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AUDIT COMMITTEE AND AUDIT COMMITTEE (ADVISORY)

23 May 2023

SECOND DESPATCH

Please find enclosed the following items:

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Report of: Corporate Director of Resources

Meeting of: Audit Committee

Date: 23rd May 2023

Subject: Report of the External Auditor - Audit Progress Report

1. Synopsis

1.1 Following the commencement of the external audit in October 2022, and update provided at the last committee meeting on March 13th, Grant Thornton UK LLP is presenting the draft audit findings report for 2021/22.

1.2 At the Audit Committee meeting of the 30th January 2023 the External Auditor presented an update on progress which unfortunately included a delay to the completion of the authority's audit. The external auditor committed to providing an Audit Findings Report to the Committee meeting of the 13th March 2023. In order to support this, the Councils finance team continued to prioritise audit queries and samples and ensured all outstanding items on the query log were resolved in short order. This was unfortunately not delivered as anticipated.

1.3 Although disappointing to encounter a further delay, many Local Authorities currently find themselves in a position of not yet having 2020/21 accounts signed off, let alone 2021/22. Indeed, other Local Authorities within London have received letters from their auditors stating that their 2021/22 audit will not begin until after Summer 2023. This is in the context of a statutory date to complete the audit of 30th November 2022.

1.4 At the Audit Committee of March 13th Grant Thornton informed council officers that the resources allocated to our audit were being withdrawn in order to prioritise other audits. At this point, the auditors were still confident of achieving an Audit Findings Report for the May 2023 Committee date. Since then, Grant Thornton confirmed that resources have been reinstated earlier than planned, and the draft report will be circulated in advance of this meeting.

1.5 Officers have been working hard to manage audit queries alongside the 2022/23 closedown process and have progressed the majority to conclusion.

1.6 The Council is preparing for an accelerated 2022/23 year-end timetable supported by its improvement in performance which had previously been acknowledged by Grant Thornton. The Government have recently consulted on its intention to return the statutory deadline for the completion of Local Authority accounts to the 31st May 2023. Officers are continuing to work to this date despite many local authorities openly indicating they will not. Audit Planning for 2022/23 will not take place until the summer.

1.7 There are two areas that continue to delay the conclusion of the 2021/22 audit, and these are:

1.7.1 **Property Valuations:** The auditors valuers Gerald Eve (GE) have many queries outstanding with Islington's Valuer, Wilks Head and Eve (WHE). The two valuers currently have open differences of opinion on some valuation methodologies. There are several minor queries that still need to be resolved. This has been a result of increased Financial Reporting Council scrutiny on property valuations.

1.7.2 **IAS19 Liability Valuations:** The Council's delayed 2021/22 accounts audit process has coincided with the approval of the 2022 Triennial Valuation for the Pension Fund. This has included updated assumptions to reflect the latest membership data and will change the size of the liability. As such the 2021/22 figures now require restatement. This is a national issue which has impacted all authorities and is outside of both Council officer's and audit control.

1.8 Although with accounting for infrastructure assets which was raised at the last committee meeting, these national issues have delayed the audit, which otherwise would have been substantially complete at this stage.

1.9 The Council will work closely with the Auditors to discuss planning the 2022/23 audit in the summer.

1.10 No significant issues or concerns have been raised to date within the audit.

1.11 The Audit Committee will be presented with a post audit version of the accounts once the final changes have been agreed with External audit.

2 Recommendations

2.1 It is recommended that the Audit Committee notes and comments on the Audit Findings Report.

2.2 It is recommended that the Audit Committee notes and comments on the Annual Value for Money report.

3 Background

3.1 Each year the council's external auditor provides an opinion on the council's Statement of Accounts. The report presents to the Committee the key information that the external auditor feels appropriate to bring to your attention.

4 Implications

4.1 **Financial Implications:** There are no direct financial implications.

4.2 **Legal Implications:** None

4.3 **Environmental Implications:** This report does not have any direct environmental implications.

4.4 **Equality Impact Assessment:** The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

4.5 A resident impact assessment has not been carried out since the contents of this report relate to a purely administrative function and there are no direct impacts on residents.

Appendices:

- **Appendix 1** – Islington Council Draft Audit Findings Report
- **Appendix 2** – Islington Council Annual Value for Money Report

Background papers: None

Responsible Officer:
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Interim Auditor's Annual Report on the London Borough of Islington Council

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Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive summary

Value for money arrangements and improvement recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendations made	No significant weaknesses in arrangements identified, but improvement recommendation made	↔
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendations made	No significant weaknesses in arrangements identified, but improvement recommendation made	↔
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendations made	No significant weaknesses in arrangements identified, but improvement recommendation made	↔

No significant weaknesses in arrangements identified or improvement recommendation made.

No significant weaknesses in arrangements identified, but improvement recommendations made.

Significant weaknesses in arrangements identified and key recommendations made.

Executive summary

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Financial sustainability

Despite the ongoing uncertainty in Local Government funding, the Authority has maintained an improved financial position. Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have not identified any risks of serious weaknesses.

Governance

Our work this year has focussed on developing a detailed understanding of the governance arrangements in place at the Authority. Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks.

Improving economy, efficiency and effectiveness

Islington Council has in place a robust performance management framework to ensure effective delivery of services and priorities. We found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks.

Our audit of your financial statements is in progress.

Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22

Our audit of your financial statements is in progress.

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We did not issue any statutory recommendation during 2021/22.

Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue any Public Interest Report during 2021/22.

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not issue any application to the Court during 2021/22.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We did not issue any advisory notice during 2021/22.

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not issue any judicial review during 2021/22.

Securing economy, efficiency and effectiveness in the Council's use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial Sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our commentary on the Council's arrangements in each of these three areas, is set out on pages 7 to 24. Further detail on how we approached our work is included in Appendix B.

Financial sustainability

We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

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How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

Generally we note that the Covid-19 pandemic has been the largest peace time emergency seen in this country since WWII. The knock-on effects on local government finance have meant shortfalls in income due to cessation of services and reduction in collection of both Council Tax and Business Rates. There has also been a loss of commercial income in such areas as commercial rents. While government grants have covered part of the general shortfall, councils have been dealing with increased financial uncertainty. During 2021/22 the public moved out of the cycle of lockdowns and other restrictions, the after effects of the pandemic continue to make finances tight for local authorities

The Council entered the Covid-19 pandemic in a strong financial position with a plan to deliver savings and build strength in its reserves position, it was able to achieve this in 2019/20. However, the effects of the pandemic impact on the economy has negatively affected revenue streams, so ability to deliver the savings required has been impeded at a time when there is increased demands for services.

The Budget and Council Tax proposals for 2021-22 to 2023-24 states "Based on the government's methodology, Islington's Core Spending Power (CSP) will increase by 3.7% in 2021/22, which represents a real term increase in resources but is less than the national average increase of 4.5%". The Medium Term Financial Strategy (MTFS) identifies a net funding gap of £34.2m during this period although a balanced budget was set for 2021/22.

The Budget and Council Tax proposals for 2021-22 to 2023-24 noted key variables that could impact on the Budget Gap comprised:

- Ongoing Covid-19 income losses (including council tax and business rates losses) and expenditure/demographic pressures, and the extent to which these are covered by central government funding;
- Delivery of the savings programme;
- The longer-term government Comprehensive Spending Review (CSR) and future local government finance settlements, and potential funding distribution reforms such as the reset of business rates retention growth and the fair funding review; and
- Government reforms of the business rates system and social care funding system.

The Budget and Council Tax proposals for 2021-22 to 2023-24 showed that key assumptions and contingency plans supporting the Net Revenue Budget for 2021-22 included (inter alia)

- Public sector pay freeze
- Increasing quantum and complexity of demand for council services, including in adult and children's social care and homelessness
- Detailed assessment of the expected Local Government Settlement for 2021-22, along with noting that Islington has lower-than-average-for-London ability to increase revenue from Council tax
- Expected Covid-19 support packages

Financial sustainability

- High Risk that the Fair Funding Review in 2021-22 will divert money away from Inner London Boroughs. However, the Fair Funding Review was delayed in April 2020 in response to coronavirus crisis. Date for when the review will take place has still not been confirmed as at April 2023
- Recognition that any failure to meet in-year savings on services will need to be funded from the corporate contingency budget
- Ongoing need to improve resilience of reserves.

We feel the range of factors taken into consideration is reasonable. Also assumptions supporting the Council Tax level assessment are prudent. The ongoing pandemic and Covid budget pressures made this difficult to predict year and budgets were set during periods of great uncertainty and lockdown. We note that 2021-22 savings included significant plans for savings in Children's and Adult Social Care. Both areas are hard to achieve savings in but Islington argued that as they are relatively high spenders in these areas and it was reasonable to aim to be relatively high savers in these areas as well. We note that both these areas were overspent at provisional outturn even putting aside Covid pressures (Children's Services Budget £84.7m required savings 1.97m Adult Services Budget £63.5m Required savings £1.52m).

Local Government finance settlements have only been provided for one year for many years now and this makes the preparation of savings plans over the medium term problematic. We have seen no evidence of capital resources being used to relieve revenue pressures. Further Savings and Transformation Plans were presented to Council in September 2021 which included Use of Capital Financing Receipts for Alternative Purposes; In September 2021, a "Flexible Use of Capital Receipts Strategy" paper was submitted to Council for consideration. The paper proposed to use Capital Receipts to reduce Pension Fund deficits – arguing that this saved financing costs in the General Fund and HRA and therefore represented saving and Transformation.

The paper noted that the "Council (General Fund) is expecting £30m of capital receipts in 2021/22, which could be used to make a one-off contribution towards the balance of the Pension Fund deficit. A further £24m of capital receipts is expected by 2023/24, which could be applied for the same purpose. While this was discuss the decision was not to proceed with this course of action.

The long-term capital programme 2024-25 to 2030-31 includes significant unfunded elements and there is no clear plan for bridging the gap. However, these projects are indicative i.e. not yet approved therefore reasonable that detailed funding plans not yet in place.

Section 7 of the Budget Report for 2021-22 includes the s151 officer's assessment of the estimates and proposed financial reserves contained within the Budget Proposals. The s151 Officer draws attention to a number of key areas of risk:

"In setting an ambitious General Fund balance target for the Council to work towards over the medium and longer term, consideration has been given to the total level of budgets pressures that the council has been exposed to during the pandemic (highlighting the inherent quantum of budget risk going forward) and the comments of the council's External Auditor on the council's reserves and GF balance.

The multi-year CSR, the planned reforms to the local government finance system around business rates retention and 'fair funding', and the long overdue reform of social care funding have been further delayed. As such, it is very difficult at this stage to estimate with any accuracy the external funding available to the council from 2022/23 onwards.

The s151 officer's assessment is reasonable and shows that the Council is monitoring and managing its situation as closely as it can. The underlying shortfall of £1.4M in the HB administration budget is noted every year as an area where the Council is funding the HB regime – this is a managed risk.

Reserves have improved, previous years underspends were used to bolster General Fund reserve resilience (in line with previous Grant Thornton audit recommendations).

2020-21 saw the creation of a Care Experience reserve of £16M which was earmarked for consultation costs and scheme to pay support to people who may have suffered child abuse. A Support Payments Scheme was agreed by Cabinet in October 2021 to support persons who suffered emotional, physical, and sexual abuse whilst resident in the council's children's homes from 1966 to 1995.

Financial sustainability

The future financing of local government is still unclear. A planned government long term spending review was postponed from 2020 due to the pandemic and the current local government settlement only covers the 2022/23 year. The date of the long-term review, whilst announced in the October 2021 budget statement, is yet to be confirmed.

The Council has a detailed financial plan covering three years. Given the uncertainty of the financial regime, its plan has been drawn up on prudent assumptions on future income streams. The Council has considered long term pressures on funding streams such as Council Tax, Business Rates and the Government funding settlement.

Lack of information on future funding is a national issue but we have seen that the Council has a sensible approach to financial planning and budget management.

How the body plans to bridge its funding gaps and identifies achievable savings

As previously mentioned, the Council has set up a medium-term financial strategy. The cumulative budget shortfall over the three-year Medium Term Financial Strategy (MTFS) at April 2022 was £39m after compensating measures. A delivery of savings already identified and identification of further savings was being envisaged to bridge this gap. Given the uncertainty of funding, detailed efficiency plans are only drawn up for one year at a time. The Council is aware of the ongoing funding pressures it faces and monitors its savings monthly.

There is a medium-term finance gap but a balanced budget was set for 2021/22 and 2022/23 and the Council has identified some savings it plans to achieve over the MTFS. More medium terms savings plans would be advisable but this is difficult given the uncertainty of future funding. The largest pressures on the budget are faced in delivering services in adults and children's social care, services to children with special educational needs and disability and the ongoing impact of Covid-19. The Council is confident that it has been prudent in relation to both the budget for this year and the medium-term financial strategy (MTFS).

The 2021/22 budget included a 1.99% increase in Council Tax, plus a 3% increase in the Adult Social Care precept. For 2021/22 and 2022/23, the Council has a base budget contingency of £5m.

An ambitious £25m savings target was required to balance budget in 2021-22. While the Councils track record shows slippage in savings plans for 2020-21 it must be remembered the upheaval caused in this year by the pandemic which meant that "business as usual" was suspended. In 2021/22, it is noted that the effects of the pandemic again made delivery of savings hard to achieve. However, budget reports to Members do not make delivery of savings progress clear as a whole over 2021/22.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

We found a robust financial planning process which ties in with corporate objectives. There is extensive internal consultation to ensure the budget meets the needs of the service. The process ensures that key services remain funded. We found no evidence of the need to curtail services to support short term funding deficiencies.

The Council has the necessary resources for financial management and we feel the Council has a positive financial culture and an appropriate 'tone from the top' set by the Chief Executive. The ongoing management of the Council's financial position over recent years is evidence of this. In challenging times, its vitally important that a strong financial culture is maintained. Council has a number of key projects to deliver over the next few years and the recent reorganization of the Finance department will help to ensure that finance staff are not overstretched and provide such additional support as the s151 officer requires.

Managers in individual services are responsible for managing their budgets and providing forecasts. Business partners will support them with this as needed and provide challenge where appropriate.

The Council has a detailed financial plan covering three years. Given the uncertainty of the financial regime, its plan has been drawn up on prudent assumptions on future income streams. The Council has considered long term pressures on funding streams such as Council Tax, Business Rates and the Government funding settlement.

Financial sustainability

The Council has a Capital Programme and has adopted a Capital Strategy and Capital Planning process which are regularly reviewed to reflect changing circumstances. At April 2021 the capital programme of £539m over the period to 2023/24 covering areas like affordable housing, delivery of net zero commitments, infrastructure, property and ICT. The programme is clearly linked to corporate priorities

In addition to the detailed three-year Capital Programme, an "indicative Programme" to spend a further £1.1BN is in place for the period 2024-25 to 2030-31. This is also analysed by corporate objective. Within the £437.985M planned spend on affordable housing over three years, the capital programme shows that some £300M of this amount relates to new builds. The remainder relates to enhancements of existing buildings. These include, in the three-year period, some £19M planned spend on "energy efficiency" – with a further £168M to be spent on energy efficiency of existing homes over the following seven years. Within the Greener and Cleaner capital plan, although there are no energy efficiency spends planned in the initial three-year period, it can be seen that the longer-term programme includes £19M planned spending on the "Islington Heat Network".

The Capital Strategy shows that the £156.5M where funding is not yet identified will be met over three years by borrowing from the General Fund and the HRA Account. The Capital Strategy, Minimum Revenue Provision Policy Statement, Treasury Management Statement and Investment Strategy statement are all consistent with this approach. They show that planned investment of £539M relies on, amongst other sources of finance:

- General Fund Borrowing £86.327M
- Housing revenue Account (HRA) Borrowing £70.136M
- HRA reserves £143.5M

The Capital Strategy shows that the planned investment of £539M over three years also relies on GF capital receipts of £54.4M over three years and HRA capital receipts of £148.613M over three years. The Capital Strategy acknowledges reliance on assumed sale of new build houses,

The capital programme is overseen by members, while projects are subject to an appraisal, monitoring and approval process. Each year the Council reviews its capital expenditure plans and priorities for the next three years in order to agree a capital programme and pipeline. This is undertaken alongside the revenue budgeting process in order that the impact of both is considered.

The budget has been designed to be integrated with the core strategic priorities of the Council. These are set out in the Capital Strategy as

- Decent and Genuinely Affordable Homes for All
- Jobs and Opportunities
- A Safer Borough for All
- A Greener and Cleaner Islington

From review of Corporate Plan 2018-22 and Strategic Priorities 2021 and Savings Proposals 2021-22, no planned cuts to services were noted. The Savings Proposals shows planned efficiencies and re-organisations but no specific cut to services.

understanding of drivers of risk in the Council budget are strong and variances from budget are understood. However, there remain fluctuations in variances to budget which may indicate further work is required, either to arrive at more accurate assumptions / a better understanding of cost pressures in the budget, or to ensure budgetary adherence is improved by budget holders. Some variance is inevitable as some services are demand led and is difficult to predict.

Financial sustainability

However, in emerging from the pandemic, a return to the norms of budgetary monitoring and financial discipline are required to ensure financial success. It will be equally critical to ensure that budget holders, and the Council as a whole, on signing up to future budgets, are held to account for any future failure to deliver the budgets agreed to. The Council will also need to be cognisant, early on, of pressures to budgets, with effective early warning systems to identify risks and ensure corrective action is taken. It is equally critical there are effective monitoring and assessment arrangements in place to understand whether future budgetary overspends are the result of unavoidable / unforeseeable cost pressures, or deficiencies in budgetary and financial discipline within directorates. Previous experience has indicated to us that the Council has tools to assist with this role and is well equipped to deal with the challenges ahead as long a strong financial culture is maintained.

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system.

We found a robust financial planning process which ties in with corporate objectives. There is evidence of staff working collaboratively across the Council as opposed to silo working. Service provision is aligned to the funding envelope. Council takes a prudent approach to budgeting.

Services have collaborated and appear to understand the wider position of the Council as a whole, and not just their own departments The budget has been balanced over recent years, which would point to departments not spending their own budgets just to utilise them. We understand that underspent budgets are redeployed, which would suggest services do not spend their budgets simply to protect future allocations but identify savings.

The budget is aligned to wider plans, namely the corporate objectives but also a set of core planning assumptions which set out likely changes to the environment. These considerations are the starting point of the budget development process.

The Corporate Plan for 2018-22 states under the heading “Well Run Council” that the Council will develop a People Strategy. This has been produced and mirrors the corporate plan and ends in 2022. This document is however aimed at how Islington makes itself the best employer and not how about how it provides staff in sufficient numbers and of sufficient skill to provide Council services going forward.

The council incorporates Workforce Planning into broader departmental and localised ‘People Plans’. A current corporate workforce plan was not in place during 2021/22. A Strategic Resources Lead has been appointed subsequently to develop this. The process utilises local people plans, which are currently in place. and collates the local people plans into a corporate people plan and refreshed Workforce Strategy. This process involves staff engagement. The end result will be a people plan as it will not only focus on having a fit for purpose workforce but also look at equality, diversity and well-being considerations. Work was delayed on the Workforce Strategy to fit in with the new Corporate Plan which was being developed. As at April 2023, the Corporate Plan and Workforce Strategy had been drafted and work is progressing to have the Corporate People Plan in place in Spring 2023.

Given size and complexity of the Council’s activity in some areas (for example in-house new home building; technologically challenging energy programs; high number of individual savings and Greener/ Cleaner initiatives) and the size and challenge of savings plans, the Council may benefit from a formal approach to workforce planning.

As a sector, local government is facing a recruitment and retention challenge. The need for future workforce planning to ensure the Council has the appropriate staff, with the right skills, at the right time to deliver sustainable council services is clear. We will monitor this process to ensure the workforce plan is delivered.

The Equality Impacts Assessment for 2021-22 states that “the vast majority of staff savings and efficiencies (in the Budget) will come from deleting / not recruiting to vacant posts, so there will be no direct impact on most staff or specific protected characteristics. There are a number of proposals (in the Budget) relating to reconfiguring or consolidating teams, bringing common functions together to achieve staff efficiencies. However, the number of anticipated redundancies from these proposals is low (maximum of 6 staff).”

Workforce Strategy and Data was reported to Policy & Performance Scrutiny Committee (P&PSC) in July 2021 this shows: Workforce profile (slightly older than average for London); and Staff Initiatives (some stalled during Covid). This, however, does not include a granular assessment of future needs.

Financial sustainability

The Capital Strategy shows that capital expenditure for 2021-22 was budgeted to be £187m, compared to the £126M forecast for the year before. The Strategy noted that the budget of £187M included capital expenditure of £8m expected to be reprofiled from 2020-21. There is a history of reprofiling within the organization – although largely due to Covid in the recent past. The Draft Outturn report for 2021-22 indicates Capital expenditure of £128.359m (£26m less than forecast at Month 10) has been delivered against the revised 2021/22 budget of £163.326m, representing a 78% spend against budget. Of the £34m outturn variance, £15m of this was due to non-Covid delays. The following table explains larger variances in summary form making up over £12m of the aforementioned £15m. :

Scheme	£m	Reason for delay
Compliance and Modernisation (non-housing)	-0.483	Procurement issues.
Bunhill Energy Centre Phase 2	-0.578	Costs expected to be incurred in 2022/23.
Corporate CCTV Upgrade	-1.154	Contractual issues.
People Friendly Streets - Low Traffic Neighbourhoods	-0.485	Due to additional consultation with residents.
Traffic & Safety - Safety	-0.762	Resourcing issues.
Schools Condition Works	-1.066	Procurement issues.
HRA Property Acquisitions	-8.024	Purchases not completed.
	-12.552	

How the body identifies and manages risks to financial resilience, e.g., unplanned changes in demand, including challenge of the assumptions underlying its plans.

2021/22 has continued the challenges for financial management of dealing with a pandemic from 2020/21 including the changing ongoing profile of demands on services.

Within the corporate risk register, the Council has identified financial stability and resilience as a risk. It is noted that the latest Strategic Risk Register indicated the current risk score is "red". Budget reports are monitored on a regular basis and finance reports are subject to scrutiny and challenge at Executive meetings. A list of key risks is included in MTFS papers was presented to Members as part of setting the Council's budget.

The revenue budget that has been set is balanced, with identified savings of c£25m. There are also earmarked reserves of £144m at 31/3/22. The Council has been prudent in its assumptions. Overall, the Council has a relative amount of capacity to manage variances over the short to medium term. The MTFS includes upside and downside scenarios. Assumptions are regularly updated to reflect prudent changes in assumptions, and local and national impacts. Directorates will consider risk and volatility in costing and most likely pressures to include in the MTFS. The Council has a contingency of £5m for Business as usual and had a one off Covid contingency of £5.5m for 2021/22. Potential volatility is considered in the drafting of the budget.

Where reserves are being used, the process is managed and monitored. The aspiration is to increase General Fund and earmarked reserves over the medium term and 2020-21 and 2021-22 saw increase in value of reserves, projected balances on the General Fund and earmarked reserves are prudent and do not allow for funding not yet received – the reserve projections indicate that balances will remain stable. In reality, we have been informed that the aim will be to increase the balances if future funding settlements allow it. Budget and Council Tax Proposals for 2020-21 noted in February 2021 that the target balance for the General Fund over the medium term would be £40M. Covid and the related government support funding have made 20/21 and 21/22 difficult to use for comparison purposes.

Financial sustainability

As the Council emerges from the pandemic, and the 'new normal' begins to be established – crucially, a normal which once again comes with financial constraints – the organisation should assess what Covid working patterns and arrangements should continue in the post pandemic world. Our work indicates the Council will face significant financial challenges in future years and we will monitor this response in those years.

We found no evidence or indication of significant risks to your financial sustainability

Improvement recommendation

Financial sustainability

Recommendation 1	There should be enhanced reporting on savings delivery to Members to show progress on delivery of savings plans
Why/impact	Without clear reporting of savings delivery as a whole, Members may not have a clear sight of how expected savings are progressing.
Auditor judgement	Providing a clear picture of saving delivery will help members make better financial decisions
Summary findings	An ambitious £25m savings target was required to balance the budget in 2021-22. The Councils track record shows slippage in savings plans for 2020-21 where of £9m savings planned, £5m were reprofiled or not achieved. It is noted that the effects of the pandemic did make delivery of savings hard to achieve. Budget reports to Members do not make it clear delivery of savings progress as a whole over 2021/22
Management Comments	The Council implemented this recommendation as part of its budget monitoring in 2022/23.

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The range of recommendations that external auditors can make is explained in Appendix C

Governance

We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

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How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Governance is the system by which an organisation is controlled and operates and is the mechanism by which it and its staff are held to account. It works from Council meetings to the front line, ethics, risk management, compliance, internal control and best practice are all element of governance. Effective governance requires both clear and unambiguous structures and processes and effective working of people within these frameworks. Effective governance also requires an open culture that promotes transparency, a willingness to learn and improve and no fear to speak the truth. Robust risk management, along with good governance and strong financial management form cornerstones of effective internal control.

As part of Islington's risk management processes the Principal Risk Report is an annual report to the Audit Committee presenting the principal risks facing Islington Council. The latest Principal Risk Report was presented in May 2022 and showed:

- Key Risk Themes (Inflation, financial resilience and recruitment);
- Principal Risk Map – heatmap diagram indicating the positioning of Principal Risks, detailing the likelihood and impact scores for each risk and explaining the risk scoring mechanism.
- Risk Universe – an overview of the risks by category, demonstrating the balance of risk.
- How areas of risk link to Council objectives– mapping the links between risks and 'Building a Fairer Islington 2018/22' Themes.
- Executive Summary of the Principal Risks – detailing the current as well as target risk score for each risk, defining the corporate sponsor and forward trend information;
- Principal Risk detailed information and action plans - detailing the risk information and update alongside the action plan for each risk to achieve the target risk score. The Report was written in consultation with risk sponsors, risk leaders, Departmental Management Teams (DMTs) and the Corporate Management Board (CMB). It covers all core aspects of risk management typically presented to Audit Committee and those charged with governance.

The 2021/22 Annual Governance Statement shows that the Risk Report is used by the Corporate Management Board to monitor and manage risk and by Internal Audit to inform its' programmes of work: The Risk Strategy and Framework sets out how the risk management process works, defines roles and responsibilities and describes the councils risk appetite. The risk management framework has been reviewed in 2022.

The Strategic Risk Register contains 28 risks which we feel is at the upper level of what would be appropriate to allow for all risks to be provided with appropriate focus. Risks are scored and provided with a target risk score. The risk register contains three "red" risks.

Governance

We have identified one area for improvement around risk management. The Council could strengthen its risk management framework further by developing a full training programme for all levels of staff, providing greater clarity of the relationship between all the risk registers used across the Council, including strategic, operational, project and partnership risk. These should align to ensure that there is a clear golden thread of risks that runs up and down the organisation.

There is an effective internal audit function in place. The Internal Audit is provided through a shared service with the London Borough of Camden. From review of reports and audit committee papers, there looks to be an adequate and effective internal audit that challenges management and provided appropriate recommendations for improvement. The Audit Committee receives regular updates on progress and key findings. Internal Audit issued four "No Assurance" reports on Asbestos Management, Use of Contingent Workers and two schools reports and five limited assurance reports in 21/22. An external peer review of internal audit services is required by the Public Sector Internal Audit Standards every five years. A peer review was undertaken against the PSIAS n 2021/22 and an annual self-assessment is undertaken. Internal audit have a rolling plan of approximately 750 days. This is felt to be adequate.

The Head of Internal Audit Opinion, reported in September 2022 concluded that "The HIA is satisfied that work undertaken during 2021-22 has enabled an opinion of Moderate Assurance to be formed". The annual report to the Audit Committee sets out the work done, and key issues arising and actions taken to address and identified control weaknesses. Review of the Annual Internal Audit Opinion and Audit Committee papers indicates a wide breadth of work during the year covering financial and operational processes and including a flexible approach which allowed adjustments to the plan in year.

Counter fraud services are also provided by Internal Audit along with separate Housing and Parking Investigations teams. Their work is collated into an Annual Fraud Report which goes to Audit Committee. The latest report was made in September 2022. The Internal Audit Counter Fraud Team continued to deliver both reactive and proactive fraud services across the organisation. We were informed where relevant, the outcomes from fraud work have also been used to inform your annual internal audit opinion and future audit plans.

Counter fraud operations are underpinned by Member and Staff codes of conduct (dated 2021 and 2017 respectively), The Council has an Anti-Fraud and Corruption Strategy and Framework last updated in 2021. This includes the Anti Bribery Policy and the Anti Money Laundering Policy. The Whistleblowing Policy is a separate document.

The annual work plans for internal audit are currently approved and overseen by the Audit Committee. From our attendance at this Committee, we consider it to satisfactorily review the work of internal audit, providing appropriate challenge.

How the body approaches and carries out its annual budget setting process

The Government financial landscape has made this a second unique year for financial planning. The Council has a robust approach to financial planning and assumptions made appear reasonable. While future funding is unclear, a medium-term financial plan has been produced based on prudent assumptions about future income streams. Our previous knowledge of the Council informs us that arrangements are in place with the Council to model the uncertainties in the system notwithstanding the factors that are outside the Council's control. We understand that the model medium term financial strategy is a living document, constantly updated following discussions across the Council.

As the funding settlement has only been on an annual basis recently, one of the key risks is that the downward trend in funding is continued. This is a key aspect in the budget commentary. We are content during the budget setting process that the budget is subject to sufficient challenge.

The budget process starts in March as soon as the previous year budget is set and go through to approval and the setting of the Council tax the following March. The process involves informal liaison with various boards and scrutiny committees as well as consultation with Executive.

The process starts with a high-level update of the budget gap and the MTFS. The spring is also the time when savings plans for the future year are formed. Over the summer, budget pressures and growth items will be identified. By September, the first draft budget will be available.

Governance

This will subsequently be discussed with Executive with a final draft being discussed in December and a final budget going to Executive for approval in February and then Full Council in March.

The Capital Programme is developed in parallel. All schemes must be approved by the relevant Corporate Director before inclusion and subject to review by Finance. The Governance Structures for Capital Scheme Approval are currently being revised and all schemes over £20m are due to go to a new group called the Capital Assets Development Board.

Islington undertake formal budget consultation with business rate payers. They invite views and communicate this through social channels and business bulletins. Islington also undertook a significant resident engagement process called 'Lets Talk Islington' where they discussed matters that were important to residents including services provided. Service specific consultations are undertaken where the Council propose to change services, significantly alter charges or where an equalities impact assessment shows a significant impact. The Council publicly publish and draw attention to the budget which then leads to interest in formal meetings. Additionally, the budget goes through public scrutiny and executive meetings where members of the public, opposition or press can ask questions. We feel these arrangements are reasonable

Investments and borrowings were included within the financial plan, but the effects were minimal given the low interest rates prevailing during 2021/22.

How the body ensures effective processes and systems are in place to ensure budgetary control.

Managers in individual services are responsible for managing their budgets and providing forecasts. Business partners support them with this as needed and provide challenge where appropriate. The Finance Business Partners meet with managers regularly, based on risk of budget area. Support and challenge is provided there. Managers have access to CP, the tool for monitoring budgets. The budgets are not profiled, instead Islington use the projected outturn approach where they look towards the figures at year end rather than compare current spend against a profiled budget.

Financial Monitoring reports are submitted to both Executive and the Policy and Performance Scrutiny Committee (PPSC) and the PPSC also receives Performance Monitoring data. Although budget monitoring reports do not include performance data, the two do have a route for being considered together.

Review of Executive papers indicates close monitoring of budgets and full disclosure of variances and comprehensive explanations. No evidence of weakness in budgetary controls processes have been identified. The monthly budget monitoring reports detail variances by department (and service lines within departments) demonstrating a regular identification of in-year variances. Actions being taken or to be taken by departments, where relevant, in response to such variances are set out. All budget variances are accompanied by detailed explanations. We are content with these arrangements.

Finance team is headed by the Director of Finance and Deputy s151 officer. He has been in post since November 2020. The s151 officer is now Corporate Director for Resources and the Director of Finance reports to him. The s151 Officer sits on the Corporate Management Board. The finance team has been reorganized. There is now a reformed team and the Director of Finance is supported by a number of suitably qualified and experienced managers

It is clear that financial delivery is a key objective from the top down. 2021/22 has been a tough year financially for Islington and without a concerted effort across the Council the year end position could have been troubling for financial sustainability.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.

From review of papers and discussions with staff, we believe the Council's decision-making processes are open, transparent and strong and we have no evidence that reactive or unlawful decisions have been made.

It is evident from our review of papers that sufficient information is provided to Members and they challenge and hold senior management to account appropriately. The Council is engaged and provides appropriate levels of scrutiny to external and internal audit.

Governance

The Council is well established with a Labour majority. We have no concerns in relation to risks related to high turnover of Council members which can lead to inadequate understanding of the organisation leading to poor decision making. The importance of maintaining a strong financial culture is vital in the context.

All Executive reports and decisions are subject to s151 officer and Monitoring Officer sign-off and all Executive decisions are subject to scrutiny. The revenue budget is subject to ongoing scrutiny and detailed reports are provided to Executive and Council prior to approval.

The Audit Committee consists of six members – made up of four councillors and two independent members and two named substitutes. In 2021/22, the Committee had six meetings. Audit Committee Terms of Reference are set out in the Council's Constitution and are all in line with expectations for a Local Authority. The Chair of the Audit Committee has been in post for whole of 2021-22. We feel the committee works well and are well led by the Chair

Financial and operational activity appears well planned with no need for reactive actions and short-term remedies. Even during the height of the effects of the pandemic response have been deliberate and thought out.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

Various internal and external mechanisms are used to ensure the Council meets the necessary standards and legislative requirements.

Our work has not uncovered any non-compliance with the Constitution, statutory requirements or expected standards of behaviour. No data breaches were revealed to us that were significant enough to report to the Officer of the Information Commissioner.

Officer and Member codes of conduct are in place and Members interests are published on the Council website. There is an opportunity for Members to declare interests at every meeting as a set agenda item. Related party transactions are required to be declared as part of year end closure of accounts and sent to all Members and Senior officers for their completion. A register of officer interests is maintained by Human Resources (HR) and a declaration of interest procedure is in place. Communication is sent out quarterly to all employees reminding them to complete a Declaration of Interest form if their circumstances have changed and a potential conflict of interest has therefore arisen. HR also send an annual reminder directly to employees whose posts are in scope to complete an annual Declaration of Interest form. Managers have a responsibility to ensure that all team members complete the form annually. We found no evidence of adverse outcomes of interests, gifts or hospitality not being declared.

We found no evidence or indication of significant risks to your governance arrangements.

Improvement recommendation

Governance

Recommendation 2	Consideration should be given to the following improvements to the risk management process - Rationalise the number of risks in the corporate risk report . - Develop a training module for all staff (possible to be delivered as part of staff induction) to raise awareness of risk across the organisation.
Why/impact	Further development of risk management techniques will help embed management of risk in the organisation leading to better decision making
Auditor judgement	While robust risk management processes are in place, some small enhancements are possible to reflect best practice.
Summary findings	The Strategic Risk Register contains 28 risks which we feel is at the upper level of what would be appropriate to allow for all risks to be provided with appropriate focus. Risks are scored and provided with a target risk score. The risk register contains three "red" risks. The Council could strengthen its risk management framework further by developing a full training programme for all levels of staff, providing greater clarity of the relationship between all the risk registers used across the Council, including strategic, operational, project and partnership risk. These should align to ensure that there is a clear golden thread of risks that runs up and down the organisation.
Management Comments	Partially agreed Given the breadth of council responsibilities, the challenging external environment and the ambitious mission in the strategic plan, the Council does not believe it has an unreasonable number of risks within its corporate risk report. We follow the risk framework in terms of deciding if a risk fulfils criteria for corporate level. The Council did close 6 principal risks during the last year providing evidence that it is working to incrementally tighten up the corporate risk profile. The Council will consider how best to develop and deploy a training module to raise risk awareness across the organisation.

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The range of recommendations that external auditors can make is explained in Appendix C.

Improving economy, efficiency and effectiveness

We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

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How financial and performance information has been used to assess performance to identify areas for improvement

This year has been another challenging one for public services as a whole and the Islington Council was no different. Local Government will face yet more challenge as it moves from the Covid response stage to the task of supporting long-term economic and social recovery along with the cost-of-living crisis and significant levels of inflation. The Council will also face increased pressures from increase demand for children's and adult social care.

Performance indicators track progress against seven outcome areas in the Council's Corporate Plan. Performance is monitored by officers through Departmental Management Teams. Within every directorate, Corporate Directorate Delivery Boards deliver performance & change and report into the central Corporate Management Board (CMB) and/ or the Programme Management Office(PMO) and/ or the Strategic Transformation Board (STB).

Performance is monitored by Members through the Scrutiny Committees. For example, the Policy & Performance Scrutiny Committee is responsible for monitoring and challenging performance for the Well Run Council outcome area. The Children's Services Scrutiny Committee considers matters relating to the performance of the Council's partners in respect of the functions of the Children's Services department.

The AGS shows how delivery and performance – including change – is managed within individual directorates reporting to the Corporate Management Board rather than centrally. It also shows that more than one Scrutiny Committee is involved. The Constitution includes a clear Structure Chart of the Committees overseeing Performance.

Directorates will set their own KPIs but they are currently very operations focus and the aim is to get them more focused on how they help achieve corporate objectives. We have not been made aware of there being a data quality policy. Information passed to corporate performance team will be signed off as accurate by the relevant director and they will take this at face value. There is therefore nothing in place which outlines how data will be verified as accurate, complete and timely. Without a data quality policy, guidance or a formal process related to data quality, there is an increased risk that poor quality data will be reported to decision makers leading to poor decisions.

Performance reports will add a narrative of how things are going, try and pick out key issues and focus on issues that are more corporate e.g. staffing is an issue across several departments. Also it looks at next steps. The focus is on improving services to residents. Residents sit at the centre of everything Islington does.

The reporting path is to department management teams followed by corporate management board then to relevant scrutiny committees before reporting to policy and performance scrutiny and Executive.

Tools such a LG Inform are used to benchmark and comparisons are made to other London Boroughs. The Council is looking to develop this. Networks are used to ensure best practice is shared across organisations. For example, the Corporate Director of Resources attends the Society of London Treasurers and the Director of HR attends the equivalent London forum for HR

Improving economy, efficiency and effectiveness

How the body evaluates the services it provides to assess performance and identify areas for improvement

Members play a regular role in performance management, and are expected to provide challenge to officers.

The corporate objectives of Islington Council as publish in the corporate plan 2017 to 2022 are :

- Homes
- Jobs
- Safety
- Children and Youth
- Place and Environment
- Health and Independence
- Well Run Council

Service Directorates were restructured in April 2021 and the Islington Strategic Plan for 2021, published September 2021, listed new “Strategic Priorities” as:

- Challenging Inequality
- Fairer Together
- Community Wealth Building
- Homes and Neighbourhoods
- Cleaner, Greener, Healthier
- Team Islington.

The 2021-22 Budget and Council tax proposals were supported by an ambitious Savings Plan (£25M in 2021-22) and Capital Programme, to achieve “transformation”. Transformation has been a long-held objective of the Council and Management Boards include a Strategic Transformation Board (STB). The STB consists of CMB members plus the transformation lead. It therefore has CMB powers rather than being a separate management team.

Although the Savings Plan and Capital Programme analysed activities along lines set out in the Corporate Plan 2018-22, the STB has no direct oversight over performance on either Savings or Capital projects.

Internal Audit reported in January 2021 on a number of control gaps in the Management structure and specifically on processes for managing change and transformation – reflecting that governance is fragmented across the service directorates/ not uniform/ difficult to therefore be effective.

On 27th July 2021, the Audit Committee received a paper from the Corporate Director of Resources – “Strategy and Change Progress Report”. Following recommendations from Internal Audit, the PMO Centre of Excellence is going to be rebranded/ relaunched to upgrade project management skills for transformation within the Council.

We found no evidence of failure to meet minimum service standards or consider appropriate service delivery options The organisation has a focus on long term development and not short-term expediency.

The current transformation programme is evidence that the Council challenges the way it provides services and ensure that services remain cost effective. The use of national benchmarking, on-going performance monitoring and the transformation programme are evidence that the Council is always alive to more cost-effective ways to deliver services.

From benchmarking data across services with comparable councils children’s and adults social care cost come out higher than other councils. However the quality of service is known to be high with an outstanding Ofsted rating for children’s services and high customer satisfaction rates in adult services. It is acknowledged that reducing costs may have a knock on effect on quality.

The average % of borrowing over assets is 17%, Islington is below average at 5% and is at end of the scale compared to its nearest neighbour authorities

We note from benchmarking of pensions management costs Islington perform well on management fees. Against a average cost per member for management costs of £378.76, Islington achieves a unit cost of £145.74 or 38.4% of the average cost.

Reserve levels are adequate with Islington placed 11th of 24 comparable London Boroughs with 62% of net revenue spend held in General fund and non-schools earmarked general fund reserves. This is generally comparable with the group average of 74%.

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Improving economy, efficiency and effectiveness

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve.

The Council engage in little formal partnership working where partners co-operate in a combined new legal entity although Covid-19 responses required close joined-up planning and liaison with the health sector. The Council refers to the NHS as a key partner and there are indeed many areas of joint working. Joint working can be seen through

- projects where the Council builds buildings then used as health centres – but there is no profit or ownership share – the NHS leases the sites built by the Council just as any retail outlet might lease them from the Council
- specific pooled revenue budgets
- shared financing of joint placements for complex child and social care cases .

However, this is not partnership working in the sense of shared risks and rewards/ long term contractual obligations/ new legal entities and joint ventures/ balance sheet accounting impacts. There have been recent changes in NHS organisation and the leader of the council attends meeting of the new Integrated Care Board (ICB)

There is a political decision to retain blue collar services in house so there are no significant commercial partnerships. Housing (including new homes housebuilding programme) and Bunhill are examples of Council working with “partners” without that being through a jointly owned legal entity.

The majority of the capital programme surrounds housing. There are no “key partners” as such. Islington manages developments itself from end to end with “Gateways” needing to be passed at each stage for release of funds. Most work is on land the Council already owns, although sometimes there are purchases from other public sector partners. Islington manage in-house: Design/ Planning and planning permission/ Appointing building contractors/ Financing/ hand over to operations. All appointments are in line with a Procurement Strategy and from the contractor framework agreement. Two different project boards oversee New Build projects both are Chaired by the Director of Housing but also include representatives from Legal, Finance and Housing. The boards monitor gateway developments and performance. Higher value mixed use developments where libraries, health centres or leisure centres are being built alongside housing, are overseen by the Major Projects Board. There is also a Local Estates Forum which monitors strategic direction of the buildings programme.

There are three strategic partnership boards which are formally constituted. These are the Islington Growth Board, the Strategic Health and Wellbeing Board and a new Greener Futures Board. These align to the priority objectives. A fourth Board, to align to the Empowering Communities target, is in the process of being constituted. These boards contain a mixture of members and representatives from across Islington, including business leaders, university representatives and health partners. The Leader of the Council chairs each of these boards, and as such, the Council has an insight into the work being delivered by the Council in partnership with other bodies. Whilst there is not a formalised reporting schedule from these Boards, there is ongoing reporting to select committees on request.

In addition, the Council works with some 600 Voluntary Community & Faith Sector (VCFS) bodies. As well as commissioning these bodies to work with residents and other bodies, the Council also provides funding to support the VCFS infrastructure locally. We have identified an opportunity to further support officers working with the VCFS on this.

In June 2019, the Council declared an Environment and Climate Emergency, which commits Islington to becoming carbon neutral by 2030. The related programme, Vision 2030, shows a very strong example of good governance. This is the Council’s ongoing plan to achieve Net Zero by 2030. This went to public consultation in March 2020 and was approved by the Executive Committee in November 2020. The programme will involve £20m to £30m spend per annum. Delivery of the strategy will be the responsibility by a Net Zero Programme Board chaired by the Corporate Director of Environment.

The programme will be delivered in eight workstreams, which are largely aligned with the five priorities. Each workstream will be overseen by a member of the council’s Senior Leadership Team appointed by Corporate Management Board. The workstream owners will be members of Net Zero Programme Board and be accountable for the delivery of their workstream and ensuring it remains aligned with the council’s business priorities and the strategy. Each workstream will have defined targets for carbon reduction against which the deliverables will be measured. An annual programme plan will be established to ensure the workstreams are kept updated. The programme will be overseen by a new Net Zero Carbon Board. The Vision 2030 Document includes strong governance structure diagrams, with detailed Governance Chart which shows how the workstreams are managed and how they feed into the Executive Committee and CMB and the Fairer Together Partnership Board.

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Improving economy, efficiency and effectiveness

Known as Green SCIES (Smart Community Integrated Energy Systems)– is a project to reclaim heat from the environment. Using low carbon heat pumps, the project aims to share waste heat from buildings and other sources with other buildings in need of heat, while energy generated in one building could power another building depending on local demand. No projects are currently active as discussion are ongoing as to what direction to take and identify funding. New project are likely to go on site during 2023/24.

Other work undertaken in 2021/22 included the People Friendly Streets Programme introducing low traffic neighbourhoods and cycleways, installed electric vehicle charging points and solar panels and replacement of street lighting with LED alternatives

The Capital Programme for 2024-25 to 2030-31 onwards includes £19M on "Islington Heat Networks". This is intended to be Phase III and Phase IV of heat network investment. The project is not yet approved (none of the indicative capital programme is approved) and will be in a different geographical area of Islington and will not be drawing on London Underground heat (therefore will be less technologically complex).

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Long-term aim to run 15 heat networks in Islington. Phase I and, if they go ahead, Phases III and IV, not as technologically complicated as Bunhill II. Bunhill II was the first ever project in the UK to take underground heat and re-use it. Perhaps inevitable that the project overran – scale of technology not previously seen in this country. Better known technology e.g. biomass and boiler being used for other Phases in future.

The Council is transparent about its dealing with significant partners except where commercial sensitivity precludes this.

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

Procurement support services across the organisation delivering front line and back-office services. The Procurement Strategy for 2020-27 outlines the Council's strategic aims to use procurement as a tool for:

- Active leadership;
- Progressive supply partnerships; and
- Delivering community benefits

This is underpinned by more detailed Procurement Rules – most recent version being issued in May 2021, for which updates were presented to Council in September 2021 with a view to reflecting changes to the Constitution and to the Strategic Council Plan. The detailed rules cover all aspects of procurement we would normally expect to see.

The Council has a legal duty to secure value for money in commissioning and procuring its requirements and to continually improve the quality in everything the public sees and expects from it. Central Government policy seeks to ensure that all commissioning and procurement activity should be based on obtaining value for money. This is defined as considering the optimum combination of whole life cost and the quality necessary to meet the customer's requirements

The Community Municipal Investment (CMI) was launched by the end of October 2021, creating £1M of new loan finance. The scheme was developed and is run by Abundance Investments Ltd, who have worked with other councils on similar schemes. A paper went to Executive Committee on 14th October 2021 recommending approval of the scheme and noting:

- A CMI is a bond or loan instrument issued by local authorities directly to the public through an internet crowdfunding platform at a rate that is attractive to the Council and investors.
- Officers have held a series of meetings with Abundance Investment who are registered by the Financial Conduct Authority and have launched all of the UK CMIs to date.
- The intention was to launch a CMI at the festival, titled "Islington Together: Let's talk about a greener future" (18 to 29 October 2021) and before the UN Climate Change Conference COP26 (31 October to 12 November 2021).

Risks could include:

- Poor take up of scheme;
- Abundance reputational failure (they also work e.g. with Northern gas Networks)
- Abundance regulatory or financial failure
- Financial stress within the Council means it defaults on interest payments
- Green projects may not perform well – people may not want to re-invest in future roll-outs

The scheme is administered by a commercial partner so Islington has no visibility on who has invested. They do know that only 40% of take up was from within the borough but as they do not know who the investors are so are unaware of how many may have links to the borough

We found no evidence that appropriate procurement processes were not followed during 2021/22.

We found no evidence or indication of significant risks to your economy, effectiveness and efficiency arrangements

Improvement recommendations

Improving economy, efficiency and effectiveness

Recommendation 3	The Council should develop a Data Quality Strategy
Why/impact	Without a data quality strategy, officers may not be clear on how to collate, analyse and report data.
Auditor judgement	We believe that having an formal agreed data strategy enables organisations to deliver a better understanding of that organisation and business environment, allowing it to increase value for money, improve service delivery and minimise inefficiencies.
Summary findings	Directorates will set their own KPIs but they are currently very operations focus and the aim is to get them more focused on how they help achieve corporate objectives. We have not been made aware of there being a data quality policy. Information passed to corporate performance team will be signed off as accurate by the relevant director and they will take this at face value. There is therefore nothing in place which outlines how data will be verified as accurate, complete and timely.
Management Comments	The Council will seek to develop a Data Quality Strategy

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The range of recommendations that external auditors can make is explained in Appendix C.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	If savings plan are needed to close a budget gap for 2022-23, those plans should be supported by a historic look back at equivalent savings performance over the previous three to five years and by risk analysis. This would help manage expectations around the delivery of savings and prioritisation of where to spend.	Improvement	January 2022	The 2022-23 budget plans were prepared with a view to having more robust saving proposals. The savings are at a more granular level which gives more certainty of delivery and allows better monitoring of progress	Yes	No
2	Consideration should be given to making a clear distinction between statutory and discretionary spending in the budgetary information provided to members and published on the web.	Improvement	January 2022	Recommendation not accepted	N/A	N/A
3	Consideration should be given to using sensitivity analysis and scenario testing to support Revenue Budget Setting for 2022-23.	Improvement	June 2021	To be built into our plans for the 2023/24 budget process	Not yet due	Yes as part of 23/24 budget setting
4	Consideration should be given to widening the use of the Principal Risk Register.	Improvement	June 2021	Consideration was given to this recommendation but it was consider unnecessary to widen the circulation of the Principal Risk Register as alternative arrangements were felt to be in place	N/A	N/A

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
5	Consideration should be given to including Mid-Year and Year-End Treasury Outturn Reports within information presented to Executive and Policy and Performance Scrutiny Committee.	Improvement	January 2022	The annual 2021 and mid term report to Sept22 were presented to relevant committees	Yes	No
6	Consideration should be given to including an overview of senior officer groups within the Constitution or other staff guidance. An example at workstream level that could be considered is the Vision 2030 Governance Map.	Improvement	January 2022	Recommendation not accepted	N/A	N/A
7	Consideration should be given to shortening the cycle over which the Pension Fund is included within the Internal Audit Programme of Work.	Improvement	January 2022	Pension related work has been included in the 2022/23 internal audit plan. A three year cycle of audits is undertaken in the pensions service	Yes	No

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
8	As Bunhill Phase II moves out of the defects period and into full operation, it will be important to conduct an early cost benefit review to support decision-making around future heat projects. It will be important from the outset to focus on the scope of future heat network projects and on establishing effective change and cost control mechanisms, including reporting on change and cost control to Members in advance of decision-making.	Improvement	January 2022	As the project was undertaken for environmental reasons rather than financial reasons, the recommendation to undertake a cost benefit analysis was rejected. A lessons learned session has been undertaken within the department.	Yes	No

Opinion on the financial statements

Audit opinion on the financial statements

Our audit of the Council's financial statements including the Pension Fund is in progress. We anticipate completing our field work by end of January 2023.

Other opinion

At the conclusion of the audit, we will issue a separate opinion on the Pension Fund.

After the conclusion of the audit, we will review and issue an opinion on the Pension Fund Annual report.

Audit Findings Report

More detailed findings can be found in our AFR, which will be presented to the Council's Audit Committee and Audit Committee (Advisory) in the future

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

Preparation of the accounts

The Council provided draft accounts on 30 September 2022 two months after the statutory deadline. A significant proportion of the supporting working papers were provided a few days later. The audit of the financial statements commenced in October with the focus in the first couple of weeks processing evidence outstanding on planning and completing planning steps that can only be completed after the year end.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation

Appendices

Appendix A – Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

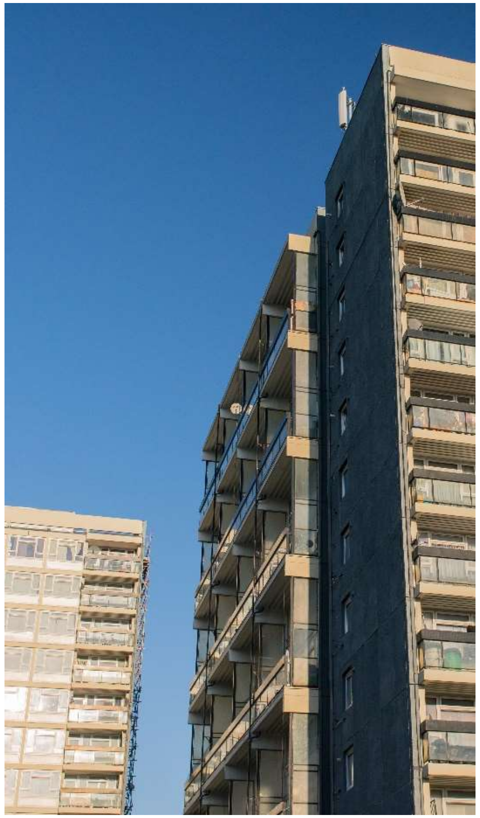
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

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



Appendix B – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. We identified no such risks

Appendix C – An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	Pages 14,19 & 25

Appendix D – Sources of evidence

Staff involved

- Linzi Roberts-Egan Chief Executive ,
- David Hodgkinson – Corporate Director Resources
- Paul Clarke – Director of Finance (s151 officer)
- Julie Foy – Director of HR.
- Matthew Hopman – Deputy Director of Finance
- Joana Marfoh – Head of Pensions and Treasury
- Nasreen Khan – Head of Internal Audit, Investigation & Risk Management
- Peter Horlock - Head of Procurement
- Jerry Dillon – Interim Head of Capital Projects
- Joanna Dawes – Corporate Performance Manager
- Owen Draycott – Finance Manager
- Lucy Crabb – Deputy Finance Manager

Documents Reviewed

- Corporate Plan
- Medium Term Financial Plan
- Executive papers
- Policy and Performance Scrutiny Committee Papers
- Audit Committee Papers
- Capital Programme
- Principal Risk Report
- Workforce Strategy 2019 to 2022
- Treasury Management Strategy
- Risk Management Strategy & Framework
- Annual Internal Audit opinion
- Internal Audit Plan
- Member Code of Conduct
- Officer Code of Conduct
- Fraud Strategy
- Relevant Internal Audit reports
- Progressive Procurement Strategy

Appendix E - Key acronymous and abbreviations

The following acronyms and abbreviations have been used within this report

AGS – Annual Governance Statement

CMB – Corporate Management Board

CMI – Community Municipal Investment

DMT – Departmental Management Team

HRA – Housing Revenue Account

ICT – Information & Communications Technology

MTFS – Medium term Financial Strategy

PPSC – Policy & Performance Scrutiny Committee

SCIES – Smart Community Integrated Energy System

SEND - Special Educational Needs & Disability

VCFS – Voluntary Community & Faith Sector

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The Audit Findings for Islington Council and Islington Council Pension Fund

Year ended 31 March 2022

May 2023

Contents

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Your key Grant Thornton team members are:

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

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

Paul Dossett
For Grant Thornton UK LLP
May 2023

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Islington Council ('the Council'), Islington Council Pension fund ('the Fund') and the preparation of the Council and Fund's financial statements for the year ended 31 March 2022 for those charged with governance.

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Financial Statements

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

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

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

Our audit work was completed on remotely during October to December and March to April. Sector wide issues in respect of accounting for infrastructure assets and IAS19 pension valuation assumptions impacted the completion of financial statement audits for most upper tier authorities.

Our findings are summarised on pages 4 to 25. We identified adjustments and disclosure misstatements to the financial statements. Appendix C shows all adjustments identified and details if these have been adjusted for. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete subject to the outstanding matters set out on page 5.

We have concluded that the other information to be published with the financial statements – the narrative report and annual governance statement – is consistent with our knowledge of your organisation and the financial statements we have audited.

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

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have completed our VFM work, which is summarised on page 27, and our detailed commentary is set out in the separate Interim Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our review did not identify any significant weaknesses in your arrangements and we agreed with management three improvement recommendations.

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Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We intend to delay the certification for the closure of the 2021/22 audit of Islington Council until after the conclusion of the following:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report'.
- the work necessary to issue of an auditor's report on the pension fund annual report.
- the work necessary on objection from a local government elector from prior year.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit. We have encountered some delays in obtaining information from your valuation expert to complete our testing on Property, Plant and Equipment valuations.

The national issues on both infrastructure assets and IAS19 valuation assumptions have also delayed the conclusion of our work on PPE disclosures and pension valuation. The latter requires the Council to restates its accounts in respect of Pension Disclosures.

Additionally audit procedures were also necessary to complete and conclude our testing of journals, debtors and pension fund investments, derivatives and classification testing. Similarly, additionally audit procedures and time was required in concluding our work on investments, provisions and sample testing uncleansed transaction listings with material debits and credit balances.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

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

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinions on the Council and Pension. These outstanding items include:

- conclusion of valuation expert queries on PPE assets, receipt and review of pension fund adjustments after IAS19 updates, complete journal testing, agree subsequent payment for debtor samples, complete pension fund classification, derivatives and investment testing
- review of subsequent events;
- completion of Senior Manager, Engagement Leader, Review Partner, Audit quality of Pension Fund hot review quality reviews and satisfactory resolution of any residual queries;
- receipt of management representation letters for the Council and Pension Fund; and
- receipt and review of the revised final set of financial statements

Acknowledgements

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

2. Financial Statements

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Our approach to materiality

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

We have revised the performance materiality due to the actual gross expenditure changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

Materiality levels remain the same as reported in our audit plan for the Pension fund.

We detail in the table below our determination of materiality for Islington Council.

	Council Amount (£000)	Pension Fund Amount (£000)
Materiality for the financial statements	17,100	16,600
Performance materiality	11,900	11,600
Trivial matters	855	830

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

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

Risks identified in our Audit Plan	Applicable to:	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities. The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	Council and Pension Fund	Audit procedures undertaken in response to the identified risk included: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. **Council** Our risk assessment identified a total of 104 journals for testing for the Council. Our review is in progress. Our journal review has taken substantially longer to complete as part of our process includes documenting our understanding and appropriateness of each journal which often necessitated a Teams meeting with the preparer or approver of the journal. The number of different journal posters within our sample has taken additional time to complete. Our testing is 80% complete with no issues to report to date. We will report to those charged with governance should any material issues arises from the outstanding journal samples. Additionally, we carried out a review of journals posted by 'superusers' as part of our risk factors. IT system superusers have a greater level of access rights than finance staff with ability amend standing data including the ability to forward or back post journals. Our expectation was they would not be involved in day to day processing of journals. Our review of journals posted by superusers identified over 22,000 such journals which is unusual. We challenged management to understand why and assess if this group of journals created a greater risk of management override of controls. We understand these journals were income transactions which go through Civica, the Income Management system. The relevant income relates to various income streams, including housing rents and council tax. Transactions are initially posted into suspense if the transaction does not match the rule set against the income account. At the end of each day, clearing takes place by superusers and sometime by finance staff, after which a reconciliation document is produced by a system administrator who has processed the batch, which reconciles Cedar records to Civica. Each reconciliation is reviewed and signed off by a different superuser. Our review of a sample of these transactions confirm there is an appropriate separation of duties between the preparer and approver and in our view did not represent a great risk of management override due to the compensating controls in place. The use of superusers in day to day finance activities creates a greater risk of management override. However, manual intervention of this magnitude by superusers is inefficient and does not represent value for money. We recommend management review the whole process to minimise the volume of income transactions initially posted to a temporary suspense. We further recommend clearance of the daily suspense be limited to finance teams only. The detailed work we have carried out in this area is mandatory under auditing standards. **Pension fund** Our risk assessment identified a total of 53 journals for testing for the Pension fund. We have not identified any material issues from our work.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Applicable to:	Commentary
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	Council and Pension Fund	We reported in our joint Audit Plan that under ISA (UK) 240 there is a rebuttable presumed risk of material misstatement due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA 240, and the nature of the revenue streams of the Council and Pension Fund, we have determined that it is likely that the presumed risk of material misstatement due to the improper recognition of revenue can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of public sector bodies, including London Borough of Islington, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for the Council or the Pension Fund. Our assessment remain unchanged.
Valuation of land and buildings including Council dwellings The Council revalues its land and buildings and Council Dwellings on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£4.5 billion) and the sensitivity of this estimate to changes in key assumptions. Management has engaged the services of a valuer to estimate the current value as at 31 March 2021. We therefore identified valuation of land and buildings, specifically council dwellings, other land and buildings and surplus assets, as a significant risk of material misstatement, and a key audit matter.	Council	Audit procedures undertaken in response to the identified risk included: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met; • challenge the information and assumptions used by the valuer to assess the completeness and consistency with our understanding, which included to date. engaging our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations; • assess the value of a sample of assets in relation to market rates for comparable properties; • test a sample of beacon properties in respect of council dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group; • test, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluate 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 from current value at year end. Our work is substantially complete. We identified a small number of errors in data sent to the valuer in relation to floor areas used and the assumptions applied to your valuation of land and buildings. At the end of April, we were awaiting responses to our queries from your valuer to conclude our work. We will report to those charged with governance the results at the conclusion of our work. We have not identified any material issues from our work on Council dwellings valuation to date.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Applicable to:	Commentary
Valuation of pension fund net liability The pension fund net liability, as reflected in the 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 (£960million in the Council's balance sheet at 31 March 2021) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	Council	Audit procedures undertaken in response to the identified risk included: • update our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liabilities; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from the actuary; and • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. Our work was substantially complete, however a national issue arose in April which delayed the conclusion of this work. By way of background, Regulation 62 of the Local Government Pension Scheme (LGPS) Regulations requires pension fund administering authorities to obtain an actuarial valuation of the fund's assets and liabilities every three years. Triennial funding valuation reports as at 31 March 2022 were required to be obtained by 31 March 2023. Furthermore, IAS 10 'Events after the Reporting Period' requires management to determine how the impact of material developments after the year-end should be reflected in the financial statements as an adjusting event (one which 'provides evidence of conditions that existed at the end of the reporting period') or a non-adjusting event. In response to the national issue, Management requested and received updated IAS 19 report as at 31 March 2022 in May. Your assessment is the change in net pension liability was not material however you propose adjusting the accounts for these changes. That work is currently in progress. The NAO have commissioned PWC to carry out a national review of actuaries revised assumptions. We expect this work to be available at the end of May 2023. We recommend you also review if there are changes in key assumption including salary increase and mortality assumptions. Additional disclosures to the accounts will be required to support the changes. We will review the updated accounts and disclosures, update our procedures above and report our conclusion to those charged with governance.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Applicable to:	Commentary
Valuation of the Private Finance Initiative (PFI) The Council has six schemes to be accounted for as PFI arrangements. These include two Housing PFI schemes, two Schools schemes, or a Street Lighting scheme and a Care Homes scheme. The total liability relating to these schemes on the balance sheet was £95.7m as at the 31 March 2021. As these PFI transactions are significant, complex and involve a degree of subjectivity in the measurement of financial information, we have categorised them as a significant risk of material misstatement.	Council	Audit procedures undertaken in response to the identified risk included: • review your PFI models and assumptions contained therein. • compare your PFI models to previous year to identify any changes. • review and test the output produced by your PFI models to generate the financial balances within the financial statements. • ensure the PFI disclosures are consistent with the Internal accountancy Standard IFRIC12. We will check additional disclosures that you include within the financial statements to the PFI models. Our review is complete. No significant issue arising from our review to report to those charged with governance
Valuation of Level 3 Investments 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 (£110 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 as valuation experts to estimate the fair value as at 31 March 2022.	Pension fund	Audit procedures undertaken in response to the identified risk included: • evaluate management's processes for valuing Level 3 investments; • review 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 request year-end confirmations from investment managers and the custodian; • for a sample of investments, test 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. Reconcile those values to the values at 31 March 2022 with reference to known movements in the intervening period; • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert; and • where available review investment manager service auditor report on design and operating effectiveness of internal controls. Our testing is in progress. As at end of April, we were awaiting from your fund managers and custodian a sample of capital statements, contract notes to complete derivatives testing and classification testing. As part of gaining assurance over Level 3 investments, we review the audited statements of individual pension fund investments. We note in four of these investments with a total of £4m, the auditor's opinion therein included an 'emphasis of matters' (EoM) stating the audited accounts were not prepared on a going concern basis. We challenged management on how they gain assurance appropriateness of these individual pension fund investments. We requested management provide copies of the unaudited quarterly capital statements to December 2022 for each of the four pension fund investments with an EoM in the opinions. We will report to those charged with governance the results at the conclusion of our work.

Other risks identified

Risk	Applicable to:	Reason for risk identification	Key aspects of our proposed response to the risk
Completeness of non-pay operating expenditure and associated short-term creditors	Council	Non-pay expenditure on goods and services represents a significant percentage of the Council's gross operating expenditure. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non-pay expenditure and associated short-term creditors as a risk requiring particular audit attention.	Audit procedures undertaken in response to the identified risk included: • evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness, including the use of de minimis level set; • gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; and • obtain and test a listing of non-pay payments made in April and May 2022 to ensure that they have been charged to the appropriate year. We have not identified any material issues from our work.
Value of Infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PPE note	Council	Infrastructure assets includes roads, highways, streetlighting and coastal assets. Each year the Council spends circa £6.4m on Infrastructure capital additions. As at 31 March 2021, the net book value of infrastructure assets was £129.3m which is over 8 times materiality. In accordance with the LG Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address: 1. The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets. 2. The risk that the presentation of the PPE note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced. For the avoidance of any doubt, these two risks have not been assessed as a significant risk at this stage, but we have assessed that there is some risk of material misstatement that requires an audit response.	Audit procedures undertaken in response to the identified risk included: • reconcile the Fixed Asset Register to the Financial statements • using our own point estimate, consider the reasonableness of depreciation charge to Infrastructure assets • obtain assurance that the UEL applied to Infrastructure assets is reasonable • document our understanding of management's process for derecognising Infrastructure assets on replacement and obtain assurances that the disclosure in the PPE note is not materially misstated The Department for Levelling Up, Housing and Communities issued an update in December 2022 to the Local Authority Capital Finance and Accounting Regulations to remove the requirement to consider component derecognition for infrastructure assts i.e. the statutory override. The Council has opted to adopt the statutory override and amended the infrastructure disclosures. Our review is complete. No other significant issue arising from our review to report to those charged with governance.

Other risks identified continued

Risk	Applicable to:	Reason for risk identification	Key aspects of our proposed response to the risk
Fraud in Expenditure Recognition	Council and Pension Fund	Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially an entity is required to meet financial targets. Having considered the risk factors relevant to Surrey County Council and Surrey Pension fund and the nature of the expenditure at the Council and Fund, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed on page 7 relating to revenue recognition apply. We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests below and our testing in relation to the significant risk of Management Override of Controls as set out on page 7.	Audit procedures undertaken in response to the identified risk included: • obtain an understanding of the design effectiveness of controls relating to operating expenditure. • perform testing over post year end transactions to assess completeness of expenditure recognition. • test a sample of operating expenses to gain assurance in respect of the accuracy of expenditure recorded during the financial year. We have not identified any material issues from our work.
Contributions	Pension Fund	Contributions from employers and employees' represents a significant percentage of the Fund's revenue. We therefore identified the completeness and accuracy of the transfer of contributions as a risk of material misstatement.	Audit procedures undertaken in response to the identified risk included: • evaluate the Fund's accounting policy for recognition of contributions for appropriateness; • gain an understanding of the Fund's system for accounting for contribution income and evaluate the design effectiveness of the associated controls; • agree changes in Admitted/Scheduled bodies to supporting documentation and agree total contributions for each employer to employer contributions reports; • test a sample of contributions to source data to gain assurance over their accuracy and occurrence; and • test relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in member body payrolls and the number of contributing employees to ensure that any unusual trends are satisfactorily explained. Our review identified one error in the employee contribution rate which was incorrectly recorded at 6.50% rather than 5.80%. The extrapolation error was trivial. No other significant issue to bring to Committee's attention.

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Other risks identified continued

Risk	Applicable to:	Reason for risk identification	Key aspects of our proposed response to the risk
Pension Benefits Payable	Pension Fund	Pension benefits payable represents a significant percentage of the Fund's expenditure. We therefore identified the completeness, accuracy and occurrence of the transfer of pension benefits payable as a risk of material misstatement.	Audit procedures undertaken in response to the identified risk included: • evaluate the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness; • gain an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls; • test a sample of lump sums and associated individual pensions in payment by reference to member files; and • test relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained. We note for some sample items, we were not able to agree the figures used in the calculation form to the payslips as the payroll data is pre-2006 and is no longer held by the Council has since changed payroll systems. Thus we were not able to verify the inputs used for the pension calculation first hand. We undertook alternative procedures to gain assurance.
Valuation of Level 2 Investments	Pension Fund	While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly. We therefore identified the valuation of the Fund's Level 2 investments as a risk of material misstatement.	Audit procedures undertaken in response to the identified risk included: • gain an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls; • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; • review the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and seek explanations for variances; • independently request year-end confirmations from investment managers and custodian; and • review investment manager service auditor report on design effectiveness of internal controls. Our work is substantially complete subject to the findings on page 10 on classification testing.
Actuarial Present Value of Promised Retirement Benefits	Pension Fund	The Fund discloses the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represents a significant estimate in the financial statements. The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£2.6 billion) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a risk of material misstatement.	Audit procedures undertaken in response to the identified risk included: • update our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Fund's valuation; • assess the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability; • test the consistency of disclosures with the actuarial report from the actuary; and • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. Refer to page 9 of this report which summarises our findings.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
Investments • Our testing of £95.5m of Investments held as at 31 March 2022 note that a total of £33m were with borough council counterparties that had issued S114 notices in the last couple of years *(S114 notice indicates expenditure of the authority incurred in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure)*	We challenged management over accuracy of the valuation of these investments. We note: • The Council's lending arrangements to counterparties include taking independent advice from Arlingclose Ltd • Two investments totalling £18m had been repaid during 2022/23 and were not renewed with the counterparty. Based on independent advice, the two counterparty are suspended from the list of parties it can lend funds to. • The balance of £15m was rolled over during 2022/23 in two tranches (£10m before the S114 notice was issue and £5m after the notice was issued).	We gained assurance over accuracy of the valuation of these investments held with counterparties.
Working papers and cleansing of data • Some income, expenditure balance sheet took longer to audit due to the significant number of contra entries and small value of items within the population resulting in larger than expected samples for testing • Where both credit and debit items within an item of balance for testing are material, we are required to test both debit and credit items separately, doubling sample sizes in many cases. • The impact results in additional time and cost to the audit.	For example, in our testing of 'Fees and Charges income' with a balance of £218m from which we sampled: • The population listing included credit balances of £380m and debits of £162m. • Contra entries which net to nil amounted to £101m across 12,500 individual lines. • Additionally, within the residual balance for testing (net of contra entries), there was over 41,000 individual lines of income with a value of £100 or less with a combined total of £740k. More that 85% of these lines were income and debit transactions of £30 or less each.	Recommend management continue to review and cleanse individual population listings for sample testing.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations: Other Land and Buildings £1,199m Investment Properties £39m	Other land and buildings which were revalued during the year comprise £1,015m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£182m) are not specialised in nature and were required to be valued at existing use value (EUV) at year end. Te residual of assets not revalued in year was not material at £1.3m. The Council engaged Wilks Head Eve to complete the valuation of properties as at 31 March 2022. Approximately 100% of Other land and buildings, Council dwellings and Investment properties were revalued during the year.	• We have assessed management's expert, Wilks Head Eve, to be competent capable and objective. • The valuer has correctly prepared the valuation using DRC on a modern equivalent asset basis for specialised properties, and EUV for non-specialised properties. • 99.8% of properties have been valued as at 31 March 2022. • We engaged our own valuation specialist, Gerald Eve, to provide a commentary on the instruction process for Wilks Head Eve, the valuation methodology and approach, and the resulting assumptions and any other relevant points. • We have carried out testing of the completeness and accuracy of the underlying information provided to the valuer used to determine the estimate and have no issues to report. • We have agreed the valuation reports provided by management's expert to the fixed asset register and to the financial statements. Our review is substantially complete. Our expert valuer raised follow up queries which we have followed up with your valuer. We await clearance of these issues between valuers to complete our work.	Light purple

Page 55

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations: Council Dwellings £3,547m	The Council owns 25,323 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting g guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged Wilks Head and Eve LLP to complete the valuation of these properties. The year end valuation of Council Housing was £3.6 billion, a net increase of £194m from 2020/21.	• From the work performed, no material issues have arisen in relation to the valuation of the Council's housing stock included within the accounts. • We have assessed management's expert, Wilks Head and Eve LLP, to be competent, capable and objective. • The valuer has correctly prepared the valuation using the stock valuation guidance issued by MHCLG and has ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH). Our assessment is complete and there are no issues to report.	*Light purple*

Page 56

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £926m	The Council's total net pension liability at 31 March 2022 is £926m (PY £973m) comprising the London Borough of Islington Pension Fund and the London Pension Funds Authority obligations. The Council uses Mercer and Barnett Waddingham respectively to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed as at 31 March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. The net funded liabilities balance in the draft accounts for the London Borough of Islington Pension Fund is £881m (PY £926m) and net funded liabilities balance for the London Pension Fund Authority in the draft accounts is £45k (PY £47k).	See audit comments below	TBC

Audit Comments:

- We have assessed the actuary, Mercer and Barnett Waddingham to be competent, capable and objective.
- We have used PwC as our auditor's expert to assess the actuary and assumptions made by the actuary – see table below for Mercers comparison of actuarial assumptions:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.8%	2.7 – 2.8%	
Pension increase rate	3.5%	3.0 – 3.5%	
Salary growth	4.9%	1.25% - 1.50% above CPI	
Life expectancy – Male Pensioners / Non-pensioners	22.7 / 24.1	20.7 – 23.3 / 22.2 – 24.8	
Life expectancy – Females Pensioners / Non-pensioners	25.3 / 27.1	23.8 – 25.5 / 25.7 – 27.5	

As set out on page 9, in response to the national issue, Management requested and received updated IAS 19 report as at 31 March 2022 in May. Your assessment is the change in net pension liability was not material however you propose adjusting the accounts for these changes. The assumptions above may also have changed and will be updated on receipt of the amended accounts and updated IAS19 report.

The NAO have commissioned PWC to carry out a national review of actuaries revised assumptions. We expect this work to be available at the end of May 2023. We will use PwC as our auditor's expert to assess the methods and updated IAS19 report.

Should any significant issue arise from our concluding work, we will bring this to the attention of those charged with governance.

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Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation - £567m	The government financial support packages to the Council as a result of the pandemic continues to reduce (£14.5m PY£37m). These included additional funding to support the cost of services or offset other income losses, and also grant packages to be paid out to support local businesses. The Council continues to consider the nature and terms of each of the various Covid-19 measures in order to determine the appropriate accounting treatment, including whether there was income or expenditure to be recognised in the Comprehensive Income and Expenditure Statement (CIES) for the year. In doing so, management has considered the requirements of section 2.3 of the Code of Practice on Local Authority Accounting which relates to accounting for government grants, as well as section 2.6 which describes how the accounting treatment for transactions within an authority's financial statements shall have regard to the general principle of whether the authority is acting as a principal or agent, in accordance with IFRS 15. The three main considerations made by management in forming their assessment were: • Where funding is to be transferred to third parties, whether the Council was acting as a principal or agent, and therefore whether income should be credited to the CIES or whether the associated cash should be recognised as a creditor or debtor on the Balance Sheet • Whether there were any conditions outstanding or unused at year-end, and therefore whether the grant should be recognised as income or a receipt in advance or creditor • Whether the grant was awarded to support expenditure on specific services or was in the form of an un-ringfenced government grant – and therefore whether associated income should be credited to the net cost of services or taxation and non-specific grant income within the CIES.	• We are satisfied that management has effectively evaluated whether the Council is acting as the principal or agent for each relevant support scheme, which has determined whether any income is recognised. • We have evaluated the completeness and accuracy of the underlying information used to determine whether there were conditions outstanding (as distinct from restrictions) at the year-end that would determine whether the grant should be recognised as a receipt in advance or income, and concluded that this was appropriate. • We have considered management's assessment, for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES. We are satisfied that the presentation in the CIES is appropriate. • Management's disclosure of the Council's accounting treatment for grant income in both the financial statements and Narrative Report is sufficient.	*Light purple*

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Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £3.2m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. Since 2017/18, the Council has adopted the asset life (annuity) method (based on a prudent assessment of average asset life) for both 'supported' and 'unsupported' borrowing. In calculating the asse life (annuity) MRP, the average interest rates published by the Public Loans Board in the relevant financial year for new annuity loans is used. The year end MRP charge was £3,222k, a net increase of 759k from 2020/21.	• The MRP charge for the year has been calculated in accordance with the methodologies permitted in the statutory guidance • The Council's policy on MRP in relation to borrowing taken out for the acquisition of non-housing General Fund assets complies with statutory guidance • The Council's policy on MRP was discussed and agreed with those charged with governance and approved by full Council as part of the Treasury Strategy in February 2021. • There have been no changes to the Council's MRP policy since 2020/21 • The level of increase in the MRP charge is reasonable in the context of additional borrowing incurred during the year.	*Light blue*

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Assessment

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

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessmen t
Level 3 Private Equity Investments – £136m	The Pension Fund has investments in private equity funds that in total are valued on the net assets statement as at 31 March 2022 at £136m. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management relies on information provided by the General Partners to the private equity funds, who prepare valuations in accordance with the International Private Equity and Venture Capital Valuation Guidelines, and produce accounts to 31 December 2021 which are audited.	• We have assessed the appropriateness of the underlying information used to determine the estimate, including fund manager and custodian reports, and audited accounts of the private equity funds as at 31 December 2021 • We have assessed the consistency of the estimate against peers and industry practice • We have reviewed the reasonableness of the increase in the estimate • We have assessed the adequacy of disclosure of estimate in the financial statements We note that the Pension fund have Level 3 investments of £27.8m described as Private debt which is material. The disclosure narrative accompanying the hierarchy of Valuation of Financial Instruments at Fair Value should disclose nature of the debt, how it is valued and when it was valued in accordance with the Code. Management agreed to amend the disclosure. We also note four of the individual pension fund investment audited accounts with a total of £4m included an EoM. Refer to page 10 for further details. Additionally, we note timing differences of £5.1m between the valuation of investments and the publication of the draft accounts sometimes means that the values in the draft Accounts do not reflect the most recent valuation.	Grey
Level 2 Investments – £670m	The Pension Fund has investments in pooled equity that in total are valued on the balance sheet as at 31 March 2022 at £167.5m. Other Level 2 investments include Pooled funds of £369m and Bonds of £133.7m. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management make use of evaluated price feeds,	• We have assessed the appropriateness of the underlying information used to determine the estimate • We have assessed the consistency of the estimate against peers and industry practice • We have reviewed the reasonableness of the increase in the estimate • We have assessed the adequacy of disclosure of estimate in the financial statements Our work is substantially complete subject to the findings above and on page 10 on classification testing.	Grey

Page 60

Assessment

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

2. Financial Statements - other communication requirements

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

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

2. Financial Statements - other communication requirements

Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council and Pension Fund's banking and investment counterparties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. We wrote to those solicitors who worked with the Council and Pension Fund during the year, to confirm the completeness of provisions and contingent liabilities. All responses requested have been received.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review identified some disclosures that were not consistent with the Code, these findings are detailed in Appendix C. No material omissions were identified in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management were provided thought we await the outstanding matters detailed on page 3 to conclude the audit. The financial statements were published on the 30 September 2022 and commenced the audit in October. We experienced some delays in receiving key papers and timely responses to our audit queries from both the finance team and also from other teams outside of finance. This has contributed to delays in completion of the audit within the 3 months from the start date of the audit. The national issues on both infrastructure assets and IAS19 valuation assumptions have also delayed the conclusion of our work on PPE disclosures and pension valuation. Additionally audit procedures were necessary to complete and conclude our testing of journals, debtors and pension fund investments, derivatives and classification testing. Similarly, additionally audit procedures and time was required in concluding our work on investments and sample testing uncleansed transaction listings with material debits and credit balances. We made a recommendation in Appendix A ***to improve the quality of the working papers provided for audit and the efficiency of the audit process.*** Achieving the 30 September 2022 target for publishing audited financial statements remains a significant challenge for all local authorities. Achieving this for an organisation of your size and complexity, with a lean finance team, is particularly difficult. Management and officers have worked hard to mitigate these factors as far as possible, including identifying and utilising additional resource within the Council.

2. Financial Statements - other communication requirements

Our responsibility

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

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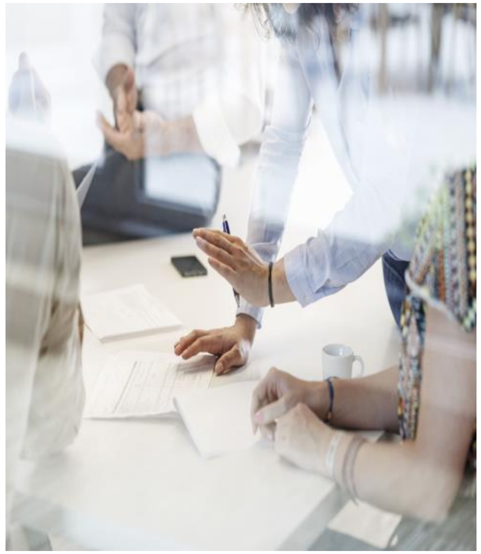
Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular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

2. Financial Statements - other responsibilities under the Code

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



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audit of **Islington Council** in the audit report, as detailed in Appendix E, due to the following: • our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report'. • the work necessary to issue of an auditor's report on the pension fund annual report. • the work necessary to respond to an objection from a local government elector in 2020/21.

3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

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Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

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

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Interim Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weakness in your arrangements and we agreed with management three improvement recommendations. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

4. Independence and ethics

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

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

5. Independence and ethics

Audit and non-audit services

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

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	7,500	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,500 in comparison to the proposed fee for the audit of £290,237 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Teachers Pension Return	7,500	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,5000 in comparison to the proposed fee for the audit of £290,237 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	28,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £28,000 in comparison to the proposed fee for the audit of £290,237 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
There are no non-audit related services in 2021/22			

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee and Audit Committee (Advisory). None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 3 recommendations for the Council and Pension fund as a result of issues identified during the course of our audit. We have agreed our recommendations with Management and we will report on progress on these recommendations during the 2022/23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

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Assessment	Issue and risk	Recommendations
Medium	**Journals** Our review of journals posted by superusers identified over 22,000 such journals which is unusual. We challenged management to understand why and assess if these group of journals created a greater risk of management override of controls. We understand these journals were income transactions which go through Civica, the Income Management system. Transactions are initially posted into suspense if the transaction doesn't match the rule set against the income account. At the end of each day, clearing takes place superusers and sometime by finance staff, after which a reconciliation document is produced by a system administrator who has processed the batch, which reconciles Cedar records to Civica. Each reconciliation is reviewed and signed off by a different superuser.	The use of superusers in day to day finance activities creates a greater risk of management override. However, manual intervention of this magnitude by superusers is inefficient and does not represent value for money. We recommend management review the whole process to minimise the volume of income transactions initially posted to a temporary suspense and clearance of the daily suspense be limited to finance teams only. Management response
Medium	Pension Fund Level 3 investments From our review of the sample of investment audited accounts, we identified 4 investments totalling £4m where the auditor's report on the investments was unqualified but reported an 'emphasis of matter' on going concern. Risk of Fund investment valuations may be materially overstated	We recommend management put in place additional procedures that include regular reviews of Fund investments audited accounts and auditor's report for modification or qualification of opinion and where Funds are in liquidation. These procedures should specify the actions to be taken where issues are identified and who is responsible for carrying out the actions. Management response

Controls

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

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	**Working papers and cleansing of data** Some income, expenditure balance sheet took longer to audit due to the significant number of contra entries and small value of items within the population resulting in larger than expected samples for testing Where both credit and debit items within an item of balance for testing are material, we are required to test both debit and credit items separately, doubling sample sizes in many cases. Risk audit takes additional time to complete and increased cost to the audit.	In order to improve the quality of the working papers provided for audit and the efficiency of the audit process, we recommend management continue to review and cleanse individual population listings for sample testing. **Management response**

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Controls

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

B. Follow up of prior year recommendations

We identified the following issues in the audit of Islington Council's 2020/21 Audit Findings report.

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Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Closed	**Use of M10 Actuary report, rather than the most up to date version** Management used the month 10 actuary report when producing the Pension liability note. This meant that the updated actuaries report showed an understatement of the net liability of £13,419k. Using M10 actuary reports for such a significant estimate creates the risk of material movements in the balance. It also creates the risk management are not fully informed of the latest position on the pension fund when making decisions in relation to the management of the Pension lability. **Recommendation** Management should ensure the latest actuary report is used when producing the pension note and lability within the accounts.	**Auditor assessment** This recommendation has been closed as developments in 2021/22 have superseded the recommendation. Refer to page 9.
Closed	**Uncleansed Transaction Listings provided for Audit** Within our working paper requirements agreed with management, contains the requirement for cleansed transaction listings. This is key for our audit as without cleansed listings in which reversing entries are removed we have to select significantly larger sample sizes. This has an impact on the amount of auditor and management time spent in testing and responding to these requests and it also caused delays in us sending out samples for the audit. We estimate this issue has increased our sample sizes by up to 50% in some parts of the audit. This issue has the potential to create additional costs to the Council due to increased audit time, as well as creating additional pressure on the Council's finance team. **Recommendation** Management should ensure transaction listings are reviewed and cleansed prior to the audit starting	**Auditor assessment** Similar issues arose during 2021/22 audit (refer page 14) and we have repeated the recommendation in Appendix A above

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**PFI- use of latest RPI Index in PFI Model** When calculating the estimate for the PFI liability for the year, the Council use a PFI model which has key data inputs. One of these inputs is the RPI value for which the Council has used historic data that is a from the 31 March 2020. The Council note that if there were a material difference between it and the value at the year end they would update the accounts and do this as the information does not become available until the end of April for the year end. We note that within the current accounts the difference in the RPI was so negligible it did not impact the 31 March 2021 year end balance. **Recommendation** Management should consistently apply the most up to date figures for key inputs within PFI models.	**Management update** For 2021/22 we used the latest available RPI rate, which was Feb 2022. **Auditor assessment** This recommendation has been closed
X	**De Minimis Accrual Level** The Council for both capital has a de minimis level of £10k for revenue accruals and £50k for capital accruals. The audit team notes that this is a high de minimis level to set. In addition the decisions in relation to applying this is left to management discretion, which creates the risk of inconsistencies in the treatment between departments and financial years. **Recommendation** • Management's discretion should be removed when determining if an accrual should be raised– we do not deem this appropriate as this could be used to manipulate the financial position of a particular service area. The policy and de minimis level should be consistent and not be subject to discretion. • An appropriate threshold should be set, with sufficient audit evidence to verify why this threshold has been chosen and in addition how this threshold will not lead to material differences within the accounts	**Management update** The Council has reviewed the materiality limit and has deemed it appropriate. Accruals under the de minimis will only be accepted where this is a legal or funding requirement to do so (for example Central Government Grant Spending where the council acts as an agent). For 2022/23 Closing, an accruals panel has been set up to independently review all accrual postings prior to upload - This will ensure adequate controls are in place to prevent erroneous postings. **Auditor assessment** We will follow up in 2022/23
✓	**Disclosures** Our work identified a number of disclosure errors within the draft accounts (refer Appendix C). In addition to this we found a number of minor disclosure adjustments across a large number of the notes to the accounts. **Recommendation** Further strengthen the quality review arrangements of the draft financial statements to improve quality of reporting and minimise the disclosure errors.	**Management update** The Council has reviewed the closing of accounts timetable to ensure sufficient QA for each note and the overall Statement of Accounts document **Auditor assessment** We made a few improvement recommendations to the accounts and pension fund. Refer to Appendix C.

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Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Contingent Liabilities and Provisions Within the Contingent liabilities and provisions note the Council's working papers do not clearly set out the justification and accounting treatment and basis of each item. This lead to the audit team having to discuss with legal the treatment of the items, who advise the finance team on these items. This creates the risk that without the finance team formally reviewing each item that items could be incorrectly treated within the accounts. **Recommendation** Management should ensure all provisions and contingent liabilities treatment and the basis for the treatment are clearly set out and reviewed on a regular basis.	**Management update** The Contingent Liabilities and Provisions notes will be enhanced to incorporate this recommendation. The notes will include reconciliation forms of each item to prevent discussions on accounting treatment. **Auditor assessment**
✓	Related Parties Our review of the Council's Related Parties note identified the Council had not clearly established if each related party disclosed met the requirements of 3.9.27 of the Code. From our review of the register of interest we noted it does not obtain sufficient detail, for management to make this judgement. Therefore there is a risk that the related parties note is overstated with interests disclosed that do not meet the Code requirements. **Recommendation** Management should review the register of interests form and the process for producing the related parties note, to ensure each disclosure meets the requirements set out in 3.9.27 of the CIPFA Code. In addition, the note should provide evidence of managements judgement of this.	**Management update** The Related Parties note and working paper will be enhanced to incorporate this recommendation. **Auditor assessment** No issues arising from 2021/22

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Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue

Assessment: ✓ (partly)

Inadequate oversight around generic users across in scope applications and database

Our Specialist IT team undertook a review of the Council's IT system and identified one high priority control finding. This related to there not being controls in place to monitor the usage of and continued need to retain active generic accounts within Civica Pay, Cedar and Resource Link SQL database.

We identified the following :

1. Civica Pay: generic id (civica.admin) remained active yet it was uncertain whether this account was still required
2. Resource Link SQL: database: the default system administration account (SA) and payroll processing (Ibibacsip) remained active with no monitoring of the activity undertaken.
3. Cedar: generic user IDs(SUPPORT2 ,SUPPORT3 and TSO61) remained active yet the account was no longer used.
4. Furthermore, no password reset controls were configured to enforce the periodic rotation of passwords.

Recommendations:

1. Generic accounts should be removed with individuals assigned their own uniquely identifiable user accounts to ensure accountability for actions performed.
2. Alternately, management should implement suitable controls to limit access and monitor the usage of these accounts (i.e. through increased use of password vault tools / logging and periodic monitoring of the activities performed). Where monitoring is undertaken this should be formally documented and recorded.
3. For accounts assigned to IT support partners, the Council should confirm how they obtain assurance over appropriate IT controls being operated by these third-party service organisations.
4. Management should consider implementing Single Sign-On and Multifactor Authentication mechanisms for the in-scope applications.

This also relates to the Pension Fund as well as the Council

Management update

Resource link - The SA and Ibibacsip accounts are service accounts and not generic accounts. These are not used by individuals to sign into the Resource Link database. The passwords are not publicised and are held in a password vault, which is accessible by the SQL DBA. The SA account is used to run background processes on the HR-RL-SQL-L-V1 database instance on which the Resource Link database resides.

The Ibibacsip account does not access the Resource Link database and is used by the SMARTERPAY application. SQL Management Studio does not keep a record of historical logs, these are generated on the fly and display current logins. It may be possible to enable auditing tools on the database to capture this information, but this will have a detrimental effect on the performance of databases and associated applications will be moving to a cloud version of Resource Link. As part of this migration, Zellis will be responsible for the database administration.

Civica Pay - Generic accounts have been removed a part of a previous audit for CIVICAWS\Admin.

Cedar - Support2 and 3 have been disabled. User TSO61 is used by a QED Mapping and not an individual, this cannot be disabled as it would stop processing

Auditor assessment

1. This finding has been partially remediated.

<u>For Civica pay</u>

We acknowledge that the generic account – civica admin was disabled on 28th Oct 2021. However, we noted that user account was active partly during the audit period and the activity logs for the usage of the account during audit period were captured but not proactively monitored for suspicious/unauthorised events. Additionally, we were unable to obtain evidence for periodic rotation of passwords since the account was disabled. Therefore, the observation is valid for current year.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓ (partly)	Inadequate oversight around generic users across in scope applications and database	Auditor assessment <u>For Resource link</u> 1. We acknowledge that system administrator 'sa' account is configured in the system as service account. However this account is an interactive user account delivered by Microsoft for performing system administrative functions within the SQL database. We noted that there no user activity logs captured and monitored for usage of this account. We further noted that payroll processing (Ibibacsip) is a service account used by Resource Link database for interfacing with SMARTERPAY application. <u>For Cedar</u> We acknowledge that generic user accounts - Support 2 and Support 3 were disabled on 19th October 2021; however, we were unable to obtain the lastlogon date. We further noted that user activity logs for generic account 'SUPPORT 2' were not proactively monitored for any suspicious/unauthorised events during the audit period. Additionally, we noted that generic account 'TSO61' is configured as a service account. 2. This finding has been not remediated. We acknowledge that there have been no changes around the leavers process within Civica Pay and Cedar. Additionally, we were informed by Management that a new workflow tool will be implemented during the course of the next financial year. Therefore, the observation remains the same for current year. 3. This finding has been partially remediated. We acknowledge that for Civica Pay, Cedar, Alusta and Resource link, the user activity logs are now maintained, but are not monitored periodically. 4. This finding has been partially remediated. We acknowledge that the minimum password length within Cedar has been set as 8 characters, this now aligns to the password policy. However, weaknesses in other password parameters identified last year have not been amended. We acknowledge that there have been no changes made to the password complexity within Civica pay and Resource Link.

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Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	PPE Disposal- identified in 2019/20, this issue was found to still exist as part of our testing in 2020/21 Our sample testing of Property Plant and Equipment disposals identified a number of Council dwellings (892k), land and building (£3.2m) and equipment (539k vehicles) that should have been written out of the balance sheet in earlier years but had only been written out this year following a review of the asset register. If assets remain on the balance sheet in excess of true disposal. Following this finding management undertook a further review of assets held. This review identified several assets that the Council did not have ownership off, as is disclosed on page xx, significant matters discussed with management. In addition to this we identified an asset had been written off due to historical records of the asset meaning the Council could not identify if it existed. Management should ensure they continue to carry out more regular existence review of assets held on the balance sheet to gain assurance that those assets are owned by the Council and in use. In addition, we note management should ensure records kept of assets capitalised enable them to clearly identify the asset.	**Management update** Management have strengthened its processes in relation to existence testing. **Auditor assessment** We did not identify a similar issue in 2021/22, action closed.
✓	Long and short term debtors- identified in 2019/20 We note from our debtor sample testing instances of old debtor as well as old credit balance dating back more than six years old. Analysis of your aged debtor balance indicate these immaterial historical balances date back to 1999. These balances were correctly provided for. We identified that there were still a number of old debtors within parking debtors for which the same issue remained	**Management update** Appropriate action will be taken in relation to aged debts **Auditor assessment** We did not identify a similar issue in 2021/22, action closed.
Closed	Journals - identified in 2019/20 Our testing of journals identified three manual journals posted by system administrators with super user rights. To ensure separation of duties, we would typically expect such journals to be posted by the finance team and system administrations not undertake finance operational tasks. Journal testing during 2020/21 identified further examples of manual journals posted by system administrators with super user rights. Recommendation not yet addressed.	**Management update** Manual Journals are processed in conjunction with finance staff **Auditor assessment** We identified issues with superusers (refer to page 7) and made a recommendation in Appendix A. This recommendation is closed as another has superseded it.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Cash and bank (third party cash) - identified in 2019/20 Our sample testing of third party cash identified one account where evidence of the closing bank statement that corroborates payments in year had not been retained. The bank account has since been closed. In our testing of third party bank accounts we identified one bank account that could not be agreed back to a historic bank statement that dated back to 2016. The balance of which was £1,009,425, although we gained comfort over this balance via alternative procedures this illustrates that this finding still impacted the current year audit. Due to this the recommendation that third party bank statements are retained still stands, as the issue continues to impact the current year's audit.	**Management update** Bank statements are now retained as recommended **Auditor assessment** We did not identify a similar issue in 2021/22, action closed
✓	PPE Asset Under construction (AUC)- issue identified in 2019/20 audit. Our sample testing identified £2m of AUC incorrectly recognised against assets completed in 2018/19 rather than 2019/20. The error had no impact on the reported class of asset. We identified that management should ensure the records for this asset are updated. Auditor evaluation In our testing of Reclassifications of Assets Under Construction in 2020/21 it was identified that in our sample of 5 an asset valued £2,252k should have been reclassified in the previous financial year. The impact of this was that depreciation was undercharged on the asset in the 2021 financial year. It also creates the risk that Assets under construction may be overstated and operational assets understated. From our work we are satisfied this error is not material but note as the Council increase their capital programme in future years this could present a greater risk of material misstatement. Management should ensure that as assets are brought into use that this is captured in a timely manner to ensure they are correctly recorded in the right financial year.	**Management update** Management have processes to ensure assets brought into use are captured in a timely manner and reported accordingly. **Auditor assessment** We did not identify a similar issue in 2021/22, action closed

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Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Page 80

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Scope of Custodian's Valuation and Management understanding the Custodian report fully** From our audit work we identified the following issues: • The custodian had not independently valued £1,378m of the investments instead relying on the Fund managers market pricing. This lead to additional audit work as we were unable to place sufficient reliance on the custodians work due to this. • Management had restated the accounts based on the classifications for the Investments provided by the custodian. However when this was discussed with the custodian it became clear they had not considered the principles set out in IFRS9 when setting these classifications. The above issues both highlight control weaknesses in relation to the communication with the custodian and in setting out the scope of the work. This has lead to significantly more work by both the auditors and management to complete work on Investments, as well as material adjustments to the classifications within the financial instruments note. The above also creates a risk that the custodian does not provide management with an independent view of the Pension fund's investment and provide a third party perspective on fund managers performance. **Recommendation** • Management should consider the scope of the work sent out to the custodian and ensure they instruct them to value all Investments independently of the Fund manager. • Management should also consider in their instructions requesting the custodian to classify assets in line with IFRS 9's fair value hierarchy in their reports. • Management working papers should detail their judgements and challenges around the hierarchy of Investments provided independently by their fund managers and custodian	**Management update** Responded on Inflo via F116 on the 10/03/23 and via PF inflo G8 on the 29/03/2022. **Auditor assessment** Pension fund investments were not valued independently by the custodian and Fund Managers. Accordingly, we have had to undertake additional procedures to gain assurance over investment valuations which has taken longer to complete. Additionally, we note in four of these investments with a total of £4m, the auditor's opinion therein included an 'emphasis of matters' (EoM) stating the audited accounts were not prepared on a going concern basis – refer to page 10 for more details. Our review remains in progress at the time of writing.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

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Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**No Specific Internal Audit Review of Pension Fund since 2015** Within our review of the Pension Fund's control environment we identified that the Internal Audit team had not carried out any specific procedures on the Pension Fund since 2015. Although we understand a review is planned next year and that a cyclical approach is applied to the Pension Fund, this is a large gap in procedures taking place and creates the risk that issues within the control environment of the Pension Fund could be left undetected for several years. **Recommendation** Management should consider the regularity of the work carried out by Internal Audit on the Pension Fund	**Auditor assessment** We understand a review of the Pension Fund was completed in February and issued for Management comment in March 2023. At the time of writing, we are yet to receive the final report.
✓	**Disclosures- issue identified in 2019/20** Our work identified a number of minor trivial disclosure errors within the draft accounts. In addition to this we found a number of minor disclosure adjustments across a large number of the notes to the accounts. **Recommendation** Further strengthen the quality review arrangements of the draft financial statements to improve quality of reporting and minimise the disclosure errors.	**Auditor assessment** A quality review of the Pension Fund was undertaken by our Audit Quality team. Amendments to the disclosure have been agreed with management. At the time of writing, we are yet to receive the revised Fund statements with the agreed amendments. Action deemed closed.
TBC	**Pension fund L1 , l2 and L3 investments- identified in 2019/20** In assessing the classification between level 1 and 2 investments, you reclassified L1 pooled funds to L2. We note some number of funds within your pooled funds are actively traded and should be classified as L1. In our audit testing of this note we identified significant issues within the classification, that were more significant than in the prior year. This has led to a material change in the classification of level 1, level 2 and level 3 Investment in the financial instruments note. We have identified that management should improve the quality of their working papers in this area, clearly documenting their judgements of this note to avoid similar issues in future years. Due to the more significant issues identified in this financial year we have judged this deficiency to be a medium risk going forwards.	**Auditor assessment** Our testing of classification between levels 2 and 3 is in progress. We will update this assessment at the conclusion of the testing.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Journals- identified in 2019/20 Our testing of journals identified three manual journals posted by system administrators with super user rights. To ensure separation of duties, we would typically expect such journals to be posted by the finance team and system administrations not undertake finance operational tasks. Journal testing during 2019/20 identified further examples of manual journals posted by system administrators with super user rights. Recommendation not yet addressed.	**Auditor assessment** We did not identify a similar issue in 2021/22, action closed

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Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

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

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Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail - Council	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on useable reserves £'000
Unwinding of Thames water provision over 7 years (year 1)	(1,731)	1,731.	Nil
Format error in Business rates provision calculation	1,552	(1,552)	Nil
Overall impact	**(179)**	**179**	**Nil**

Misclassification and disclosure changes

The table overleaf provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

C. Audit Adjustments

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

Impact of unadjusted misstatements

The table below provides details of unadjustments identified during the year audit not made within the final set of 2021/22 financial statements, and details of how they impacted upon the 2021/22 financial statements.

Council	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Investment properties – gain on change in market value Three yield rates used in Investment Property valuation were outside the expected rate of our auditor's expert. We further compared against third source of information (i.e. GT Real Estate Market Update report, and Knight Frank report). We performed an assessment as to the impact of these, and have determined a range of the potential misstatement, considering both the upper and lower limits of the range, of £1.6m and £6.1m, respectively	1,600 to 6,100	1,600 to 6,100	(1,600) to (6,100)	Cumulative impact is not material
Overall impact	1,600 to 6,100	1,600 to 6,100	(1,600) to (6,100)	

C. Audit Adjustments – Pension fund

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

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Impact of unadjusted misstatements

The table below provides details of unadjustments identified during the year audit not made within the final set of 2021/22 financial statements, and details of how they impacted upon the 2021/22 Pension Fund statements.

Pension Fund	Fund account £000	Net Assets Statement £000	Impact on closing Net Assets £000	Reason for not adjusting
Level 1 investments We identified 4 items during our testing where the variance percentage between the prices from third-party independent source and the prices used by the custodian was above 0.5% threshold. We challenged the source of the prices used by the custodian but they were not able to provide us the evidence. We are unable to gain assurance over the reasonableness of the valuation for the 4 investments. The projected misstatement from these items is £1,365k (understatement).	1,365	1,365	1,365	Cumulative impact is not material
Level 1, 2 and 3 Investments Timing differences between the valuation of investments and the publication of the draft accounts sometimes means that the values in the draft Accounts do not reflect the most recent valuation. The overall movement for all funds are £5,134k.	5,134	5,134	5,134	Cumulative impact is not material
Overall impact	**6,499**	**6,499**	**6,499**	

C. Audit Adjustments – Pension Fund

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements, and details of how they impacted upon the 2021/22 financial statements.

Unadjusted prior year misstatements on Fund	Fund Account £'000	Net Assets Statement £' 000	Impact on Closing Net assets £'000	Reason for not adjusting
Level 3 Investments In our review of Level 3 Investments testing which in the updated Accounts for the Pension Fund have a value of £108,958k it was identified the valuation used by the Pension Fund was based on the roll forward of the December valuation method. At the date of auditing the balance the final valuations of these investments were available and we identified the balance had a difference of £1,940k, with the updated valuation being valued at £110,898k. As this difference is below materiality management have decided not to adjust this in the Financial statements	(1,940) Net Increase in fund in year	1,940 Investment assets	1,940	Cumulative impact is not material in prior or current year.
Overall impact	(1,940)	1,940	1,940	

C. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Applicable to	Auditor recommendations	Adjusted?
Note 3 Critical judgements in applying accounting policies	Council	In our view, the Council's disclosures include items with no critical judgements made by management in applying accounting policies. For example, future levels of funding for local government and exclusion of academies, voluntary aided, voluntary controlled or free schools.	
Note 4 Assumptions made about the future and other major sources of estimation uncertainty	Council	The Council's disclosure includes items in our view that is unlikely to give rise to a significant risk of a material adjustment in the next financial year. For example, depreciation and amortisation, and bad debt provision.	
Note 6 Pooled budgets	Council	Disclosure error in Pooled budget analysis and total	
Note 8. Officers' Remuneration:	Council	Disclosure errors identified in salary bands and exit package disclosure	
Note 10 Fees payables to appointed auditor	Council	Narrative disclosure at the foot of the table of fees needs to delete 'subject to approval by PSAA' to 'approved by PSAA'	
Note 12: Expenditure and Income Analysed By Nature	Council	Disclosure error where an item of income was incorrectly included twice and other income was understated by an equal amount	
Note 22 - Financial Instrument	Council	Disclosure error within Financial Instrument Debtors Balance overstated by £1,657k.	
Note 26(d) Liquidity Risk	Council	Disclosure error in total funds held as at 31 March 2022.	
Note 29. Cash and Cash Equivalent	Council	Disclosure error in analysis of cash and cash equivalents. No impact on Total cash and cash equivalents held	✓

C. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Applicable to	Auditor recommendations	Adjusted?
Note 4 Critical judgements	Pension fund	Note 4 refers to the methodology used to recalculate the net pension liability rather than the judgement applied	
Note 12c Oversight and Governance cost	Pension fund	The audit fees for the current and prior year were understated	✓
Note 26a Price and currency risk	Pension fund	Nature and extent of risks analysis does not appear consistent with other disclosures	
Note 27 Financial instruments	Pension fund	Whilst the total of net financial assets reconciles to note 14 and cash element of note 16, it is not clear how the amounts for the different categories of assets tie in with the analysis at note 14 and that reported at note 26a.	
Note 27a Reconciliation of fair value measurements within Level 3	Pension fund	The descriptors and amounts used for the level 3 FV movements differs from that used at note 27 where level 3 instruments are described as private equities and private debt.	
Note 27 Fair value	Pension fund	Fair value disclosure do not meet requirements of the Code. For example, quantitative information about the significant unobservable inputs - for level 3 are not disclosed	
Note 27a Reconciliation of fair value measurements within Level 3	Pension fund	Code requires that if changing one or more unobservable inputs could change FV significantly - then should state that fact and disclose the effect. Disclosure should make clear if there is a significant effect or there is not, and there is no disclosure of the financial effect.	

A number of other minor presentational amendments including adjustment of prior period comparatives to match the audited 2020/21 financial statements were made to the financial statements.

D. Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£252,429	TBC
Pension Fund Audit	£37,808	TBC
Total audit fees (excluding VAT)	**£290,237**	**TBC**

Audit related and Non-audit fees for other services	Proposed fee	Final / Estimated* fee
Agreed upon procedures relating to pooling of housing capital receipts	£5,000	£7,500*
Agreed upon procedures relating to the Teachers' Pensions End of Year Certificate	£7,500	£7,500*
Certification of Housing Benefit Subsidy Claim	£28,000	£TBC
Total non-audit fees (excluding VAT)	**£40,500**	**£TBC**

Reconciliation of audit fees	Accounts (Note 10) £000	Grants (Note 10) £000	PFund (Note 12c) £000
Fees per draft statements	252	41	38
Reconciling item: Increased audit requirements per Audit Plan	-	-	
Fees per Audit Plan / Audit Findings Report (proposed)	**252**	**41**	**38**

The fees reconcile to the Councils financial statements. The number issues identified and of audit adjustments required significant additional audit time in completing the audit. The final fee will be discussed with Management at the conclusion of the audit. All fees are subject to PSAA approval.

E. Audit opinion

Our audit opinion is included below.

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

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

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of London Borough of Islington (the 'Authority') for the year ended 31 March 2022, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Income and Expenditure Account, the Statement on the Movement on the Housing Revenue Account Balance, the Collection Fund Income and Expenditure Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2022 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Conclusions relating to going concern

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

In our evaluation of the Corporate Director Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

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

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

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

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Other information

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

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

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

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

Matters on which we are required to report by exception

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

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

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

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

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Corporate Director Resources. The Corporate Director Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements and Annual Governance Statement, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Corporate Director Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Audit Committee and Audit Committee (Advisory) is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

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Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012 and the Local Government Act 2003.
- We enquired of senior officers and the chair of the Audit Committee and Audit Committee (Advisory), concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers and the chair of the Audit Committee and Audit Committee (Advisory), whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - unusual journal entries made during the year which met a range of criteria during the course of the audit, and
  - the appropriateness of assumptions applied by management in determining significant accounting estimates, such as the valuation of property plant and equipment and the valuation of the net defined benefit pensions liability.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Corporate Director Resources has in place to prevent and detect fraud;
  - journal entry testing, with a focus on testing entries meeting the risk criteria determined by the audit team;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of valuation of land and buildings, including council dwellings and investment properties, and the valuation of the net defined benefit pensions liability;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item

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- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of land and buildings, including council dwellings and investment properties, and the valuation of the net defined benefit pensions liability.
- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

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- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector
- understanding of the legal and regulatory requirements specific to the Authority including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

- In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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

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

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

Responsibilities of the Authority

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

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

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

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

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

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

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

We cannot formally conclude the audit and issue an audit certificate for London Borough of Islington for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report'
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

Use of our report

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

Paul Dossett, Key Audit Partner

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

London

Date:

F. Audit letter in respect of delayed VFM work

Chair of Audit Committee and Audit Committee (Advisory)

Islington Council

Town Hall,

Upper Street

London

N1 2UD

May 2023

Dear Cllr Nick Wayne, Chair of Audit Committee and Audit Committee (Advisory), as TCWG

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

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

We issued a draft report to management for comments in December 2022 and an interim report will be presented to the Audit Committee and Audit Committee (Advisory) in May 2023. The report will be finalised at the conclusion of the financial statements audit.

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

Yours faithfully

Paul Dossett

Grant Thornton

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