Pension Fund continued

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Disclosure / Misclassification	Disclosure amendment	Adjustment agreed?
Disclosure	Accounting policy k refers to amounts 'received', this should be 'receivable' as accounting is not cash based.	✓
Disclosure	Accounting policy q Actuarial Present Value of Promised Retirement Benefits - There is an accounting policy choice for the APV per the Code (ie in the net assets statement, in a note, or in a separate actuarial statement), accounting policies should make it clear which option the Fund has chosen.	✓
Misclassification	Note 3- Management Expenses total revised to include fees from Pemberton and Partners	✓
Misclassification	Note 4 – Investment income total revised due to management fees incorrectly added.	✓
Disclosure	Note 4 – The investment income categories are not the same as the investment notes.	✓
Disclosure	Note 5A – Tables need a narrative detail that details what he tables are disclosing.	✓
Disclosure	Note 5B – material "other" assets need to be separately disclosed.	✓
Disclosure	Note 5C – The note states 'all assets are held at Fair Value' - but some are held at amortised cost per the table. Note 5C –The definition of Level 2 investments should make reference to observable inputs. Note 5C– The table on page 25 the date in top table needs updating to 2021 not 2020. The figures on page 24 should reconcile to the total investments in the net assets statement.	✓
Disclosure	Note 5D – There is inconsistency between the 2 tables, top table refers to 'alternatives' but bottom table refers to 'other assets'.	✓
Disclosure	Note 15 - Stock Lending - as the value is nil at year end and for prior year the note should be deleted.	✓

D. Fees

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

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

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

The fees reconcile to the financial statements.

E. Audit opinion – Council

Our audit opinion is included below.

We anticipate we will provide the Council with an unmodified audit report.

Independent auditor's report to the members of London Borough of Lewisham

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of London Borough of Lewisham (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Comprehensive Income and Expenditure Statement, the Housing Revenue Account Statement Movements in Reserve Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including the accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2021 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Executive Director of Corporate Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

E. Audit opinion – Council (continued)

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Executive Director of Corporate Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Executive Director of Corporate Resources with respect to going concern are described in the 'Responsibilities of the Authority, Executive Director of Corporate Resources and Those Charged with Governance for the financial statements' section of this report.

Other information

The Executive Director of Corporate Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

E. Audit opinion – Council (continued)

Responsibilities of the Authority, the Executive Director of Corporate Resources and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Corporate Resources. The Executive Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director of Corporate Resources is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority and the group will no longer be provided.

The Audit Panel is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003, the Local Government Act 1972, the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992), and the Local Government Finance Act 2012.
- We enquired of senior officers and the Audit Panel, concerning the group and Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit Panel, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

E. Audit opinion – Council (continued)

- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - journal entries posted which met a range of criteria determined during the course of the audit, in particular those posted around the reporting date which had an impact on the Comprehensive Income and Expenditure Statement, and
  - accounting estimates made in respect of the valuation of assets and liabilities in the Balance Sheet
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Executive Director of Corporate Resources has in place to prevent and detect fraud;
  - journal entry testing, with a focus on entries meeting the risk criteria determined by the audit team;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect o fthe valuation of land and buildings, including council dwellings and investment property, and the valuation of the net defined benefit pensions liability;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of land and buildings, including council dwellings, and the valuation of the net defined benefit pensions liability.
- Assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's and component auditor's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority and group including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.
- For components at which audit procedures were performed, we requested component auditors to report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.

E. Audit opinion – Council (continued)

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the London Borough of Lewisham for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report.
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

We are satisfied that this work does not have a material effect on the financial statements.

E. Audit opinion – Council (continued)

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited]. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Paul Grady, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

24 November 2021

E. Audit opinion – Pension Fund

Our audit opinion is included below.

We anticipate we will provide the Pension Fund with an unmodified audit report.

Independent auditor's report to the members of London Borough of Lewisham on the pension fund financial statements of London Borough of Lewisham Pension Fund

Opinion

We have audited the financial statements of London Borough of Lewisham Pension fund (the 'Pension Fund') administered by London Borough of Lewisham (the 'Authority') for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report.

We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Executive Director of Corporate Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Executive Director of Corporate Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

E. Audit opinion – Pension Fund (continued)

In auditing the financial statements, we have concluded that the Executive Director of Corporate Resources' use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Executive Director of Corporate Resources with respect to going concern are described in the 'Responsibilities of the Authority, Executive Director of Corporate Resources and Those Charged with Governance for the financial statements' section of this report.

Other information

The Executive Director of Corporate Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's and group's financial statements. Our opinion on the Pension Fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Pension Fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund's financial statements or our knowledge of the Pension Fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Pension Fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters in relation to the Pension Fund**.**

Responsibilities of the Authority, the Executive Director of Corporate Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Corporate Resources. The Executive Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

E. Audit opinion – Pension Fund (continued)

In preparing the Pension Fund's financial statements, the Executive Director of Corporate Resources is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Pension Fund will no longer be provided.

The Audit Panel is Those Charged with Governance for the Pension Fund. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Audit Panel, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit Panel, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls We determined that the principal risks were in relation to:
  - journal entries posted which met a range of criteria determined during the course of the audit, in particular those posted around the reporting date which had an impact on the Fund Account, and
  - accounting estimates made in respect of the valuation of assets and liabilities in the Net Assets Statement

E. Audit opinion – Pension Fund (continued)

- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Executive Director of Corporate Resources has in place to prevent and detect fraud;
  - journal entry testing, with a focus on entries meeting the criteria determined by the audit team;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments and IAS 26 pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of level 3 investments, and the IAS 26 pensions liability valuation.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government pensions sector
  - understanding of the legal and regulatory requirements specific to the Pension Fund including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Paul Grady, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

24 November 2021

F. Audit letter in respect of delayed VFM work

Dear Councillor Rathbone, Chair of Audit Panel

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 28 February 2022.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Paul Grady

Key Audit Partner

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