

The Annual Audit Letter for Royal Borough of Greenwich

Year ended 31 March 2017

October 2017

Paul Dossett

Partner

T 020 7728 3180

E paul.dossett@uk.gt.com

Tom Slaughter

Manager

T 020 7728 2972

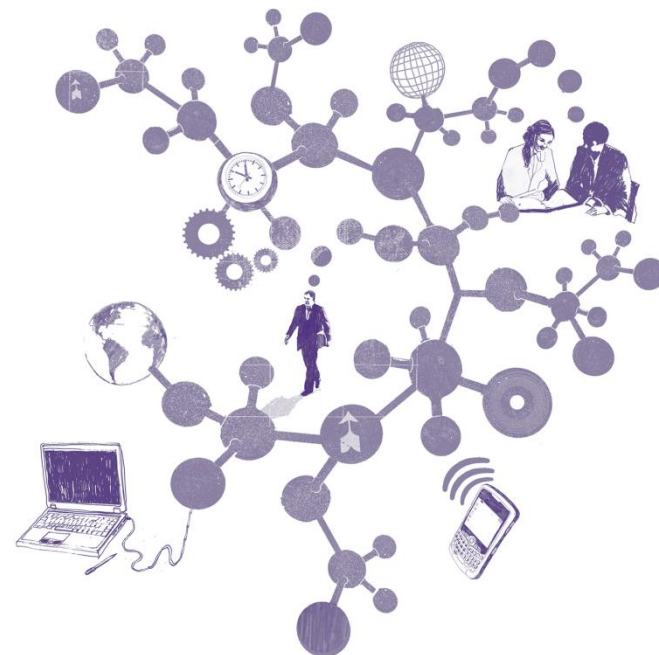
E thomas.m.slaughter@uk.gt.com

Emily McKeown

Manager

T 020 7728 3091

E emily.mckeown@uk.gt.com



Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	5
3. Value for Money conclusion	9
Appendices	
A Reports issued and fees	

Executive summary

Purpose of this letter

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 2017.

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 Governance Committee (as those charged with governance) in our Audit Findings Report on 18 July 2017.

Our 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 and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 18 July 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 18 July 2017.

Use of additional powers and duties

We are required under the Act to give electors the opportunity to raise questions about the Council's accounts and we consider and decide upon objections received in relation to the accounts.

We received an objection from a local elector relating to PFI contracts. We responded to the questions raised by the local elector. This matter is still being considered and the audit certificate remains outstanding until the objection is resolved.

Whole of government accounts

We completed our work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 18 July 2017.

Certificate

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.

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 2017. We will report the results of this work to the Audit and Governance Committee in our Annual Certification Letter.

Working with the Council

From 2017/18, the statutory deadlines for preparation and audit of the financial statements will be brought forward and the Council will be required to produce draft statements by 31 May, and secure an audit opinion by 31 July 2018.

We will work in partnership with the Council to complete a substantial amount of early audit testing prior to March 2018 which will help to drive efficiencies within the year end audit process.

Moving towards an earlier deadline, particularly considering the internal restructure you face, will require an element of redesign of some of the closedown processes, arrangements and internal business processes. The Council are currently reviewing the finance structure and financial processes as part of their close down planning. The Royal Borough of Greenwich has succeeded in completing early close for several years and have consistently met the deadline for the mid-July Audit and Risk Management Panel in regards to having a completed audit. Therefore this is a strong foundation to build on to achieve both the submission date and complete the audit testing requirements.

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
October 2017

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 £17.5million, 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 £850,000, above which we reported errors to the Audit and governance Committee in our Audit Findings Report.

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 – Royal Borough of Greenwich

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>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 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>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Royal Borough of Greenwich, 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; and •the culture and ethical frameworks of local authorities, including the Royal Borough of Greenwich, mean that all forms of fraud are seen as unacceptable. <p>Though we have not identified revenue recognition as a significant risk we have nevertheless tested the occurrence of revenue for all of the Council's material revenue streams.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have completed the following work in respect of this risk:</p> <ul style="list-style-type: none"> •review of entity controls •Walkthrough of systems and controls relating to the posting of journal entries •review of journal entry process and selection of unusual journal entries for risk-based testing back to supporting documentation •review of accounting estimates, judgements and decisions made by management •review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues.</p>

Audit of the accounts – Royal Borough of Greenwich

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>Operating expenses</p> <p>Risk that year end creditors and accruals relating to the Council's core activities are understated or not recorded in the correct period.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over payment of expenditure • undertaken a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • testing of a sample of expenditure transactions back to source documentation • testing of a sample of year end creditor balances • review of the appropriateness of the Council's approach to estimating expenditure accruals 	<p>Our audit work has not identified any issues in respect of the work identified.</p>
<p>Welfare Benefit Expenditure</p> <p>Risk that welfare benefit expenditure has been improperly computed (Valuation Gross)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the calculation of housing benefit payments • undertaken a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • agreed parameters into the Academy housing benefit system back to the national rates set by the Department for Work and Pensions • verified that all technology patches have been updated to ensure that the Academy system retains all benefit calculations • reviewed the reconciliation of the housing benefit claim to the general ledger and to the Academy housing benefit system • tested a sample of housing benefit payments to verify whether they have been calculated appropriately. 	<p>Our audit work has not identified any issues in respect of the work identified.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 18 July 2017, in advance of the 30 September 2017 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.

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 Governance Committee on 18 July 2017.

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 on 29 September 2017.

Other statutory duties

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 relating to **PFI contracts**. 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 (the Code), following the guidance issued by the NAO in November 2016 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 table 2 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 VfM 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 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Financial outturn and Financial sustainability Medium term financial plans In line with many other authorities, your medium term financial planning identifies significant budget challenges over the coming years. The Council has set a balanced budget for 2017/18 to 2018/19, but this will require you to deliver significant savings and raise Council Tax by 1.99% as agreed for 2017/18. However, the identification and delivery of continued savings remains a risk to your overall financial health.</p>	<p>Follow up our findings from last year and review your arrangements over medium term financial planning. This includes the reasonableness of significant assumptions around inflation, growth and savings as well as the impact of the Settlement Funding Assessment. We also considered your savings plans, arrangements for monitoring and managing delivery of budgets and the potential impact on service delivery.</p>	<p>We note that you have effective arrangements in place for financial planning and have performed well in recent years from a financial control perspective in terms of delivery of budgeted savings. This remained the case in 2016/17 and you delivered a balanced budget while delivering significant savings of £12.2m to mitigate significant reductions in central government funding compared to the previous year, including a £12m reduction in revenue support grant. We note however that there was an overall overspend at a service level of £5.3m which has been funded by savings and contributions at a corporate level including a £2.3m contribution from unallocated general fund reserves. The biggest area of overspend was a £13.1m budget overspend over Health & Adults, compared to a £7.3m overspend in this area for 2015/16, reflecting the continued adult social care demand pressures that the Council is facing in common with many other authorities across the country.</p> <p>While the overall level of savings attained is positive and the use of reserves to fund the 2016/17 revenue budget represents only a very small proportion of the Council's overall expenditure, reliance on drawing down on reserves to meet the Council's budget will not be sustainable means of supporting the financial position over the longer term and this highlights the importance of success in the delivery of the medium term financial strategy. This has all been achieved whilst maintaining the level of services provided to the community in accordance with member priorities. The MTFs approved by the Council in February 2017 covers the three year period to 2019/20. The MTFs reflects the anticipated annual loss of government funding of £39.4m by 2019/20 compared to 2015/16 levels and assumes the continued attainment of a balanced budget over that period, dependent on the delivery of annual work-stream savings of around £26m. While attaining savings on this level would be challenging for any local authority, we have noted that the MTFs is based upon reasonable assumptions and that overall the Council has appropriate arrangements in place for identifying and implementing appropriate savings to allow this plan to be achieved. You have spent considerable effort seeking to mitigate these risks in your medium term financial plans and, whilst the challenge increases year on year, have demonstrated a strong history of being able to meet these challenges and delivering planned financial targets.</p> <p>We have concluded that despite the financial challenges that the Council faces, the Council's overall arrangements are adequate for ensuring appropriate actions are undertaken to minimise the risks to the Council's financial health for 2016/17.</p>

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Regeneration and growth The Council has ambitious plans to reshape Greenwich, principally around Woolwich through regeneration and growth. Working with partner organisations, the aim is to deliver more jobs, affordable homes and better infrastructure and facilities in the borough. You are pursuing innovative models of delivery, to support schemes through funding outside the capital programme with minimal impact on the revenue budget. Your development company (now an independent Community Benefit Society) was formed to deliver regeneration and provide homes. The plans for the borough are substantial and will require radical changes to the way in which you commission and deliver projects. The programme includes a number of key projects and investments, which are significant both in scale and volume.</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 review progress made and significant developments in year, and the overall outcomes and expectations from the projects.</p>	<p>There have been a significant number of largescale key capital and regeneration that the Council has been involved with during the year. These include a new multisport centre at Sutcliffe Park, the development of Eltham Cinema and also a number of capital projects in the development stage including the plans for the Woolwich Creative District and for the Charlton Riverside development for a mixed-use urban quarter to incorporate between 3,500 and 5,000 new homes and support new employment opportunities.</p> <p>We have considered the arrangements that the Council has in place for monitoring and oversight of projects in terms of cost review and assessment, key project risks, progress against the timetable and ensuring the right level of senior management and member involvement. We are satisfied that the oversight arrangements in place are appropriate for confirming that all key issues and risks are followed up and for making sure that members are kept aware of all key project developments. From our review we have assessed that the Council has adequate arrangements in place to ensure Value for Money in its regeneration and growth projects during 2016/17.</p>

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and **there were no fees for the provision of non audit services.**

Fees

	Proposed fee £	Final fee £
Council audit –scale fee	194,571	194,571
Council audit –additional fee in respect of overrun of the interim audit	0	8,175
Grant certification	35,747	TBC
Total audit fees (excluding VAT)	230,318	TBC

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

Reports issued

Report	Date issued
Audit Plan	19 April 2017
Audit Findings Report	18 July 2017
Annual Audit Letter	31 October 2017

Fees for other services

Service	Fees £
Audit related services:	
• Certification of the teachers pensions return	4,200
• Certification of the pooling of housing capital receipts return	3,800
• Skills Funding Agency certification	5,000
Total	13,000

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 other services which were identified.
- We have considered whether other 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, as reported in our Audit Findings Report.

Reports issued and fees continued

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards have been applied to mitigate these risks.

	Service provided to	Fees	Threat?	Safeguard
Audit related services				
	Certification of the teachers pensions return	£7,210	No	The scope of the work did not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. The Council retained responsibility for preparing the teachers pensions return.
	Certification of the pooling of housing capital receipts return	£3,800	No	The scope of the work did not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. The Council retained responsibility for preparing the pooling of housing capital receipts return.
	Skills Funding Agency certification	£5,000	No	The scope of the work did not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. The Council retained responsibility for SFA sub-commissioning.
Non-audit services				
	No such services have been provided			
	TOTAL	£13,000		

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



© 2017 Grant Thornton UK LLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grant-thornton.co.uk