

Annual Audit Letter

Year ending 31 March 2018

Year ended 31 March 2018

August 2018

Paul Dossett
Partner
T 020 7728 3180
E paul.dossett@uk.gt.com

Tom Slaughter
Manager
T 020 7728 2972
E thomas.m.slaughter@uk.gt.com

Emily McKeown
Manager
T 020 7728 3091
E emily.mckeown@uk.gt.com



Contents



Your key Grant Thornton
team members are:

Paul Dossett

Engagement lead

T: 020 7728 3180

E: paul.Dossett@uk.gt.com

Emily McKeown

Engagement Manager

T: 020 7728 3091

E: emily.mckeown@uk.gt.com

Thomas Slaughter

Engagement Manager

T: 020 7728 2972

E: Thomas.m.slaughter@uk.gt.com

Danielle Floyd

Audit In-charge

T: 020 7728 3416

E: danielle.lv.floyd@uk.gt.com

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Royal Borough of Greenwich (the Council) for the year ended 31 March 2018.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues 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 (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Risk Management Panel (as those charged with governance) in our Audit Findings Report on 17 July 2018.

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

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

Our work

Materiality	We have determined planning materiality to be £17.4m which equates to 2% of your forecast gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £870k.
Financial Statements opinion	We gave an unqualified opinion on the council's financial statements on 19 July 2018. We gave an unqualified opinion on the pension fund accounts on 19 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of 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. We received an objection from a local elector in respect of the audit for the year ended 31 March 2017 relating to PFI contracts. This matter is still being considered and the audit certificate remains outstanding until the objection is resolved.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 19 July 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit and Risk Management Panel in our Annual Certification Letter.
Certificate	We are unable to certify that we have completed the audit of the accounts of the Royal Borough of Greenwich until we resolve an outstanding objection from a local elector in respect of our audit for the year ended 31 March 2017.

Working with the Council

- An efficient audit – we delivered an efficient audit with you in June and July, delivering the accounts 5 days before the deadline, releasing your finance team for other work.
- Improved financial processes – we worked with you to highlight control weaknesses in regards to your journal raising personnel.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 our audit of the Council's accounts to be £17.4million, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We set a lower threshold of £870,000, above which we reported errors to the Audit and Risk Management Panel in our Audit Findings Report.

Pension Fund Materiality

We determined planning materiality to be £12.3m (2016/17: £10.5m), which equates to 1% of net assets at the end of the 2016/17 year.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.62m (2016/17: £0.53m)

The scope of our audit

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

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

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe 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 Accounts

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>Improper revenue recognition 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>Auditor commentary</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>Findings</p> <p>Our audit work has not identified any issues in respect of improper revenue recognition.</p>
<p>Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<ul style="list-style-type: none"> • Our audit work included, but was not restricted to: <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>Findings</p> <p>Our audit work has not identified 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>

Audit of the Accounts

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment The Council revalues its land and buildings according to the rolling 5 year programme. An annual estimate is used to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We have:</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. 	<p>Our audit work has not identified any issues in respect of the valuation of property, plant and equipment</p>
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We have:</p> <ul style="list-style-type: none"> • Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • Evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out • Undertaken procedures to confirm the reasonableness of the actuarial assumptions made. • Checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary 	<p>We identified an issue with recording of starters in the pension fund audit. We consulted the actuary in regards to the affect on the IAS19 disclosure and found it to be immaterial. In the prior year PwC flagged concerns over the discount rate used by the actuary in their assumptions, however Barnett Waddingham have subsequently revised their approach whereby their assumptions are now aligned to the recommended practice.</p> <p>We have therefore gained satisfaction that overall, to a material extent, the net pension liability estimate reported by the Council as at 31 March 2018 is fairly stated.</p> <p>Our audit work has not identified any issues in respect of the valuation of pension fund net liability.</p>

Audit of the Pension Fund Accounts

Pension Fund Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings
<p>Improper revenue recognition 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>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, 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 the Royal Borough of Greenwich as the Administering Authority of Royal Borough of Greenwich Pension Fund, mean that all forms of fraud are seen as unacceptable • the split of responsibilities between the Authority, the Custodian and its Fund Managers provide a very strong segregation of duties reducing the risk around investment income. <p>Therefore we do not consider this to be a significant risk for Royal Borough of Greenwich Pension Fund.</p>	<p>Findings</p> <p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>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.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <ul style="list-style-type: none"> • Our audit work included, but was not restricted to: <ul style="list-style-type: none"> – gained an understanding of the accounting estimates, judgements applied and decisions made by management and considering 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>Findings</p> <p>Our audit work has not identified any issues in respect of management override of controls.</p>
<p>Valuation of Level 3 investments is incorrect Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end..</p> <p>We identified the valuation of Level 3 investments is incorrect as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> • gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls; • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; and • 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 2018 with reference to known cash movements in the intervening period. 	<p>Findings</p> <p>Our audit work has not identified any issues in respect of the valuation of Level 3 investments.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 18 July 2018, in advance of the 31 July 2018 national deadline.

The Council provided us the financial statements by the specified 1 June deadline. Where we requested additional working papers and prime documentation the finance team were responsive and provided the documentation and answers to audit queries promptly.

Preparation of the accounts

The Council presented us with draft accounts 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 accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Risk Management Panel on 17 July 2018.

We did not identify any adjustments affecting the Council's financial position. We identified a few presentation and disclosure issues that were amended for in the Council's final financial accounts.

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 with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider.

Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of Royal Borough of Greenwich Pension Fund on 19 July 2018.

We also reported the key issues from our audit of the pension fund accounts to the Council's Audit and Risk Management Panel on 17 July 2018.

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.

We received an objection from a local elector in respect of the audit for the year ended 31 March 2017 relating to PFI contracts. This matter is still being considered and the audit certificate remains outstanding until the objection is resolved.

Certificate of closure of the audit

We are yet to certify that we have completed the audit of the accounts of Royal Borough of Greenwich in accordance with the requirements of the Code as the outstanding PFI objection is still in place. This matter is still being considered and the audit certificate remains outstanding until the objection is resolved.

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 key risks where we concentrated our work.

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

As part of our Audit Findings Report we recommended that the Council should continue with their forward planning and focus on the identification, monitoring and reporting of future savings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk
<p>Financial sustainability</p> <p>In light of the continued funding pressures that you face, there is a risk that you will not be able to generate new revenue streams or deliver saving cuts of sufficient scale to maintain a balanced budget over the period covered by the Medium Term Financial Strategy (MTFS).</p> <p>We have reviewed recent performance against the budget and considered the reasonableness of the assumptions upon which the MTFS is based.</p>	<p><u>Revenue outturn for 2017/18</u></p> <p>Despite the continued challenging funding settlement for local authorities nationally, you have continued your good track record of delivery of services within budget and attainment of planned savings and income generation targets.</p> <p>You delivered a balanced budget for 2017/18 and delivered a balanced outturn position resulting in a small surplus of 0.4million. This compares to a forecast outturn deficit overspend of £12.0m that was reported to your Cabinet in February 2018 based on data for the year to 30 November, indicating the success of the actions taken by your officers in the latter part of the year to mitigate and reduce the forecast overspend. This represents good financial performance in the context that you faced a reduction in central government funding of £21.9m for 2017/18 and identified a need to make work-stream savings of £26.3m.</p> <p>This reflects an overall overspend at a service level which has been offset largely through one-off savings at a corporate level, in particular from £12.4m of temporary savings from your treasury management activities. As in previous years, your key areas of pressure have been around Health and Adult Services and Communities and Environment, which reported net overspends of £6.5m and £4.1m respectively for 2017/18. This is primarily due to pressures due spending on learning disability packages and care homes, and also due to pressures from increased tonnage and average waste per household due to increased economic activity and housing growth in the borough. The overspend reported for Communities and Environment is broadly in line with the previous year £(3.8m), while it is pleasing to now that you have made progress in reducing your overspend in Health and Adults by £6.6m from the overspend of £13.1m reported in this area for 2016/17. Nevertheless, the continued overspends in these areas highlights a need for your officers to continue to work to mitigate overspends and ensure that departments take ownership for identifying alternative savings where savings plans have not been achieved.</p> <p>You delivered an overall surplus of £6.5m for the Housing Revenue Account for the year. This represents a strong outcome in the context that you faced an overall reduction in HRA income of £2.0m compared to 2016/17 as a result of government policy requiring you to make a 1% reduction on the level of social housing rents.</p>

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk
<p>Regeneration and growth projects</p> <p>You are experiencing a period of significant regeneration. You have ambitious plans to reshape Greenwich, principally around Woolwich through regeneration and growth. The programme includes a number of key projects and investments, which are significant both in scale and financial terms.</p> <p>We have reviewed project management and risk assurance frameworks established in respect of the more significant projects, to establish how you are identifying, managing and monitoring these risks. We have also reviewed progress made and significant developments in year, and the overall outcomes and expectations from the projects.</p>	<p><u>Project management and monitoring arrangements</u></p> <p>There have been a significant number of largescale key capital and regeneration schemes that you have been involved with during the year. The majority of these schemes fall within the remit of your Priority Investment Programme, which covers wide range of long-term projects that seek to promote regeneration, growth and employment opportunities within the borough. These include, among others, development works undertaken at Eltham Cinema, Woolwich Leisure Centre, Borough Halls Performing Arts Centre, Plumstead Library, the Woolwich Creative District, Charlton Skate Park and Sutcliffe Park Sports Centre.</p> <p>It is clear that you have appropriate and robust frameworks in place for monitoring and approval of regeneration programmes, in terms of cost review and assessment, key project risks and member involvement. Cabinet approval is required in respect of all key project decisions, and this decision-making process is supported by robust planning reports from your officers including detailed financial analysis and risk consideration. Before approval, all projects are subject to due diligence by both Legal and Finance and each business case is assessed on the value for money that it offers and in respect of their commercial and financial viability.</p> <p>A detailed project plan is prepared for each scheme, setting out deadlines for each key project phase as well and responsibilities for key project decisions. Each regeneration scheme is allocated a designated project manager and “RAG”-rated Programme Board Reports are prepared on a monthly basis for reporting to your Priority Investment Programme Board. These reports include monitoring of budget performance and highlight any on-going significant project risks or issues requiring mitigations. This allows your officers to be appropriately informed of key project developments and take prompt remedial action in respect of any issues arising. Separate arrangements are in place for schools and Housing Revenue Account capital regeneration schemes, which report to your Schools Capital Board and Housing Board respectively.</p> <p>Your Regeneration, Transport & Culture Scrutiny Panel committee provides an appropriate and effective forum for member scrutiny and challenge to ongoing regeneration projects and to receive regular reports monitoring progress made. This includes monitoring and consideration of the Business Critical Indicators (BCIs), being a set of KPIs that have been developed in response to Cabinet Member priorities alongside a detailed review of the services that are provided by the Directorate. This assists the committee in discharging effective oversight and monitoring of regeneration schemes. Additional reporting to members takes place through updates to your Cabinet, Overview & Scrutiny Committee and Audit and Risk Management Panel, providing additional avenues of member oversight of project progress.</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	27 February 2018
Audit Findings Report	17 July 2018
Annual Audit Letter	August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	£194,571	£194,571	£194,571
Audit of Pension Fund	£21,000	£21,000	£21,000
Housing Benefit Grant Certification	£83,247	TBC	35,747
Total fees	£298,818	TBC	£251,318

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Fees for non-audit services

Service	Fees £
Audit related services	
- Certification of the pooling of housing capital receipts return	£3,800
- Certification of the teachers' pensions return	£4,200
Non-Audit related services	
- 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.



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