The Annual Audit Letter for the London Borough of Hammersmith and Fulham

Year ended 31 March 2020

September 2021

Contents

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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 the London Borough of Hammersmith and Fulham ('the Council') and Hammersmith and Fulham Pension Fund ('the Pension Fund') for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and Pension Fund 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 and Pensions Committee as those charged with governance in our Audit Findings Report on 29 July 2021.

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 and Pension Fund'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 and Pension Fund's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £10,000,000, which was approximately 1.4% of the Council's gross cost of services. We determined materiality for the audit of the Pension Fund's financial statements to be £10,000,000, which was approximately 1% of the Pension Fund's net assets.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 30 July 2021. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and investment properties, and the pooled property, infrastructure and private debt investment assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year. We gave an unqualified opinion on the Pension Fund's financial statements on 30 July 2021. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Pension Fund's pooled property, infrastructure and private debt investment assets given the Coronavirus pandemic. We also included an emphasis of matter paragraph relating to the legal challenge facing the Aviva infrastructure investment manager. This does not affect our opinion that the financial statements give a true and fair view of the Pension Fund's financial position and its income and expenditure for the year.
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 did not identify any matters which required us to exercise our additional statutory powers.

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 30 July 2021.
Certificate	We certified that we have completed the audit of the financial statements of the London Borough of Hammersmith and Fulham in accordance with the requirements of the Code of Audit Practice on 30 July 2021.

Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council.

The Council has faced extensive front-line challenges as a result of the pandemic, such as administration of grants to businesses and closure of schools, with additional complexities of reopening services under new government guidelines. The Council has responded well to the challenges caused by the pandemic.

Throughout the closedown period we held regular meetings with the Council's key finance staff to discuss the impact of Covid-19. We also discussed the financial implications in terms of asset valuations, going concern and provision for credit losses in advance of the submission of the financial statements.

There have not been any changes in key financial processes that impacted on our audit approach. Restrictions for non-essential travel have meant both teams have had to be flexible in approaches to sharing information. We agreed to use 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.

We made more use of conference calls and emails to resolve audit queries. Both teams utilised a query log to track and resolve outstanding items. Weekly meetings were held with senior finance staff to highlight key outstanding issues and findings to date, ensuring that the audit process was as smooth as possible.

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
September 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council and Pension Fund'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 £10,000,000, which was approximately 1.4**%** of the group's gross cost of services. 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 determined materiality for the audit of the Pension Fund's financial statements to be £10,000,000, which was approximately 1**%** of the Pension Fund's net assets..

We also set a lower level of specific materiality of £100,000 for disclosures relating to officer remuneration and key management personnel disclosures.

We set a lower threshold of £500,000, above which we reported errors to the Audit and Pensions 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 Statement of Accounts to check it is consistent with our understanding of the Council and Pension Fund and with the financial statements included in the Statement of Accounts 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 and Pension Fund'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
Covid-19 (Council and Pension Fund) The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.	As part of our audit work we: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported as a result of Covid-19 specifically. The draft financial statements were provided on 24 August 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples included the material uncertainty disclosed by the Council's property valuation expert; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we were unable to obtain sufficient audit evidence.	The Council's property valuation specialists reported that valuations of land and buildings were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. In addition, the fund managers for the Pension Fund's pooled property investments declared material valuation uncertainties around the valuation of these investments on the same basis. This impacted upon both the valuation of investments in the Pension Fund net assets statement and the valuation of the net defined benefit liability in the Council's balance sheet. Management disclosed these uncertainties in Note 36 to the Council's financial statements and Note 4 to the Pension Fund financial statements. These disclosures were referred to in our auditor's reports for the Council and Pension Fund respectively in emphasis of matter paragraphs. These references do not constitute qualifications of the audit opinions.

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings (Council only) The Council revalues its land and buildings on a rolling four-yearly basis. Council dwellings and investment properties are revalued annually. This valuation represented a significant estimate by management in the financial statements due to the size of the numbers involved (£1.6 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management needed to ensure the carrying value in the Council'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. Management engaged the services of a valuer, Wilks Head and Eve, to estimate the current value as at 31 March 2020.	As part of our audit work we: • 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 of the competence, capabilities and objectivity of the valuation expert • wrote 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, Gerald Eve, 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 • 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 were appropriate and whether they were truly representative of the other properties within that beacon group.	During our testing of the valuation of Council Dwellings, we identified that management's valuation expert had made use of outdated Land Registry House Price indices in undertaking their valuation calculations. When forming a point estimate based on updated data, the results were indicative that this could potentially lead to a material misstatement in the recorded values as at 31 March 2020, as well as in valuation movements for the year ended at this date. As such, management commissioned their valuation specialist to re-perform the valuations relating to Council Dwellings incorporating more recent information. This led to a downward adjustment in the valuation of Council Dwellings of £11.8m in the final draft of the financial statements, of which £8.0m impacted the deficit on provision of services and £3.8m impacted other comprehensive expenditure and the revaluation reserve. This adjustment was processed in the final draft of the financial statements. We made a recommendation that management should ensure that instructions to their valuation specialist stipulate that the most recent valuation indices at the date of reporting should be used as part of valuation calculations, and that changes in market conditions resulting in changes in indices are kept under frequent review. During our testing of the valuation of the Council's investment properties, we identified three properties which had errors in the rental income which formed a key input into the calculation of the valuation of these properties as at 31 March 2020, performed by management's valuation specialists. These errors led to a likely overstatement of the valuation of these properties as at 31 March 2020, and a corresponding overstatement of the valuation movements (part of financing and investment income and expenditure in the CIES) during the year. This was due to errors in extracting the data from the Council's systems before this was sent to the valuation specialist. As the impact of this issue was not material to the Council's financial statements, the financial statements were not amended this was reported as an unadjusted misstatement in our Audit Findings Report to those charged with governance. However, we made a control recommendation around this process that management should implement a more rigorous review and reconciliation process of data such as rental income provided to valuation specialists to inform their year-end valuation calculations, to ensure that data provided is complete and accurate.

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings (continued)		In addition, as discussed under 'Covid-19' above, the Council's property valuation specialists reported that valuations of land and buildings, including investment properties and council dwellings, were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. We agreed additional disclosures with management relating to Note 36 in financial statements. This disclosure was referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion.

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of net pension liability (Council only) 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 (£498.4m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.	As part of our audit work we : • 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 evaluate 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 of the reasonableness of the actuary's assumptions and calculations in-line with relevant standards, including their consideration of the ongoing impact of the McCloud and Guaranteed Minimum Pension cases. • assessed the accuracy and completeness of information 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 • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing additional procedures suggested within the report • obtained assurances from our audit of the Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements	Our testing identified that an infrastructure investment fund (Level 3 investment) held with Aviva that the Council's Pension Fund had a material investment in, had received a qualified audit opinion for their financial statements as at the 31 December 2019. The investment fund's auditors qualified their audit opinion because they concluded they were unable to obtain sufficient appropriate audit evidence regarding claims made against a Limited Partnership, 100% owned by the Fund. This affects the Council's accounts because 88% of the Pension Fund's assets are attributable to the Council as the administering authority and this impacts the valuation of the net defined benefit liability in the Council's balance sheet. Additional evaluation was undertaken and management were satisfied that this issue did not lead to a material misstatement of the financial statements as a result in an erroneous valuation of the investment in the infrastructure fund. However additional disclosures were added to Note 4 to the Pension Fund financial statements to set out management's judgement in this regard and the residual uncertainty, which were highlighted in an emphasis of matter paragraph in the Pension Fund's audit opinion. Due to statutory accounting requirements in place for pensions items, we noted that were the valuation of the investment held by the Pension Fund to change, there would be no direct financial impact on the Council's General Fund position. Additionally, the fund managers for the Pension Fund's pooled property and infrastructure investments reported that valuations of these investments were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. As 88% of the Pension Fund's assets are attributable to the Council as the administering authority, this material uncertainty impacts in turn upon the valuation of the net defined benefit liability in the Council's balance sheet. Management disclosed this uncertainty in Note 36 to the financial statements. This disclosure was referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion.

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of internal controls (Council and Pension Fund) 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. In particular journals, management estimates and transactions outside the course of business are areas susceptible to management override.	As part of our audit work we; • 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.	No issues were identified in respect of this risk which required reporting to those charged with governance in the Audit Findings Report.

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of level 3 investments (Pension Fund only) The Fund values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. 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 (£73.8 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 2020.	As part of our audit work we: • 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 are met • independently requested year-end confirmations from investment managers and/or custodian(s) • 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 2020 with reference to known movements in the intervening period and • in the absence of available audited accounts, evaluated the competence, capabilities and objectivity of the valuation expert • tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register • where available, reviewed investment manager service auditor report on design effectiveness of internal controls.	Our testing found an issue in relation to a material Level 3 investment held by the Council Pension Fund in an Aviva Infrastructure investment fund. The Investment Fund, in which the Council Pension Fund had a share, had their financial statements as at the 31 December 2019 qualified by their auditors. The Investment Fund's auditors qualified their audit opinion because they concluded there were unable to obtain sufficient appropriate audit evidence regarding claims made against a Limited Partnership 100% owned by the Fund. Additional evaluation was undertaken and management were satisfied that this issue did not lead to a material misstatement of the financial statements as a result in an erroneous valuation of the investment in the infrastructure fund. However additional disclosures were added to Note 4 to the Pension Fund financial statements to set out management's judgement in this regard and the residual uncertainty, which were highlighted in an emphasis of matter paragraph in the Pension Fund's audit opinion. This does not constitute a qualification of the audit opinion. Additionally, the fund managers for the Pension Fund's pooled property and infrastructure investments reported that valuations of these investments were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. Management disclosed this uncertainty in Note 4 to the Fund's financial statements. This disclosure was referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion

Audit of the Financial Statements

Audit opinion

We gave unqualified opinions on the Council and Pension Fund's financial statements on 30 July 2021.

Preparation of the financial statements

The Council and Pension Fund presented us with draft financial statements in August 2020 in accordance with the amended timeframe, and provided a set of working papers to support them. Two adjustments were made to the financial statements which resulted in an adjustment of £17.8m to the Council's Comprehensive Income and Expenditure Statement, of which £14.0m represented an increase to the deficit on provision of services and £3.8m increased other comprehensive expenditure.

These related to the recognition of a provision in respect of refunds due to HRA tenants as a result of historic water charges, and an adjustment to the valuation of Council Dwellings as a result of outdated indices being used in the valuations informing the draft financial statements.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Pensions Committee on 24 November 2020, and updated our Audit Findings Report in July 2021 in advance of concluding the audits.

In addition to the key audit risks reported above, we identified the following issues throughout our audit that we have asked the Council's management to address for the next financial year:

- Ensuring that adequate year-end reconciliation processes are in place to gain assurance over the completeness of schools data in the financial statements, following the erroneous omission of data relating to one school in the draft financial statements
- Strengthening closedown processes in relation to the Collection Fund following an accumulation of minor issues which were identified during the audit.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts in August 2020, with the final version being published in July 2021.

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 Hammersmith and Fulham Pension Fund on 30 July 2021. We also reported the key issues from our audit of the pension fund accounts to the Council's Audit and Pensions Committee on 24 November 2020, with an update being provided on 29 July 2021.

In addition to the key audit risks reported above, we identified the following issues during our audit that we asked management to address for the next financial year:

- Implementing the recommendations of internal audit in respect of strengthening the controls in the payment process for lump sum payments, following a significant overpayment being made during the year.
- Retaining correspondence with Pension Fund members on the pensions administration system, in accordance with documented procedures.

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO . We issued an assurance statement on 30 July 2021 with no issues being reported.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of the London Borough of Hammersmith and Fulham in accordance with the requirements of the Code of Audit Practice on 30 July 2021.

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 April 2020 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 November 2020, 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 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Medium Term Financial Planning As outlined in our Audit Plan, issued prior to the outbreak of the Covid-19 pandemic but reported to members in September 2020, the Council faced a number of financial challenges over the both the short and medium term, including managing the impact of reductions in government funding, increasing demand for services, the impact of changes to business rates retention and the outcome of the Government's fairer funding review. At the risk assessment stage, the Council was forecasting a budget shortfall of £7.7 million for the year and although mitigating actions were being developed, any shortfall would need to be met from reserves. Part of the Council's response to these challenges related to increasing capital development and regeneration in the Borough, as well as internally considering issues such as work space for employees and refining recruitment practices to enable better management of staffing costs. Overspends predicted in the high needs and early years block of the Dedicated Schools Grant, which remained the key area of pressure, were also planned to be funded through reserves. The Council had begun to make use of business information and data to aim to better understand the drivers of increasing costs. A balanced budget had been set for 2020/21 although the four-year medium term financial forecast showed increasing budget gaps in future years, with a range of growth and savings proposals being proposed.	As part of our work we: • reviewed the arrangements in place to monitor and report performance against budget and savings plans • considered arrangements for setting the Medium Term Financial Forecast and examine underlying assumptions and dependencies for robustness.	The financial outlook for the Council remains extremely challenging and ongoing financial resilience is dependent on a number of factors with as-yet uncertain outcomes. During 2019/20 and in the period since the year-end, officers have put in place robust arrangements to ensure that risks and uncertainties are given due consideration in short and medium-term financial planning and the impact is effectively modelled to the best of their ability, drawing on external support where knowledge gaps or wider unknowns are identified. The Council's response to the outturn position for 2019/20 in terms of pre-Covid forward planning for 2020/21 and beyond is broadly indicative that management's understanding of the key drivers for income and expenditure relating to core services and ability to understand impact of decisions taken is strong, and plans have been put in place for improvement to processes where significant variances were identified. As a result of Government Funding and initiatives, prior year accumulated reserves and prudent financial planning including setting aside contingencies in the budget-setting process, the Council has sufficient resources in place to meet the expected shortfalls in income and increases in expenditure for 2020/21 arising from the Covid-19 pandemic and is not facing the kinds of challenging decisions in the immediate term around service cuts or Section 114 notices which comparable local authorities could be subject to. In the medium term, the picture remains far more uncertain as the longer-lasting impact of the pandemic on the economy, in the context of wider financial risks beyond the control of officers or members, remain significant unknowns. Management are conscious of the need to remain responsive to emerging circumstances, whilst keeping sight of longer term strategic goals which underpin future investment decisions from use of reserves or other sources.

Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Medium Term Financial Planning		Management should ensure that prudent decisions continue to be made and that the implications of spending or budget-setting decisions are thoroughly communicated to members. In overall terms the Council has a strong record of driving efficiencies from a council tax base that reflects political decisions over many years about the importance of keeping council tax levels down. This strategy, coupled with both housing and business growth in the borough and a commitment to sound financial management has meant the Council has maintained sound finance. However, the many challenges that the Council faces, as outlined in our summary report, suggest some very hard decisions ahead. The Council fully recognises the macro-economic impact of Covid-19 and Brexit but measuring it is difficult at this stage. As outlined on the earlier graphics, the Council's reserve position is reasonable but allows no room for complacency or further diminution of those reserves. We would urge that members fully digest the lessons from recent Public Interest Reports and other commentary from sector financial experts as they approach the 2021/22 budget setting round. The Council reacted quickly to the Covid-19 pandemic and has spent significant time focusing on measures to achieve financial sustainability. We believe members are fully aware of the risks that have impacted other councils and the dangers of running down reserves. The Council has a lower level of reserves than some other London Boroughs. Covid-19 represents an existential threat to the financial sustainability of many councils. Members should be aware at all times, not to choose the pathways taken by those Councils who have recently subject to public interest reports. Members have a fiduciary duty to maintain sound finance and not to take steps that would mortgage the future. Investment is certainly required to drive the Council, its residents and business forward. This must be done in considered and balanced way.

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	September 2020
Audit Findings Report	July 2021
Annual Audit Letter	September 2021

Fees

	Planned fees £	Actual fees £
Council audit	152,242	191,000
Pension Fund audit	25,000	33,000
Total fees	**177,242**	**227,000**

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £126,242 for the Council and £16,170 for the Pension Fund 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.

We have been discussing the issue of the 'cost of Covid' with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.

Fee variations have been agreed with management but are subject to PSAA approval.

A. Reports issued and fees

The fee variation for the Council audit is set out below.

Area	Reason	Fee proposed
Raising the bar increased challenge	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.	£12,500
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.	£4,000
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.	£9,500
Additional Covid-19 costs 15%	The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: • Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan. • Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. • Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. • Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working.	£22,758
Specific issues arising during the audit	• Qualified Aviva investment fund financial statements • Error in Council Dwellings valuation • Additional provision relating to refunds of water charges • Error in omission of schools data • Additional procedures arising from delay to the conclusion of the audit as a result of these matters	£4,000 £4,000 £3,000 £2,000 £3,000
Total		**£64,758**

A. Reports issued and fees

The fee variation for the Pension Fund audit is set out below.

Area	Reason	Fee proposed
Raising the bar increased challenge	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.	£5,000
Valuation of level 3 investments	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of level 3 investments this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion.	£3,830
Additional Covid-19 costs 15%	The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: • Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. • Management's assumptions and estimates - there is increased uncertainty over many estimates including investment valuations. We have include an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values. • Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working.	3,000
Specific issues arising during the audit	• Qualified Aviva investment fund financial statements • Lump sum overpayment • Additional procedures arising from delay to the conclusion of the audit as a result of these matters	6,000 1,000 1,000
Total		**19,830**

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	
- Housing Benefits subsidy claim	19,500
- Teachers' Pension return	7,700
- Pooling of Housing Capital Receipts	5,000
Non-Audit related services	
- CFO Insights subscription	12,500

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 table 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 and Pension Fund's auditor and have ensured that appropriate safeguards are put in place.

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

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