

The Annual Audit Letter for Royal Borough of Greenwich

Year ended 31st March 2019

September 2019



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Royal Borough of Greenwich Council (the Council) for the year ended 31st March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 16th July 2019.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £19,000,000, which is approximately 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 24 th July 2019.
Whole of Government Accounts (WGA)	We will complete work on the Council's consolidation return following guidance issued by the NAO in August and September 2019.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 24 th July 2019.
Certificate	We are unable to certify that we have completed the audit of the financial statements of Royal Borough of Greenwich in accordance with the requirements of the Code of Audit Practice, this is due to an outstanding elector objection raised in 2017/18. The response to the objection, which has been prepared by the audit team, is currently with the council for comment.

Respective responsibilities

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

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

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

Audit of the Financial Statements

Our audit approach

Materiality

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

We determined materiality for the audit of the Council's financial statements to be £19,000,000, which is circa 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £950,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

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

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

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

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

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

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

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings The Council revalues its land and buildings according to the rolling 5 year programme. An annual estimate is used to ensure that Additionally, management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and an area requiring special audit attention.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • Considered the competence, expertise and objectivity of any management experts used. • Discussed with the valuer the basis on which the valuation is carried out and challenge of the key assumptions. • Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding. • Tested revaluations made during the year to ensure they are input correctly into the Council's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. • Reviewed the methodology and timing for revaluations of HRA properties, collating management assurances and ensuring the valuations are materially complete and up to date. 	<p>Our audit work did not identified any issues in respect of the valuation of property, plant and equipment.</p> <p>Due to increased reporting and auditing requirements stipulated by the Financial reporting council (FRC), an additional fee was incurred for this work. This is detailed in Appendix A.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability The pension fund net liability, as reflected in the Authority 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 and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • Updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls (refer also to our detailed review of estimation process in key judgements and estimates section); • 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 Authority's pension fund valuation; • Assessed the accuracy and completeness of the information provided by the Authority 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; and • Undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary PwC (as auditor's expert) and performing any additional procedures suggested within the report. This has included: <ul style="list-style-type: none"> – Review of the scope of the actuary's work; – Review of the source data provided to the actuary to confirm its validity and completeness; – Performed checks on accounting policy disclosures in relation to IAS 19; – Reviewed the duration of liabilities of the Council to ensure assumptions used are appropriate to the asset and liability profile of the authority; – Reviewed if there are any departures from the actuary's recommended assumptions – none noted; and – Performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over roll-forward valuation. 	<p>In the 'Significant findings – other issues' on page 8 we set out the potential impact of the McCloud judgement on the pension fund net liability.</p> <p>Due to increased reporting and auditing requirements stipulated by the Financial reporting council (FRC), an additional fee was incurred for this work. This is detailed in Appendix A</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness; obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness; and evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Our audit work did not identify any issues in respect of management override of controls. One recommendation is succession planning and back-up arrangements for the responsibility of frequent, routine or batch journal posting. Currently in practice only the Financial Systems Manager processes such transactions and thus has been heavily relied upon for the audit. We note other members of staff theoretically do have the capabilities to perform this task and thus this recommendation could easily be implemented.</p>
<p>Improper revenue recognition</p> <p>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>As part of our audit work we:</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> there is little incentive to manipulate revenue recognition opportunities to manipulate revenue recognition are very limited The culture and ethical frameworks of local authorities, including Royal Borough of Greenwich, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Royal Borough of Greenwich.</p>	<p>Our audit work did not identify any issues in respect of management override of controls.</p>

Audit of the Financial Statements

Significant findings – other issues

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Potential impact of the McCloud judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p> <p>This ruling was made after the statement of accounts had been produced by the finance team and submitted to us for auditing. This will not impact the council's outturn position.</p>	<p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £12.6m, and an increase in service costs for the 2019/20 year of £1.2m.</p> <p>Management's view is that the impact of the ruling is not material for Greenwich Council, and will be considered for future years' actuarial valuations.</p>	<p>We reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable.</p> <p>Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</p> <p>Due to increased reporting and auditing requirements stipulated by the Financial reporting council (FRC), an additional fee was incurred for this work. This is detailed in Appendix A</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 24th July 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Committee on 16th July 2019.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in line with the national deadlines.

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

Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of Greenwich Pension Fund on 24th July 2019. We also reported the key issues from our audit of the pension fund accounts to the Council's Audit Committee on 16th July 2019 and the Pension and Investment committee on the 15th July.

There significant risks addressed where:

Improper revenue recognition (presumed risk rebutted)

Management override of controls (presumed risk)

The valuation of Level 3 investments is incorrect

No significant findings were made, apart from disclosure adjustments required for the McCloud judgement as previously noted in the council accounts.

Whole of Government Accounts (WGA)

We will carry out work in August 2019 on the Council's Data Collection Tool in line with instructions provided by the NAO, and issue an assurance statement.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Royal Borough of Greenwich in accordance with the requirements of the Code of Audit Practice on 24th July 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

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

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

As part of our Audit Findings report agreed with the Council in July 2019, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31st March 2019.

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Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial sustainability</p>	<ul style="list-style-type: none"> We have reviewed recent performance against the budget and considered the reasonableness of the assumptions upon which the MTFS is based. As part of our review of the Medium term Financial Strategy (MTFS), we have reviewed your performance in your collection of Council Tax and business rates income. 	<p>On the basis of the work completed we have concluded that the risk that we identified in respect of your financial sustainability has been sufficiently mitigated and that you have proper arrangements.</p> <p>Overall, we were satisfied from our review that your 2019/20 budget and Medium Term Financial Strategy are based upon reasonable assumptions and sets out realistic savings targets that are within your means to deliver. However it is clear that you continue to face significant financial risk due to the demand pressures that you face and the uncertainty of future. Another key factor is the availability of usable reserves which is circa £330m (including capital receipts) at the end of 2018/19. It cannot be stressed enough how important it is to have a fall back position to address the challenges of the future. We have seen a number of Councils reach the financial precipice and members have a fiduciary duty to ensure the Council retains financial sustainability. We would strongly recommend that use of reserves remains limited in future years other than for specifically earmarked schemes.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	19 th June 2019
Audit Findings Report	24 th July 2019
Annual Audit Letter	August 2019

Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	149,820	163,620	194,571
No grant fees yet agreed, see page 14 for indicative fee	TBC	TBC	3,800
Total fees	TBC	TBC	

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £149,820 assumes that the scope of the audit does not significantly change.

There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following slide.

A. Reports issued and fees

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

Area – Standards and regulatory driven	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£2,400
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£1,600
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£2,400
Financial Instruments – application of IFRS9 and appropriate valuation of financial instruments	IFRS9 was introduced in 2018-19 and as such the financial instrument disclosures we required to change. This led to the restatement of LOBO and PWLB loans held by the council during the audit as errors had been identified and quantified as material upon testing.	£2,400
Total		£8,800

Area – Management decision driven	Reason	Fee proposed
Welfare Benefit Expenditure	As reported in the audit plan the council appointed KPMG as the auditor for the Housing Benefit Certification Claim where previously this work was completed by Grant Thornton. Given this, there was duplication of work rather than the cross efficiencies gained. The council spends circa £160mil on Housing Benefits per year, it has consistently carried a high error rate in the reperformance of case assessments as previously completed under the Housing Benefit Certification work. Given this large expenditure, and propensity for error, we considered this a risk to the audit. We therefore were required to complete additional work which was not included in the scale fee and had in the past been captured in the Housing Benefit certification fee. Therefore an additional fee has been charged for this work.	£5,000
Total		£5,000

A. Reports issued and fees continued

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

Fees for non-audit services

Service	Fees £
Audit related services (all indicative, no fee yet agreed)	
Certification of Housing capital receipts grant	£3,800
ESFA subcontracting grant	£5,000
Teachers' Pensions Grant	£4,200
Non-Audit related services (fee agreed)	
CFO Insights	£10,000

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

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

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

Our relationship with our clients— why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies



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