



**Resources Department  
Town Hall, Upper Street, London, N1 2UD**

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## **AGENDA FOR THE AUDIT COMMITTEE AND AUDIT COMMITTEE (ADVISORY)**

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Members of the Audit Committee and Audit Committee (Advisory) are summoned to a virtual meeting to be held by Zoom on **16 March 2021 at 7.00 pm.**

**Linzi Roberts-Egan  
Chief Executive**

**Link to the meeting:** <https://weareislington.zoom.us/j/95065724255>

Enquiries to : Mary Green  
Tel : 020 7527 3005  
E-mail : [democracy@islington.gov.uk](mailto:democracy@islington.gov.uk)  
Despatched : 8 March 2021

### Membership

Councillor Nick Wayne (Chair)  
Councillor Andy Hull (Vice-Chair)  
Councillor Troy Gallagher  
Councillor Anjna Khurana

Alan Begg (Independent member)  
Alan Finch (Independent member)

### Substitute Members

Councillor Jenny Kay  
Councillor Roulin Khondoker  
Councillor Flora Williamson  
Councillor John Woolf

**Quorum: is 3 Councillors**

A.	Formal Matters	Page
1.	Apologies for absence	
2.	Declaration of substitute members	
3.	Declarations of interest	
	<p>If you have a <b>Disclosable Pecuniary Interest*</b> in an item of business:</p> <ul style="list-style-type: none"> <li>▪ if it is not yet on the council's register, you <b>must</b> declare both the existence and details of it at the start of the meeting or when it becomes apparent;</li> <li>▪ you may <b>choose</b> to declare a Disclosable Pecuniary Interest that is already in the register in the interests of openness and transparency.</li> </ul> <p>In both the above cases, you <b>must</b> leave the room without participating in discussion of the item.</p> <p>If you have a <b>personal</b> interest in an item of business <b>and</b> you intend to speak or vote on the item you <b>must</b> declare both the existence and details of it at the start of the meeting or when it becomes apparent but you <b>may</b> participate in the discussion and vote on the item.</p> <p><b>*(a) Employment, etc</b> - Any employment, office, trade, profession or vocation carried on for profit or gain.</p> <p><b>(b) Sponsorship</b> - Any payment or other financial benefit in respect of your expenses in carrying out duties as a member, or of your election; including from a trade union.</p> <p><b>(c) Contracts</b> - Any current contract for goods, services or works, between you or your partner (or a body in which one of you has a beneficial interest) and the council.</p> <p><b>(d) Land</b> - Any beneficial interest in land which is within the council's area.</p> <p><b>(e) Licences</b>- Any licence to occupy land in the council's area for a month or longer.</p> <p><b>(f) Corporate tenancies</b> - Any tenancy between the council and a body in which you or your partner have a beneficial interest.</p> <p><b>(g) Securities</b> - Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.</p> <p>This applies to <b>all</b> members present at the meeting.</p>	
4.	Minutes of previous meeting	1 - 6
5.	Appointments to Pensions Board and Personnel Sub-Committee	7 - 10

<b>B.</b>	<b>Items for Decision</b>	<b>Page</b>
1.	External Auditor reports	11 - 84
2.	Risk management update - February 2021	85 - 88
3.	Internal Audit update - February 2021	89 - 92
4.	Revocation of Exit Payment Regulations	93 - 96
5.	Whistleblowing report - 1 April 2020 to 31 January 2021	97 - 100

**C. Urgent non-exempt items**

**D. Exclusion of press and public**

Any non-exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

**E. Confidential/exempt items**

1.	Whistleblowing report - 1 April 2020 to 31 January 2021 - exempt appendix	101 - 116
2.	Revocation of Exit Payment Regulations - exempt appendix	117 - 120

**F. Urgent exempt items (if any)**

Any exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

The next meeting of the Audit Committee and Audit Committee (Advisory) will be on  
25 May 2021

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London Borough of Islington

## **Audit Committee and Audit Committee (Advisory) - 25 January 2021**

Minutes of the meeting of the Audit Committee and Audit Committee (Advisory) held via Zoom on 25 January 2021 at 7.00 pm.

**Present: Councillors:** Nick Wayne (Chair), Andy Hull (Vice-Chair), Troy Gallagher and Anjna Khurana

**Independent members:** Alan Begg and Alan Finch

**Observer:** Councillor Satnam Gill

### **Councillor Nick Wayne in the Chair**

**186     APOLOGIES FOR ABSENCE (Item A1)**

None.

**187     DECLARATION OF SUBSTITUTE MEMBERS (Item A2)**

None.

**188     DECLARATIONS OF INTEREST (Item A3)**

Councillor Satnam Gill declared an interest in agenda item B3, Whistleblowing Policy, as a member of the Hilldrop Area Community Association, referred to in Appendix 3 of the report.

**189     MINUTES OF PREVIOUS MEETINGS (Item A4)**

**RESOLVED:**

That, subject to an amendment to minute 157 of the minutes of the meeting held on 29 September 2020 – Personnel Sub-Committee (b) – to change the date specified from “2019/2020” to “2020/2021”, the minutes of the ordinary meeting held on 29 September 2020 and the additional meetings held on 30 October and 24 November 2020 be confirmed as a correct record and the Chair be authorised to sign them.

**190     RISK MANAGEMENT UPDATE (Item B1)**

In response to questions about lessons learned from the recent public interest reports issued to Croydon and Nottingham, officers confirmed that both reports had been studied in depth. However, there was little comparison between Islington and those two authorities, given Islington’s different risk profile. With regard to Angelic Energy, referenced in the Nottingham report, Islington would ensure that, as part of

learning from that report, due diligence was carried out before any arrangements or partnerships were entered into.

In response to a question from one of the Independent Members about the need for reports on Risk Management Strategy and Framework to be submitted to the Committee, the Head of Internal Audit undertook to share the Framework, which was currently being refreshed, with the Committee. The Chair asked that the Framework be circulated to members of the Committee within 14 days.

The Committee noted that there was uncertainty around risks associated with Brexit and lockdown 3, although the Council's Gold and Resilience Teams met weekly to review the situation. Financial spend was of necessity large during lockdown, but under control and the Council had accessed Government Covid grants.

**RESOLVED:**

- (a) That the contents of the report of the Corporate Director of Finance, comprising an update on risk management activity that had taken place since the last comprehensive Principal Risk Report to Committee in September 2020, be noted.
- (b) That the Risk Management Framework be circulated to members of the Committee within 14 days of this meeting.

191

**2020 - 21 INTERNAL AUDIT INTERIM REPORT (Item B2)**

Internal Audit officers were complimented on the high quality of their reports.

Referring to various projects in Appendix 2 of the report, questions were asked about areas where the overall assurance statements were less than 'moderate' and whether it would be possible for the Committee to be advised of actions and outcomes on the "deep dives" carried out on certain projects. It was noted that a Finance Control Board had been established to follow up any projects which had been designated as 'limited assurance' in Resources Department.

The Chair suggested that members advise him of particular projects where they had concerns and wished to see follow up action.

The Committee was reassured by the Corporate Director of Environment and Regeneration that the findings from the Parking audit had been addressed.

**RESOLVED:**

That the contents of the report of the Corporate Director of Resources, detailing progress on delivery of the Internal Audit Plan, be noted.

192

**WHISTLEBLOWING POLICY UPDATE (Item B3)**

**RESOLVED:**

That the revised Whistleblowing policy at Appendix 1 to the report of the Corporate Director of Resources, including amendments as highlighted, be approved.

**193      NEXT STEPS ON STRATEGY AND CHANGE - UPDATE SINCE MAY 2020**  
**(Item B4)**

**RESOLVED:**

- (a) That the report of the Corporate Director of Resources, updating the Committee on the implementation of new arrangements for Strategy and Change within the Council and progress in key areas, be noted.
- (b) That a further report be submitted to the Committee in six months time on progress on the Change Management Programme.

**194      HOUSING OMBUDSMAN COMPLAINT HANDLING CODE (Item B5)**

**RESOLVED:**

- (a) That the following be noted:
  - (i) The Housing Ombudsman's Complaint Handling Code July 2020, attached at Appendix 1 to the report of the Corporate Director of Resources.
  - (ii) The completed self-assessment form at Appendix 2 to the report, which had to be completed by 31 December 2020 and reported to "elected members".
  - (iii) Failure to comply with the conditions of membership might result in an Ombudsman's determination of complaint handling failure and order to rectify within a given timescale.
  - (iv) Failures under the Scheme and Code would result in a complaint handling failure order.
  - (v) The Housing Ombudsman expected landlords to publish the outcome of their self-assessments and could request sight of the assessment and evidence in support and could require landlords to periodically repeat the self- assessment, following any amendments to the Code or significant change to landlords' organisational structure.
- (b) That the Corporate Director of Housing be requested to ask housing associations in the Borough to share their complaints results and learning with the Council.

**195      LOCAL GOVERNMENT & SOCIAL CARE OMBUDSMAN (LGSCO) ANNUAL**  
**REVIEW PERFORMANCE REPORT 2020 (Item B6)**

Following questions from members, confirmation was given that, apart from the final page of the exempt appendices at agenda item E2, wherein the name of the complainant was visible, the other two appendices were non-exempt.

**RESOLVED:**

That the following be noted:

- (a) The Local Government & Social Care Ombudsman's (LGSCO) Annual Review letter dated 22 July 2020, as detailed in Appendix 1 of the report of the Corporate Director of Resources.
- (b) Of the 24 cases investigated, 17 were upheld and 7 cases were not upheld.
- (c) 5 out of the 17 upheld cases received a satisfactory remedy before the Ombudsman's involvement.
- (d) 9 out of the 9 cases recommended during 1 April 2019 to 31 March 2020 (100%) complied with the Ombudsman's recommendations.

(e) 3 out of the 17 cases were resolved during LGSCO investigation requiring no further compliance.

(f) Separate to the complaints investigated by the LGSCO reported in the Annual Review Letter, 3 upheld decisions during the period in question (finding of maladministration) were decided by the Housing Ombudsman, as detailed in Appendix 2 to the report.

(g) In line with the statutory duty under section 5A (2) of the Local Government and Housing Act 1989, the Monitoring Officer provided this annual report to Audit Committee.

**196      COUNCIL TAX BASE (Item B7)**

The Committee noted that, as the current budget had been set before the pandemic, no specific provision had been made for Covid19 spend. However, the Council had financial mechanisms in place for withstanding shocks.

**RESOLVED:**

(a) That it be noted that the cost of local council tax support in 2021/22 and over the medium term, as detailed in paragraph 4.1.2 and Appendix A of the report of the Corporate Director of Resources, was highly uncertain.

(b) That approval be given to the council tax base for the whole area for 2021/22 (or until rescinded) of 77,737.1 Band D equivalent properties, after adjusting for non-collection.

(c) That the council tax base for meeting the special expenses issued by the Lloyd Square Garden Committee for 2021/22 (or until rescinded) shall be 44.2 Band D equivalent properties, after adjusting for non-collection.

(d) That the council tax forecast for 2020/21, detailed in paragraph 5.3 and Table 1 and Appendix C of the report, be noted.

**197      THE INTRODUCTION OF EXIT PAYMENTS CAP ON  
REDUNDANCY/EFFICIENCY RETIREMENTS (Item B8)**

The Acting Director of Law and Governance provided the following advice to the Committee:

"The report covers the position generally at the present time. It is best not to seek to put a gloss on it. Individual cases will have to be considered in accordance with the circumstances when they arise.

The consequences for the Council in relation to voluntary redundancies include that they can be postponed until current uncertainties are resolved. However, this is not going to be any time soon. It appears that the LGPS Regulations are not going to be amended until after the Court case. They are likely then to be amended to the detriment of staff and to the financial benefit of the employing authority. The Court case is not being heard until 25/26 March. Judgment is likely to be reserved. There may well be an appeal, etc. There may be complaints in the meantime to the Pensions Ombudsman. The likely but uncertain length of any such postponement may have massive operational downsides, not least in the context of restructurings, and financial disadvantages.

However, if voluntary redundancies are to proceed during the period of non-alignment of the public sector cap and changes to the LGPS Regulations and before the uncertainties are resolved then (1) there are risks for both parties in relation to pension strain in the case of those aged 55 and over, and (2) these risks must not be sought to be removed in an age discriminatory way.

The recommendations in the report seek to minimise and mitigate these risks.”

**RESOLVED:**

- (a) That the current redundancy/efficiency policy be revised so that, where an employee’s exit payments breach the £95K cap, the staff member may exercise the option of reducing elements of their redundancy package, other than pension strain cost and statutory redundancy payment, in order to bring the total to under £95K and therefore be eligible to claim an unreduced pension.
- (b) That, where the pension strain costs are in excess of £95K, an employee may use their own funds to lower the reductions applied to their LGPS benefits.
- (c) That the changes proposed to the redundancy policy and detailed in the report of the Corporate Director of Resources apply to all relevant Council employees, including at Islington schools.
- (d) That, in instances where the value of paying the pension strain would exceed the cap, an additional discretion to allow exit payments to be made up to the balance of the £95K cap under Regulation 8 of the Restriction of Public Sector Exit Payment Regulations 2020, be approved.
- (e) That it be noted that any significant individual decisions that needed to be made in relation to the enacting of provisions within the change of the policy would be brought for approval to the Audit Committee meeting scheduled for the 16 March 2021.

**198      EXEMPT MINUTES OF PREVIOUS MEETINGS (Item E1)**

**RESOLVED:**

That the exempt minutes of the meetings held on 30 October 2020 and 24 November 2020 be confirmed as a correct record and the Chair be authorised to sign them.

**199      LOCAL GOVERNMENT & SOCIAL CARE OMBUDSMAN (LGSCO) ANNUAL REVIEW PERFORMANCE REPORT 2020 - EXEMPT APPENDICES (Item E2)**

**RESOLVED:**

That the final page of the exempt appendix at agenda item E2 and the fact that the other two appendices were non-exempt, be noted.

The meeting ended at 9.00 pm

**CHAIR**

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**Revised**  
**Governance and Human Resources**  
**Town Hall**  
**Upper Street**  
**London N1 2UD**

<b>Report of :</b> Director of Law and Governance and Monitoring Officer			
<b>Meeting of</b>	<b>Date</b>	<b>Agenda Item</b>	<b>Ward(s)</b>
Audit Committee	16 March 2021		n/a
Delete as appropriate		<b>Non-exempt</b>	

## **Subject: AUDIT COMMITTEE APPOINTMENTS 2020/21**

### **1. Synopsis**

1. In accordance with its Terms of Reference, the Audit Committee is responsible for the appointment of members to the Personnel and Pensions Sub-Committees and the Pensions Board.

2. Following the resignation of Councillor Paul Smith from the Council, there is a vacancy for an employer representative on the Pensions Board. Councillor Smith was the Chair of the Board, so a vacancy has also arisen for that position.

3. This report seeks agreement to the appointments of Councillor Michelline Safi-Ngongo, Executive Member for Children, Young People and Families, as a substitute member on the Personnel Sub-Committee, and Councillor Richard Watts as a member of and Chair to the Pensions Board to replace Councillor Paul Smith.

### **2. Recommendations**

(a) To appoint Councillor Michelline Safi-Ngongo as a substitute member on the Personnel Sub-Committee for the municipal year 2020/21, or until a successor is appointed.

(b) To appoint Councillor Richard Watts a member and Chair of the Pensions Board to replace Councillor Paul Smith for the municipal year 2020/21, or until a successor is appointed

### **3. Background**

- 3.1 A vacancy for a substitute member on the Personnel Sub-Committee has occurred due to the fact that Councillor Kaya Comer has stepped down as a member of the Executive. Councillor Michelline Safi-Ngongo, the current Executive Member for Children, Young People and Families, has been nominated as her successor. All members of the Executive are substitutes on the Personnel Sub-Committee.
- 3.2 Councillor Paul Smith has resigned from the Council, giving rise to a vacancy for an employer representative on the Pensions Board. Councillor Smith was also the Chair of the Board. Councillor Richard Watts has been nominated as his successor as an employer representative of the Board and its Chair.

### **4. Implications**

#### **4.1 Financial Implications**

None

#### **4.2 Legal Implications**

These are set out in the report.

#### **4.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030**

There are no environmental impacts arising from this report.

#### **4.3 Resident 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.

A resident impact assessment has not been carried out since the contents of this report relate to a purely administrative function and will not impact on residents.

### **5. Conclusion and reasons for recommendation**

Approval to the recommendations is needed to ensure that the Personnel Sub-Committee and the Pensions Board are properly constituted.



**Background papers:**

None.

Final Report Clearance

Signed by



15 March 2021

Director of Law and Governance and  
Monitoring Officer

Date

Report author

Mary Green

Tel

020 7527 3005

E-mail

mary.green@islington.gov.uk

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**Resources**  
**7 Newington Barrow Way**  
**London N7 7EP**

**Report of: Corporate Director of Resources**

Meeting of	Date	Agenda Item	Ward(s)
Audit Committee	16 March 2021		All

Delete as appropriate		Non-exempt
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## **SUBJECT: External Auditor Reports**

### **1. Synopsis**

- 1.1 Grant Thornton UK LLP is presenting a series of reports to the Committee. This includes their Annual Audit Letter for the year ending 31 March 2020 and audit plan for the external audit of the Council and the Pension Fund for 2020/21. The documents provided also include a summary of the changes being implemented in the way the Value for Money audit is performed and a document summarising management responses to the enquiries raised with the Council as part of the audit planning process.

### **2. Recommendations**

- 2.1 To note the contents of the General Enquiries of Management and approve the External Audit Plan for the Council and Pension Fund for the year ending 31 March 2021.
- 2.2 To note the Annual Audit Letter and Value for Money (VFM) slides.

### **3. Background**

- 3.1 Each year the Council's external auditor presents to the Audit Committee their audit plan. This year it is also proposed to present the General Enquiries of Management as part of the planning process.

### **4. Implications**

4.1 **Financial Implications:** none

4.2 **Legal Implications:** none

4.3 **Environmental Implications and contribution to net zero carbon by 2030.**  
There are no environmental impacts arising from this report.

4.4 **Resident 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.

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.

**5. Conclusion and reasons for recommendations:**

5.1 The Committee is asked to note the contents and approve the attached audit plan and general enquiries of management and to note the annual audit letter and VFM slides.

**Appendices:**

Annual Audit Letter year ending 31 March 2020

VFM slides

External Audit Plan year ending 31 March 2021

General Enquiries of Management – Islington Council and Islington Council Pension Fund

**Background papers:** none

Final Report Clearance:

**Signed by:**



Corporate Director of Resources

Date 08/03/2021

Report Author: Mumba Mumba, Strategic Revenue Manager  
Tel: 020 7527 2432  
E-mail: mumba.mumba@islington.gov.uk

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# The Annual Audit Letter for Islington Council

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Period  
Year ended 31 March 2020  
January 2021  
2015



# Contents



**Your key Grant Thornton  
team members are:**

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**Paul Grady**

**Key Audit Partner**

T: 020 7728 2301

E: Paul.D.Grady@uk.gt.com

**Ade Oyerinde**

**Senior Audit Manager**

T: 020 7728 3332

E: Ade.O.Oyerinde@uk.gt.com

**Marc Chang**

**Assistant Manager**

T: 020 7728 3066

E: Marc.Chang@uk.gt.com

## Section

1. Executive Summary
2. Audit of the Financial Statements
3. Value for Money conclusion

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## Appendix

- A Reports issued and fees



# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Islington Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee and Audit Committee (Advisory) as those charged with governance in our Audit Findings Report on 29 September 2020.

## Respective responsibilities

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

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

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

## Our work

### Materiality

We determined materiality for the audit of the Council's financial statements to be as follows:

- Financial statements: £16,500,000, which is 1.5% of the Council's gross expenditure, and
- Pension Fund: £13,500,000, which is 1.0% of the Council's Pension Fund net assets.

### Financial Statements opinion

We gave an unqualified opinion on the Council's financial statements on 30 November 2020. We also gave an unqualified opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report on 13 January 2021.

We included an emphasis of matter paragraph in both reports above in respect of the uncertainty over valuations of the Council's land and buildings, investment properties and the pension fund investments given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.

### Whole of Government Accounts (WGA)

Our work on the Council's consolidation return following guidance issued by the NAO will be completed once HM Treasury resolve issues they are experiencing with the Return.

### Use of statutory powers

We did not identify any matters which required us to exercise our additional statutory powers.

### Value for Money arrangements

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 November 2020.

### Certificate

We plan to certify that we have completed the audit of the financial statements of Islington Council once we are able to complete our work on the WGA Return. This is delayed due to external problems with the HM Treasury reporting system.

# Executive Summary

## Working with the Council

The global outbreak of the Covid-19 virus pandemic had led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. The impact was widespread causing volatility of financial and property markets which impacted on the Council's asset and pension fund valuations. Additionally, changes in the regulatory framework introduced increased supervision and leadership, as well as challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the Council.

Unsurprisingly, we experienced some delays during the audit as a result of the outbreak. In line with government directives, both the production and audit of the financial statements were done remotely. Furthermore, obtaining and reviewing of audit evidence remotely proved more challenging and took longer than it would normally take to review. Our audit testing of information provided by the Council was completed remotely. The combination of remote working and the challenges of gaining an understanding of complex spreadsheets via video links impacted on the length of time to complete the audit. Notwithstanding these significant challenge, we completed the Council's audit by the statutory deadline.

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

**Grant Thornton UK LLP**  
**January 2021**

# Audit of the Financial Statements

## Our audit approach

### Materiality

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

We determined materiality for the audit of the Council's financial statements as follows:

- Financial statements: to be £16,500,000, which is 1.5% of the Council's gross revenue expenditure, and
- Pension Fund: to be £13,500,000, which is 1.0% of the Council's Pension Fund net assets.

We used these benchmarks as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

No specific other materiality levels were set during the course of our audit.

### The scope of our audit

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

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

We also read the remainder of the financial statements and Annual Governance Statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We read the accompanying pension fund financial statements were consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 and applicable law.

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

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

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

# Audit of the Financial Statements

## Significant Audit Risks

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

Risks identified in our Audit Plan (including Audit Plan Addendum)	Applicable to	How we responded to the risk	Findings and conclusions
<p><b>Covid – 19</b></p> <p>The global outbreak of the Covid -19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> <li>• Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</li> <li>• Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates</li> <li>• Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</li> <li>• Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul> <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	Council and Pension Fund	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> <li>• working with management to understand the implications the response to the Covid -19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported as a result of Covid-19 specifically. The draft financial statements were provided on 03 July 2020;</li> <li>• liaison with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert;</li> <li>• evaluating the adequacy of the disclosures in the financial statements that arose in light of the Covid -19 pandemic;</li> <li>• evaluating of whether sufficient audit evidence could be obtained through remote technology;</li> <li>• evaluating whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ;</li> <li>• evaluating management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;</li> <li>• discussion with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.</li> </ul> <p>The Council's property valuation specialists reported that valuations of land and buildings and investment properties were subject to 'material valuation uncertainty' as at 31 March 2020 as a result of the impact of the Covid -19 pandemic on market activity, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. Management appropriately included an uncertainty disclosure in Note 5 to the Council's financial statements, and have updated the disclosure to include a sensitivity analysis as a result of audit challenge.</p>	<p>Management updated the disclosures in Note 5 to the Pension Fund financial statements, and Note 5 to the Council financial statements, as appropriate.</p> <p>These disclosures were referred to in our auditor's reports for the Council and Pension Fund respectively, in emphasis of matter paragraphs. These references do not constitute qualifications of the audit opinions.</p>

# Audit of the Financial Statements

## Significant Audit Risks

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

Risks identified in our Audit Plan (including Audit Plan Addendum)	Applicable to	How we responded to the risk	Findings and conclusions
Covid – 19 continued	Council and Pension Fund	In addition, the fund managers for the Pension Fund's pooled property investments and private equity, infrastructure investments and diversified growth funds declared material valuation uncertainties in the valuation of these investments on the same basis. This impacts upon both the valuation of investments in the Pension Fund accounts and the valuation of the net defined benefit liability in the Council's balance sheet.	

# Audit of the Financial Statements

## Significant Audit Risks - continued

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

Risks identified in our Audit Plan (including Audit Plan Addendum)	Applicable to	How we responded to the risk	Findings and conclusions
<b>Management override of controls</b> Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. In particular journals, management estimates and transactions outside the course of business are areas susceptible to management override.	Council and Pension Fund	Audit procedures undertaken in response to the identified risk included: <ul style="list-style-type: none"> <li>• evaluation of the design effectiveness of management controls over journals</li> <li>• analysis of the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gaining an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> We recommended in our 2018/19 Audit Findings Report a review of systems access to your financial systems to ensure super user access is restricted to appropriate persons and they are not involved in day to day operations such as approving manual journals. This would ensure separation of duties as we would typically expect such journals to be posted by the finance team. We note that system administrators with super user rights continue to have the ability to post manual journals.	Our testing identified three manual journals posted by system administrators. We made recommendations to improve the journal procedures.

# Audit of the Financial Statements

## Significant Audit Risks - continued

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

Risks identified in our Audit Plan (including Audit Plan Addendum)	Applicable to	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings including council dwellings</b></p> <p>You revalue your assets as follows:</p> <ul style="list-style-type: none"> <li>operational land and buildings on a rolling three-yearly basis</li> <li>council dwellings based on a rolling five-year approach using underlying valuations of beacon properties; and</li> <li>Investment Properties on a yearly basis.</li> </ul> <p>These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved (£4 billion) and the sensitivity of the estimates to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the financial statements is not materially different from the current value, or the fair value (for surplus assets), at the financial statements date where a rolling programme is used.</p> <p>Operational land and buildings are valued as at 1 April, and are updated to 31 March with reference to market assumptions given by the valuer at the end of the financial year. Similarly, council dwellings are valued as at 1 April and are updated to 31 March with reference to assumptions provided by the valuer at year-end that reflect changes in stock and house price indices.</p> <p>As the in-year valuations themselves are not at year-end, the risk of material misstatement is further increased. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.</p>	Council	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> <li>evaluating management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>evaluating the competence, capabilities and objectivity of the valuation expert</li> <li>writing to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met</li> <li>engaging our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation.</li> <li>testing revaluations made during the year to see if they had been input correctly into the Council's asset register</li> <li>assessing the value of a sample of assets in relation to market rates for comparable properties.</li> <li>testing 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.</li> </ul> <p>As discussed under 'Covid -19' above, the Council's property valuation specialists reported that valuations of land and buildings, including investment properties and council dwellings, were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid -19 pandemic on market activity, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case.</p>	<p>Management updated the disclosure to include a sensitivity as a result of audit challenge.</p> <p>We referred to the disclosure in our auditor's report as an emphasis of matter paragraph. This did not constitute a qualification of the audit opinion.</p> <p>We experienced significant difficulties obtaining evidence to support fixed asset and investment property valuations and judgements recorded in the Council's accounts. We made recommendations in the Audit Findings report to support and improve the valuations and judgements recorded in the Council's accounts.</p>

# Audit of the Financial Statements

## Significant Audit Risks - continued

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

Risks identified in our Audit Plan (including Audit Plan Addendum)	Applicable to	How we responded to the risk	Findings and conclusions
<p><b>Accuracy and presentation of the Private Finance Initiative (PFI) liabilities and associated disclosures</b></p> <p>You have six schemes to be accounted for as PFI arrangements. These include two Housing PFI schemes, two Schools schemes, a Street Lighting scheme and a Care Homes scheme.</p> <p>The total liability relating to these schemes on the balance sheet was £135m as at 31 March 2019; the book value of associated assets was £514m.</p> <p>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.</p>	Council	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> <li>reviewing your PFI models and assumptions contained therein.</li> <li>comparing your PFI models to previous year to identify any changes.</li> <li>reviewing and test the output produced by your PFI models to generate the financial balances within the financial statements.</li> <li>reviewing the PFI disclosures to assess whether they are consistent with the Code and the International Accountancy Standard IFRIC12. We will check additional disclosures that you include within the financial statements to the PFI models.</li> </ul>	<p>Management advised us of a restatement of PPE Housing PFI scheme (Note 18) disclosure (building element) where the land value had been incorrectly included in the disclosure. We noted the PFI land, buildings and infrastructure within Note 18 was correctly stated and the error was limited to the additional PFI building disclosure only.</p>



# Audit of the Financial Statements

## Significant Audit Risks - continued

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

Risks identified in our Audit Plan (including Audit Plan Addendum)	Applicable to	How we responded to the risk	Findings and conclusions
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£916 million in the Council's balance sheet as at 31 March 2019) and the sensitivity of the estimate to changes in key assumptions.</p>	Council	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> <li>• updating our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluating of the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assessing the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• assessing of the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud and Guaranteed Minimum Pension cases.</li> <li>• assessing the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>• testing the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertaking 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; and</li> <li>• obtaining assurances from our audit of the Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul> <p>Material valuation uncertainties are reported for the valuation of private equity, infrastructure, diversified growth funds and pooled property investments in the Pension Fund accounts. Given that the majority of the Pension Fund's assets are attributable to the Council as the administering authority for the Fund, there is also a material uncertainty surrounding the valuation of the net defined benefit liability in the Council's balance sheet.</p>	<p>Management updated the disclosure (Note 5) to reflect the uncertainty. The disclosure was referred to in our auditor's report in an emphasis of matter paragraph. This did not constitute a qualification of the audit opinion.</p>

# Audit of the Financial Statements

## Significant Audit Risks - continued

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

Risks identified in our Audit Plan (including Audit Plan Addendum)	Applicable to	How we responded to the risk	Findings and conclusions
<p><b>Valuation of Level 3 Investments (Annual revaluation)</b></p> <p>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.</p> <p>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 (£67 million) and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020.</p>	Pension Fund	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> <li>evaluating management's processes for valuing Level 3 investments</li> <li>reviewing 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</li> <li>independently requesting year-end confirmations from investment managers and/or custodian(s)</li> <li>for a sample of investments, testing 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. Reconciling those values to the values at 31 March 2020 with reference to known movements in the intervening period</li> <li>in the absence of available audited accounts, evaluating the competence, capabilities and objectivity of the valuation expert</li> <li>testing revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register</li> <li>where available, reviewing investment manager service auditor report on design effectiveness of internal controls.</li> </ul> <p>Our audit procedures in this area is complete. Minor amendments were made to your Level 3 disclosures.</p>	No material issue was identified from the work performed in this area.

# Audit of the Financial Statements

## Audit opinion

We gave an unqualified opinion on the Council's financial statements on 30 November 2020.

## Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline, and provided agreed working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit. We agreed recommendations to support and improve the particularly the valuations and judgements supporting Property Plant and Equipment disclosures.

## Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Committee on 29 September 2020.

The Total Comprehensive Income and Expenditure was unchanged post audit, although there were non material uncertainties within the accounts due to the lack of evidence to support your property valuations. The Council advised us of a £152m material classification adjustment within the cashflow and related notes. The misclassification had no impact on the Cash and Cash equivalents balance at the 31 March 2020.

We identified unadjusted errors and uncertainties in both the Council and Pension Fund accounts which were not material. Management chose not to amend the accounts in respect of these errors. We raised and agreed recommendations for management as a result of our work.

We concluded that the other information published with the financial statements was consistent with our knowledge of your organisation and the financial statements we had audited.

## Annual Governance Statement and Narrative Report

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

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

## Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of Islington Council Pension Fund on 30 November 2020. We also reported the key issues from our audit of the pension fund accounts to the Council's Audit Committee on 29 September 2020.

We also gave an unqualified opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report on 13 January 2021.

## Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO. The work is substantially complete. The return will be completed once HM Treasury resolve issues they are experiencing with the Return.

## Certificate of closure of the audit

We are unable to certify that we have completed the audit of the financial statements of Islington Council until we complete our work on the WGA Return as mentioned above.

# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

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

## Key findings

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

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

## Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
<p><b>Medium Term Financial Planning</b></p> <p>Future funding uncertainty arising from the fairer funding review and longer-term settlement decisions has created financial uncertainty for the Council over the medium to long term. You have set a balanced budget for 2020/21 and your Medium Term Financial Plan for 2020 – 2023 identifies that you needed to close a 3 year budget gap of £10.6m to maintain financial balance. This assumes that you will deliver £23.6m savings under a revised savings programme.</p> <p>A recent review of the 2019/20 savings programme, intended to deliver £13.5m savings, indicates that 78% of savings are 'Green' rated, 5% are 'Amber' rated and 17% are 'Red' rated. Whilst the Amber and Red rated savings are being covered from one-off resources and underspends in the current financial year, there are risks around the ongoing delivery of these savings in future years.</p> <p>We reviewed your arrangements for setting the MTFP and examined underlying assumptions and dependencies for robustness. We examined in detail the savings plans aimed at reducing future funding gaps.</p>	<p><b>Conclusion</b></p> <p>The financial outlook for the Council remains challenging. During 2019/20 and in the period since the year-end, officers have put in place robust arrangements to ensure that risks and uncertainties are given due consideration in short and medium-term financial planning and the impact is effectively modelled to the best of their ability, drawing on external support where knowledge gaps or wider unknowns are identified.</p> <p>The outturn position for 2019/20 is broadly indicative that management's understanding of the key drivers for income and expenditure relating to core services and ability to understand impact of decisions taken is strong, and plans have been put in place for improvement to processes where significant variances were identified. The methodology through which management have identified pressures resulting from Covid-19, and the reporting structure to members, is considered effective.</p> <p>As a result of Government Funding and initiatives, prior year underspends and prudent financial planning including setting aside contingencies in the budget-setting process, the Council has sufficient resources in place to meet the expected shortfalls in income and increases in expenditure for 2020/21 arising from the Covid-19 pandemic and is not facing the kinds of challenging decisions in the immediate term around service cuts.</p> <p>However, in the medium term, the picture remains far more uncertain as the longer-lasting impact of the pandemic on the economy, in the context of wider financial risks beyond the control of officers or members, remain significant unknowns. Management are conscious of the need to remain responsive to emerging circumstances, whilst keeping sight of longer-term strategic goals which underpin future investment decisions from use of reserves.</p>

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
<p><b>Change and transformation programmes and governance</b></p> <p>You are embarking on some significant transformation programmes, including transformation of ICT under Islington Digital Services. Your plans are ambitious and complex and require robust arrangements. You are seeking to transform the way the organisation is working in terms of new technology, new structures, new ways of working and shifting focus to meet the needs of the diverse population which the organisation serves, whilst maintaining financial balance.</p>	<p><b>Conclusion</b></p> <p>Along with all organisations across the public and private sectors, you are considering how to take forward the benefits from the period of largely remote working which has been necessitated by the Covid-19 pandemic. This includes considerations such as flexible working, effective use of office space and the ways in which services are delivered, for example how remote communications with clients to support delivery of Children's Services, which has been necessitated by the Covid-19 pandemic, can be adapted and used going forward.</p> <p>You remain in a period of significant change with many plans in place for the future. Designing resilient, future-fit service delivery models will be more crucial than ever given the economic uncertainties which the Council now faces over the medium term and the pressures being faced by local businesses and residents. Change and transformation programmes have been adversely impacted by covid-19 but you recognise the importance of continuing to identify and reprofile savings plans. It will also be essential that the anticipated benefits and desired outcomes from transformation and cultural change are clearly articulated and measurable, to enable you to demonstrate success against the plans and identify, and take corrective action, at an early stage should the risks to success become prohibitive. The Council's executive leadership are conscious of this and have to date maintained resources set aside to invest in change and transformation, despite the current crisis.</p>

# A. Reports issued and fees

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

## Reports issued

Report	Date issued
Audit Plan (Accounts and Pension Fund)	03 March 2020
Audit Plan Addendum	16 April 2020
Audit Findings Report	29 September 2020
Auditor's opinion on Accounts and Pension Fund	30 November 2020
Auditor's value for money conclusion	30 November 2020
Auditor's opinion on consistency of the pension fund financial statements with Pension Fund Annual Report	13 January 2021
WGA Assurance Statement	Work ongoing
Annual Audit Letter	20 January 2021
Teachers' Pension claim	Work ongoing
Pooling Housing Receipts claim	Work ongoing
Housing Benefit Grant Certification and report	Work ongoing

## Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	181,497	235,900	156,179
Audit of Pension Fund	25,000	28,750	16,170
Housing Benefit Grant Certification and report	20,000	TBC	28,226
<b>Total fees</b>	<b>226,497</b>	<b>264,650</b>	<b>200,575</b>

# A. Reports issued and fees continued

## Audit fee variation

As outlined in our Audit Plan, the 2019-20 scale fee published by PSAA (accounts £156,179, Pension fund £16,170) assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table. Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes revisiting planning, management's assumptions and estimates, financial resilience assessment and remote working.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment

Audit area	Financial Accounts	Pension fund	Rationale for fee variation
Scale fee	£156,179	£16,170	This is this is the PSAA scale fee and is unchanged from 2018/19
Increased challenge and depth of work	£5,000	£5,000	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity
Materiality	£4,500	-	As outlined earlier in the Plan, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling, increasing the volume and scope of our testing and reporting to those charged with governance, as well as providing you with additional assurance in respect of the audit.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	£3,500	£3,830	The Financial Reporting Council (FRC) has specifically highlighted that the quality and extent of work around IAS 19 valuations has to increase across local audit. We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	£9,400	-	The Financial Reporting Council (FRC) has specifically highlighted that the quality and extent of work around PPE and Investment Property valuations has to increase across local audit. We have responded by engaging our own audit expert (Gerald Eve) and will increase the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. This fee increase includes an estimate for the fee payable to the auditor's expert. We estimate that the cost of the auditor's expert will be in the region of £5,000.
Accounting developments	£2,500	-	The Council will be required to disclose in its 2019/20 financial statements the expected initial impact of the implementation of new accounting standards and disclosures. This will require additional audit procedures.
Impact of Covid	£29,821	£3,750	See following page
Additional work due to PPE evidence difficulties	£25,000	-	As reported on page 9
<b>Revised scale fee (to be approved by PSAA)</b>	<b>£235,900</b>	<b>£28,750</b>	



## A. Reports issued and fees continued

Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.
- Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management.
- Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260.
- Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.

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

Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

## A. Reports issued and fees continued

### Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	
• Certification of Housing Capital Receipts Grant	3,000
• Certification of Teachers Pensions Return	5,000
<b>Non-Audit related services</b>	
CFO Insights Subscription	10,000

### Non- audit services

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

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



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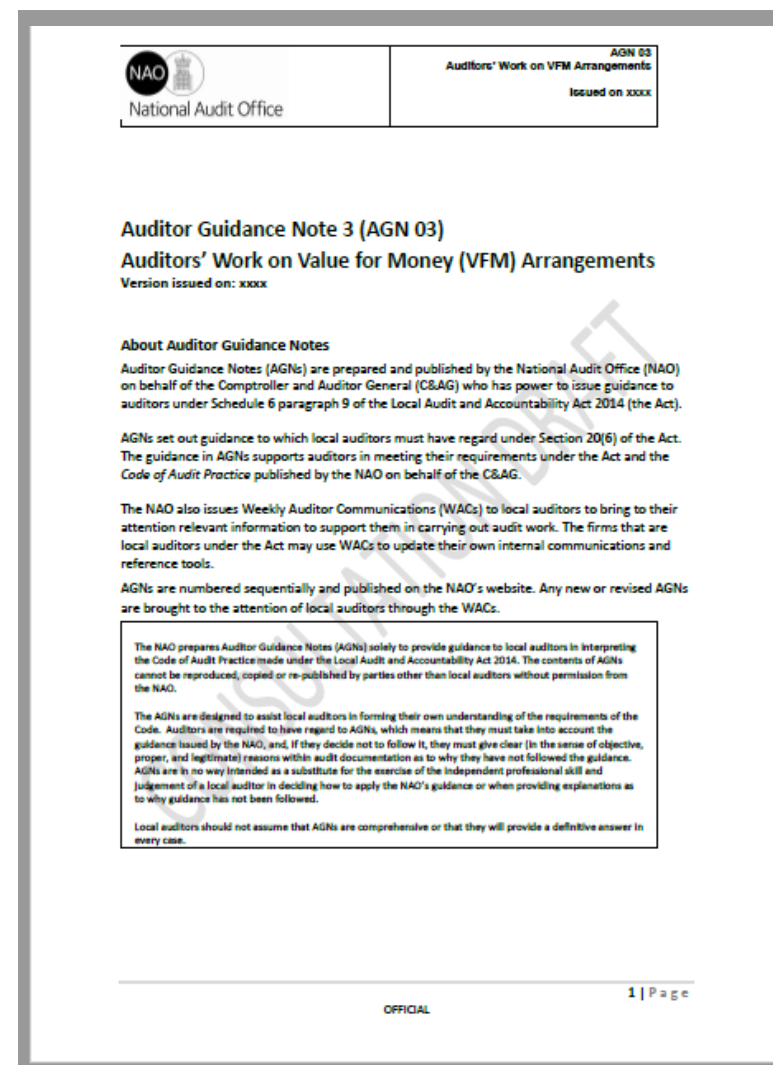
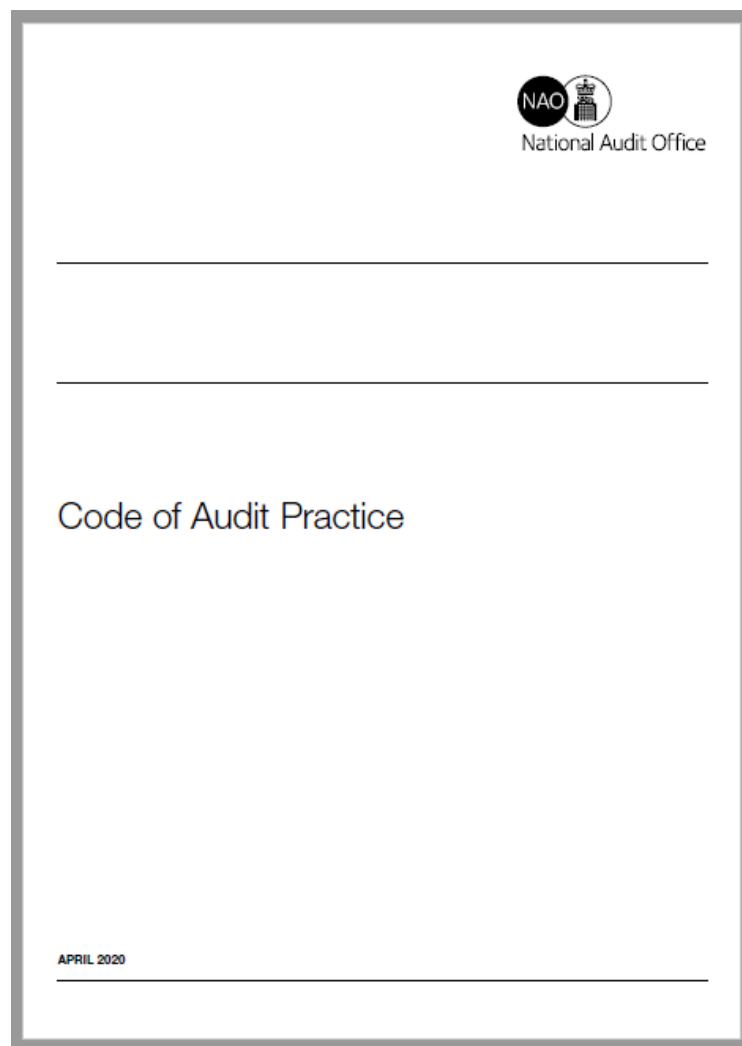
# **Value for money Update for Audit Committee on new arrangements 2020-21**

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# How have the NAO changed value for money work ?

Page 38



# How is value for money work changing ?



# The three criteria have changed...

~~Informed  
decision making~~

~~Sustainable  
resource  
deployment~~

~~Working with  
partners and  
other third  
parties~~

**Governance**

**Financial  
sustainability**

**Improving  
economy,  
efficiency and  
effectiveness**

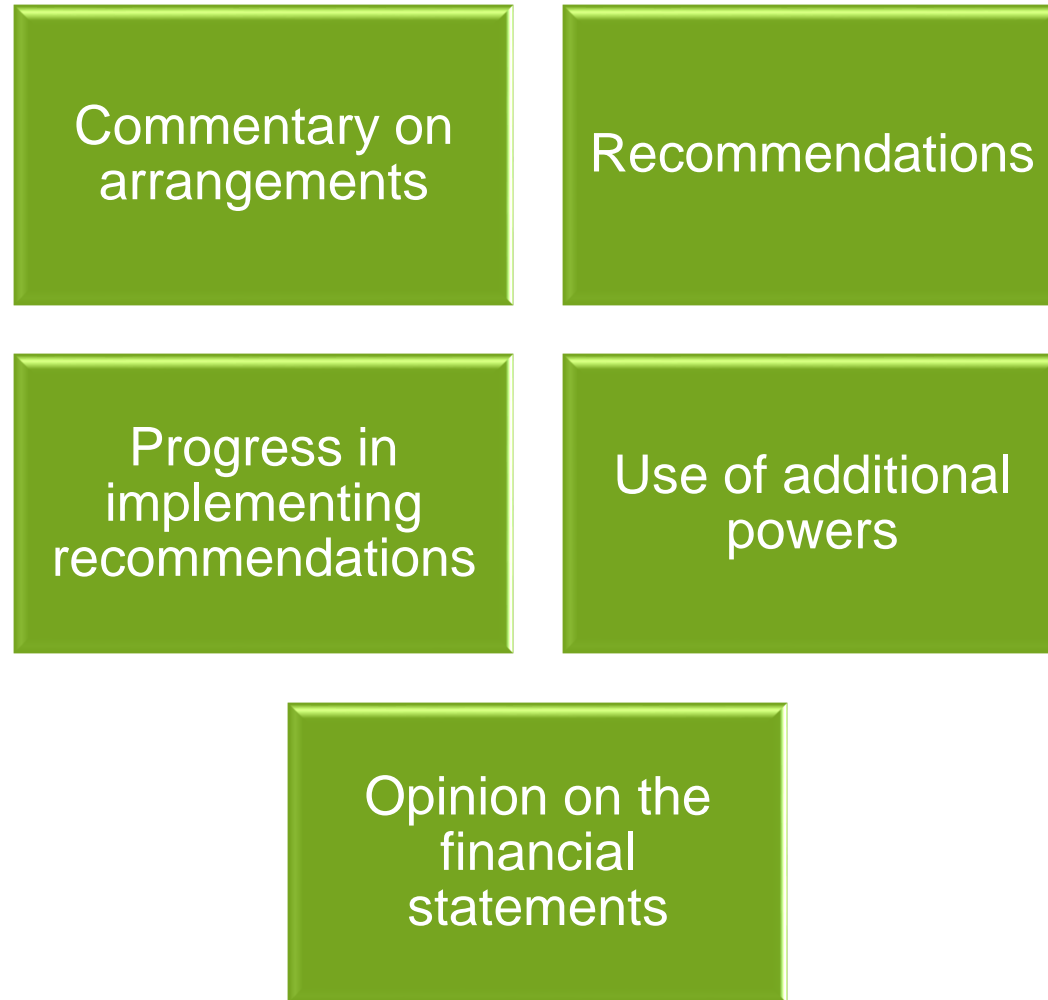




# A key change in reporting...

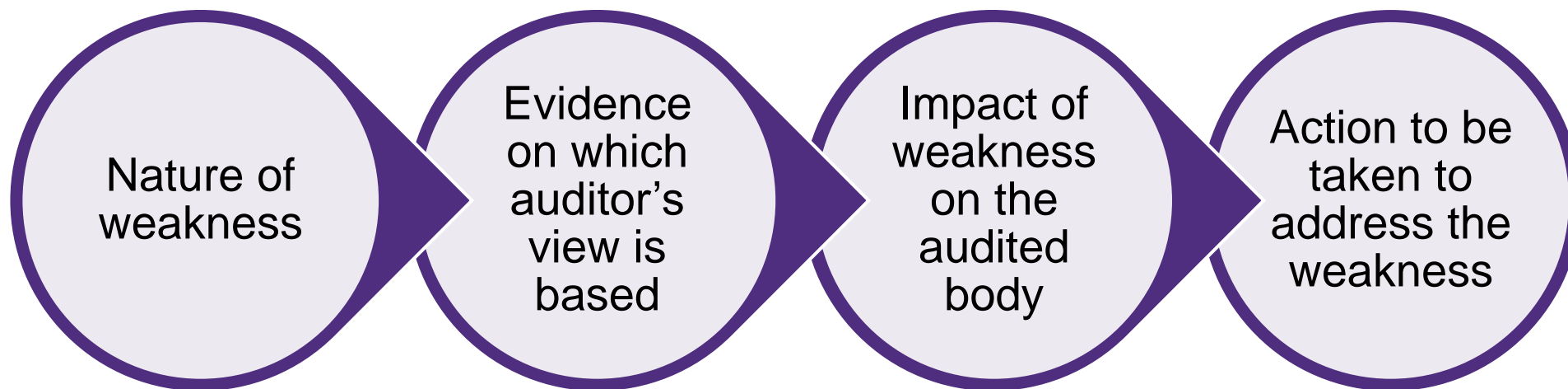


# So what is in an Auditor's Annual Report ?



# Recommendations

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# Practical implications

The new approach is more complex, more involved and will lead to better quality working achieving more impact. Before beginning work, we will discuss with you:

- Timing
- Resourcing
- Fees

# Q&A

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# Islington Council and Islington Council Pension Fund Audit Plan

**Year ending 31 March 2021**

March 2021

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## Your key Grant Thornton team members are:

### Paul Grady

Key Audit Partner

T 020 7728 2439

E Paul.D.Grady@uk.gt.com

### Ade Oyerinde

Senior Manager

T 020 7728 3332

E Ade.O.Oyerinde@uk.gt.com

### Nick J Halliwell

Manager

T 020 7728 2469

E Nick.J.Halliwell@uk.gt.com

### Lydia Smith

Incharge auditor

T 020 7865 2476

E Lydia.H.Smith@uk.gt.com

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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.

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# Key matters

## Factors

## Our response

### Finances

The Council's financial position over the coming years is increasingly challenging. The pandemic has resulted in additional spending pressures estimated at £16 million and a reduction to the Council's income streams estimated at £36 million. In the short term the government is providing financial support to meet some of these pressures. The current known allocation from central government to the Council remains at £26 million and the Council also expects to receive around £16 million as part of the government's scheme to reimburse a proportion of local authorities' loss in non-commercial fees and charges due to the pandemic.

The 2020-21 forecast position as at Quarter 3 on service budgets is breakeven, and assumes the receipt of the £16 million compensation referred to above. The impact of the pandemic continues to be the key driver for the overspend within departments, including unanticipated costs for new service provision in dealing with the health crisis and the impact on income generation as a result of the national lockdown measures and the economic impact.

The future of local authority funding remains uncertain as new Local Government funding arrangements that were meant to be in place by April 2020 have been delayed until at least 2022. The Council has an anticipated budget shortfall of £34.2 million over the next three years to fund planned spending levels. The Council is proposing a balanced budget for 2021-22 which includes assumed savings of £25.2 million across directorates together with a Council Tax increase of 4.99 per cent, including the 3 per cent increase in respect of the adult social care precept.

From 2021/22 and over the following three years, the Council plans to invest £539.2 million in the borough's roads, infrastructure, the environment and buildings. This includes £302 million for the new build programme and £135 million to invest in major works and improvement programmes on the Council's existing housing stock.

### Accounting and auditing developments

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM) There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Although the implementation of IFRS 16 has been delayed, audited bodies still need to include disclosures in their 2020/21 statements to comply with the requirements of IAS 8. As a minimum, we would expect the Council to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, the accounts should state this.

In the prior year the Council's valuer reported a material uncertainty regarding the valuations of properties due to the Covid 19 pandemic. In addition, there was a material uncertainty in relation to the valuation of the pooled property funds which impacted both the Council's and Pension Funds position. We will monitor the position for the 31 March 2021 valuations.

- We will consider your arrangements for managing and reporting your financial resources and assessing your financial resilience as part of our audit in completing our Value for Money work.
- Where any actions have been agreed in respect of matters identified through previous audit work, either on the financial statements or in respect of work on arrangements to secure VFM, we will assess the progress against previously agreed recommendations.
- Members of the finance team attended our annual final accounts workshop during February, hosted by our highly experienced public sector assurance team as they help you prepare for your 2021 financial statements audit by highlighting potential risk areas and providing you with practical advice
- We will continue to provide you with sector updates via our Audit Committee and Audit Committee (Advisory) updates.
- We will liaise with the Council's valuer and Pension Fund managers to clarify any potential material uncertainties in 2020-21.

# Key matters (continued)

## Factors

## Our response

### Impact of Covid 19 pandemic

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the Council's normal operations. Throughout the pandemic the Council has kept critical services going at the same time as supporting the Covid 19 national effort. The Council has delivered food parcels, accommodated rough sleepers, boosted hardship funds, made welfare calls to vulnerable people, assisted tenants struggling to pay rents and service charges, provided further support to residents in receipt of Council Tax Support, replenished food banks and provided more parking permits for key workers throughout the pandemic. The Council has also assisted with testing programmes and vaccine administration by helping with site preparation and logistics and in communications and engagement with local communities to encourage uptake of the vaccine.

Since the start of the pandemic, c£69.3 million has been distributed to businesses in Islington to help them offset the impacts of Covid-19. Grants have been made available through a number of Government schemes, such as the business rates grants launched in spring 2020, and the Local Restrictions Support Scheme which was introduced with the tier system in late autumn 2020. The Council has also delivered the 2020/21 business rates holidays promised by the government.

The Council is now considering how to take forward the benefits from remote working necessitated by the pandemic. This includes further use of flexible working, effective use of office space and reviewing service delivery models to ensure that residents and local communities continue to receive cost effective, efficient quality services.

### Change and Transformation

The Council continues to undergo extensive change and transformation. Work continues on the Islington Digital Services programme, intended to transform the Council's ICT Service to better enable it to support delivery of the Council's Corporate Objectives. The outcomes intended for the new IT structure are ambitious but intended to be achievable within the Council's financial and resourcing constraints. The Council is also investing in a cleaner and greener borough, with the ambition to be a net zero-carbon borough within a decade. A number of programmes are underway including increasing and updating the Council's electric charging infrastructure, replacing its fleet of electric vehicles and building new homes that are carbon neutral.

### Pension Fund developments

The Pension Fund investments continue to recover from the pandemic shock. At the start of the year, the Council paid in advance for the year a deficit lump sum of £26.9 million and made advance employer contributions of £25.2 million. By paying the employer contribution in advance, the Council was able to benefit from a discount of 2.04% which equates to a saving of £0.53 million.

- We will consider your arrangements for managing the impact of the Covid-19 pandemic as part of our Value for Money work.

- We will consider your arrangements for change and transformation as part of our audit in completing our Value for Money work

- We will undertake audit procedures to ensure the Pension Fund's deficit payments and employer contributions are fairly stated within the financial statements

# Introduction and headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of ('the Council') and the Islington Council Pension Fund (the Pension Fund) for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council and Pension Fund. We draw your attention to both of these documents.

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Committee and Audit Committee (Advisory)); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee and Audit Committee (Advisory) of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

### Council

- The risk that the valuation of land and buildings including council dwellings in the accounts are materially misstated.
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated.
- The risk of management override of controls.
- The risk that the accuracy and presentation of the Private Finance Initiative (PFI) is materially misstated.
- The risk that incomplete or inaccurate financial information is transferred to the new income system.

### Pension Fund

- The risk of management override of controls.
- The risk that the valuation of level 3 investments in the accounts is materially misstated.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

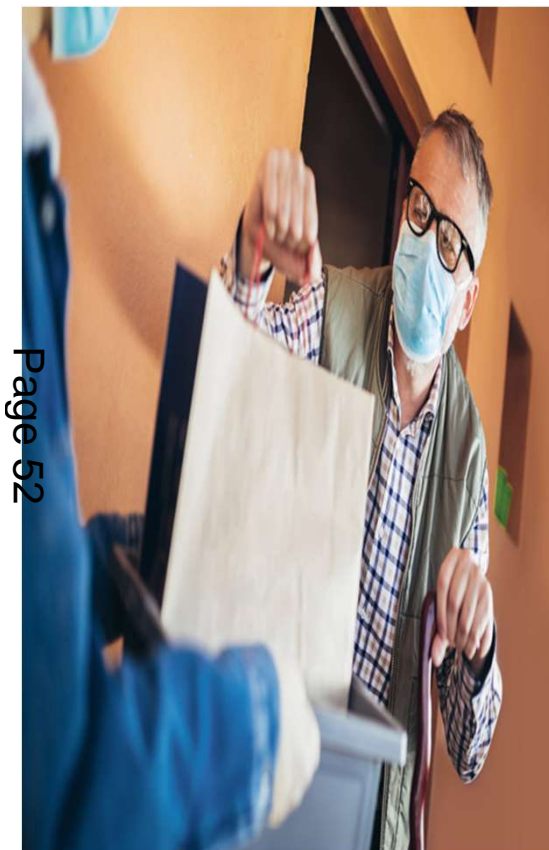
### Council

We have determined planning materiality to be £16.6m for the Council (PY£16.5m), which equates to approximately 1.5% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.83m (PY £0.8m).

### Pension Fund

We have determined materiality at the planning stage of our audit to be £13.5m (PY £13.5m) for the Pension Fund, which equates to approximately 1% of the 2019/20 net assets. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.68m (PY £0.68m).

# Introduction and headlines (continued)



## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

- The Council's arrangements in response to the Covid-19 pandemic and capitalising on the benefits from the different models of service delivery and ways of working brought about by the pandemic.
- The Council's arrangements for setting the Medium Term Financial Plan and achieving financial sustainability.
- The Council's arrangements for service transformation and cultural change.
- The Council's arrangements for working with its key partners to deliver services efficiently and improve the lives of local residents.

## Audit logistics

Our interim visit will take place in March 2021 and our final visit will take place between July – September 2021. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £xxxxx (PY: £235,900) for the Council and £xxxxx (PY:£28,750) for the Pension Fund, subject to the Council and Pension Fund delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

# Significant risks identified

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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Council and Pension Fund	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated 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.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the Council and Pension Fund revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• There is little incentive to manipulate revenue recognition.</li> <li>• Opportunities to manipulate revenue recognition are very limited.</li> <li>• The culture and ethical frameworks of local authorities, including that of Islington Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore, we do not consider this to be a significant risk at for the Islington Council and Islington Council Pension Fund.</p>	
Management over-ride of controls	Council and Pension Fund	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, 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.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Evaluate the design effectiveness of management controls over journals.</li> <li>• Analyse the journals listing and determine the criteria for selecting high risk unusual journals.</li> <li>• Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.</li> <li>• Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence.</li> <li>• Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>



# Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings including Council Dwellings	Council	<p>The Council revalues its land and buildings, Heritage Assets and Investment Property on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets/Investment properties) 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 billion) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management has engaged the services of a valuer to estimate the current value as at 31 March 2021. We identified the valuation of land and buildings, Council Dwellings, heritage assets and investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work.</li> <li>Evaluate the competence, capabilities and objectivity of the valuation expert.</li> <li>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.</li> <li>Engage our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation.</li> <li>Test revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements.</li> <li>Assess the value of a sample of assets in relation to market rates for comparable properties.</li> <li>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.</li> </ul>
Valuation of the pension fund net liability	Council	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£911 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls.</li> <li>Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work.</li> <li>Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation.</li> <li>Assess the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud, Goodwin and Guaranteed Minimum Pension cases.</li> <li>Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability.</li> <li>Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary.</li> <li>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.</li> </ul>

# Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Accuracy and presentation of the Private Finance Initiative (PFI) liabilities and associated disclosures	Council	<p>You have six schemes to be accounted for as PFI arrangements. These include two Housing PFI schemes, two Schools schemes, a Street Lighting scheme and a Care Homes scheme.</p> <p>The total liability relating to these schemes on the balance sheet was £111m as at 31 March 2020; the book value of associated assets was £374m.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>review your PFI models and assumptions contained therein.</li> <li>compare your PFI models to previous year to identify any changes.</li> <li>review and test the output produced by your PFI models to generate the financial balances within the financial statements.</li> <li>review the PFI disclosures to assess whether they are consistent with International Accountancy Standard IFRIC12. We will check additional disclosures that you include within the financial statements to the PFI models.</li> </ul>
Incomplete or inaccurate financial information transferred to the new income system	Council	<p>During the year, the Council replaced it's income system (Paris) with another (Civica). This move will result in transitioning data for billing and processing income. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of any data transfer from the previous system.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Complete an information technology (IT) environment review to document, evaluate and test the IT controls operating within the new income system.</li> <li>Map the closing balances from the old system to the opening balance position in the new income system to ensure accuracy and completeness of the financial information.</li> <li>Sample test information from the old system to agree to the new system, and from the new system to the old system.</li> <li>Documentation of controls in place around the data transfer, including liaising with Internal Audit to understand their work on this.</li> </ul>

# Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 Investments (Annual revaluation)	Pension Fund	<p>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.</p> <p>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 (£87 million) and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2021.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Evaluate management's processes for valuing Level 3 investments.</li> <li>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.</li> <li>Independently request year-end confirmations from investment managers and the custodian.</li> <li>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 2021 with reference to known movements in the intervening period.</li> <li>In the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert.</li> <li>Where available review investment manager service auditor report on design and operating effectiveness of internal controls.</li> </ul>



# Other risks identified

Risk	Risk relates 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	<p>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.</p> <p>We identified completeness of non- pay expenditure and associated short-term creditors as a risk requiring particular audit attention.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness, including the use of de minimis level set.</li> <li>Gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls.</li> <li>Obtain and test a listing of non-pay payments made in April and May 2021 to ensure that they have been charged to the appropriate year.</li> </ul>
Income from water charges and agency agreement with Thames Water	Council	<p>In 2019/20, the Council disclosed it had an agency agreement with Thames Water whereby the council collects the payment of water bills from its HRA tenants on behalf of Thames Water. The Council received income of £1.473m for this arrangement in 2019/20 (£1.473m in 2018/19). In December 2019, Kingston-Upon-Thames lost a case brought against it by a tenant who held that their contract was for resale of water under which the recovery of commission was limited by law. The key issue in the case was whether the Council was acting as an 'agent' for Thames Water or a 'customer' in which case it was reselling water services and should have passed savings onto tenants. In October 2020, the Royal Borough of Kingston-Upon-Thames lost its appeal to the Court of Appeal over the High Court ruling. The Council believed that there are no circumstances whereby any of the income generated under this agreement is repayable to tenants the judgement that at this time. The Council is taking further advise to identify if a liability exists.</p> <p>We identified the completeness of short- and long-term provisions recognised and disclosure of contingent liabilities as a risk requiring particular audit attention.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Review disclosure and classification of short- and long-term provisions and ensure that they meet the requirements of the CIPFA Code and IAS 37.</li> <li>Discuss with the Council's legal advisors, review committee minutes and other sources of information to gain assurance over the completeness of provisions recognised.</li> </ul>

# Other risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Actuarial Present Value of Promised Retirement Benefits	Pension Fund	<p>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.</p> <p>The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£2.3 billion) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>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.</li> <li>Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work.</li> <li>Assess the competence, capabilities and objectivity of the actuary who carried out the Fund's valuation.</li> <li>Assess the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability.</li> <li>Test the consistency of disclosures with the actuarial report from the actuary.</li> <li>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.</li> </ul>
Valuation of Level 2 Investments	Pension Fund	<p>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.</p> <p>We therefore identified the valuation of the Fund's Level 2 investments as a risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Gain an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls.</li> <li>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.</li> <li>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.</li> <li>Independently request year-end confirmations from investment managers and custodian.</li> <li>Review investment manager service auditor report on design effectiveness of internal controls.</li> </ul>

# Other risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Contributions	Pension Fund	<p>Contributions from employers and employees' represents a significant percentage of the Fund's revenue.</p> <p>We therefore identified the completeness and accuracy of the transfer of contributions as a risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Evaluate the Fund's accounting policy for recognition of contributions for appropriateness.</li> <li>Gain an understanding of the Fund's system for accounting for contribution income and evaluate the design effectiveness of the associated controls.</li> <li>Agree changes in Admitted/Scheduled bodies to supporting documentation and agree total contributions for each employer to employer contributions reports.</li> <li>Test a sample of contributions to source data to gain assurance over their accuracy and occurrence.</li> <li>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.</li> </ul>
Pension Benefits Payable	Pension Fund	<p>Pension benefits payable represents a significant percentage of the Fund's expenditure.</p> <p>We therefore identified the completeness, accuracy and occurrence of the transfer of pension benefits payable as a risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Evaluate the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness.</li> <li>Gain an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls.</li> <li>Test a sample of lump sums and associated individual pensions in payment by reference to member files.</li> <li>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.</li> </ul>

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

# Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. We made several significant recommendations in our 2019/20 audit in relation to the Council's estimation processes, three of which were rated RED.

## Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee and Audit Committee (Advisory) members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



# Accounting estimates and related disclosures (continued)

## Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings, investment properties and heritage assets
- Depreciation
- Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services
- Provision for Business Rates Appeals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments

## The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



### Estimation uncertainty

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Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

### Planning enquiries

As part of our planning risk assessment procedures we have sent inquiries to the management that will be presented at the Audit Committee and Audit Committee (Advisory) as part of our Informing the audit risk assessment report. We would appreciate a prompt response to these enquires in due course.

### Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540\\_Revised-December-2018\\_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)



# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.

We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.

We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.

We consider our other duties under legislation and the Code, as and when required, including:

- giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
- issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
- application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
- issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

## Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report.

# Materiality

## The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

### Council

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £16.6m (PY £16.5m) for the Council, which equates to approximately 1.5% of the Council's prior year gross expenditure for the year.

### Pension Fund

We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £13.5m (PY £13.5m) for the Pension Fund, which equates to approximately 1% of the Pension Fund's prior year net assets.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## Matters we will report to the Audit Committee and Audit Committee (Advisory)

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.83m (PY £0.8m). For the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.68m (PY £0.68m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

## Council prior year gross expenditure



## Materiality

£16.6m  
Council financial statements materiality (PY: £16.5m)

£0.83m  
Council misstatements reported to the Audit Committee and Audit Committee (Advisory) (PY: £0.8m)

## Pension Fund prior year net assets



## Materiality

£13.5m  
Council financial statements materiality (PY: £13.5m)

£0.68m  
Council misstatements reported to the Audit Committee and Audit Committee (Advisory) (PY: £0.68m)



# Value for Money arrangements

## Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

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 three specified reporting criteria. These are as set out below:



### 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



# Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. Whilst our planning assessment did not identify any significant weaknesses in arrangements at this stage, we have highlighted further key areas of focus which are listed below. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

## Key areas of focus

The Local Government operating environment has been significantly impacted by the pandemic and the future funding regime remains uncertain and this lack of certainty will impact on the Council's ability for long term planning. Our Value for Money work will primarily focus on the aspects listed below, but may increase in scope as further work is performed

- The Council's arrangements in response to the Covid-19 pandemic and capitalising on the benefits from the different models of service delivery and ways of working brought about by the pandemic.
- The Council's arrangements for setting the Medium Term Financial Plan and achieving financial sustainability.
- The Council's arrangements for service transformation and cultural change.
- The Council's arrangements for working with its key partners to deliver services efficiently and improve the lives of local residents.

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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

# Audit logistics and team



## Paul Grady, Key Audit Partner

Paul is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Audit Committee, the Chief Executive and the Corporate Director Resources. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Paul will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit work. Paul will sign your audit opinion.



## Ade Oyerinde, Senior Manager

Ade is responsible for overall audit management, quality assurance of audit work and output, and liaison with the Audit Committee, CDR and finance team. He will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable. Ade will be responsible for the delivery of our work on your arrangements in place to secure value for money.



## Nick Halliwell, Audit Manager

Nick will support Ade in his work to ensure the early delivery of audit testing and agreement of accounting issues. He will attend Audit and Committee and Audit Committee (Advisory) meetings and draft reports, ensuring they remain clear, concise and understandable to all. He will also carry out first reviews of the team's work and also oversee the review of the Whole of Government Accounts



## Lydia Smith, Audit Incharge

Lydia is responsible for management and delivery of audit fieldwork, including both interim and final accounts work. She will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management.

## Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- Produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement.
- Ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- Ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing. These reports should be cleansed so that reversing transactions are removed.
- Provide debtor and creditor listings that are the balances outstanding at the year end
- Ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- The Council's experts provide clarity and detail over their work to enable auditors to challenge the accounting and valuation judgements used.
- Respond promptly and adequately to audit queries.

# Audit fees

PSAA awarded a contract of audit for Islington Council and the Islington Council Pension Fund to begin with effect from 2018/19. The scale fee in the contract was £156,179 for the Council audit and £16,170 for the Pension Fund. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

The 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £xxxxx (xx%). This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISAs issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been agreed with the Executive Director of Resources

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Council Audit	£156,179	£235,900	£xxxxx
Pension Fund audit	£16,170	£28,750	£xxxxx
Total audit fees (excluding VAT)	£172,349	£264,650	£xxxxx

## Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

## Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

# Audit fees – detailed analysis Council

Scale fee published by PSAA	£156,179
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£12,000
Enhanced audit procedures for Property, Plant and Equipment including additional work at accounts	£34,400
Enhanced audit procedures for Pensions	£3,500
Covid-19 impact	£29,821
<b>Audit fee 2019/20</b>	<b>£235,900</b>
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£xxxxx
Increased audit requirements of revised ISAs	£xxxxx
Work on the migration to the new income system	£xxxxx
<i>Proposed increase to agreed 2019/20 fee</i>	<i>£xxxxx</i>
<b>Total audit fees (excluding VAT)</b>	<b>£xxxxx</b>

# Audit fees – detailed analysis Pension Fund

Scale fee published by PSAA	£16,170
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£5,000
Enhanced audit procedures for Level 3 investments	£3,830
Covid-19 impact	£3,750
Audit fee 2019/20	£28,750
<i>New issues for 2020/21</i>	
Additional work on Direct Property investments	£xxxxx
Increased audit requirements of revised ISAs	£xxxxx
<i>Proposed increase to agreed 2019/20 fee</i>	£xxxxx
Total audit fees (excluding VAT)	£xxxxx



# Independence and non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 (Revised 2019) 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 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

## Other services

The other services provided by Grant Thornton are set out in the table opposite

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
<b>Audit related</b>			
Certification of Housing Benefit subsidy claim	20,000	Self-Interest (because this is a recurring fee)	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 low in comparison to the total fee for the audit 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.
Agreed upon Procedures relating to the Pooling of Housing Capital Receipts	5,000	As above	As above
Agreed upon Procedures relating to the Teachers' Pensions end of year certificate	5,000	As above	As above
<b>Non-audit related</b>			
CFO insights subscription	10,000	As above	As above

# Appendix 1: Revised Auditor Standards and application guidance

## FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓



# Appendix 1: Revised Auditor Standards and application guidance (continued)

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✓
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	✓
ISA (UK) 500 – Audit Evidence	January 2020	✓
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✓
ISA (UK) 570 – Going Concern	September 2019	✓
ISA (UK) 580 – Written Representations	January 2020	✓
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✓
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	✓
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✓

# Appendix 1: Revised Auditor Standards and application guidance (continued)

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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## General Enquiries of Management – Islington Council and Islington Council Pension Fund

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	The single biggest event that has affected the financial statements continues to be Covid-19.
2. Have you considered the appropriateness of the accounting policies adopted by Islington Council and Islington Council Pension Fund?  Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Yes, we have considered the appropriateness and have had no reason to change or adopt new accounting policies.
3. Is there any use of financial instruments, including derivatives?	No
4. Are you aware of any significant transactions outside the normal course of the business?	Covid-19 has resulted in numerous additional transactions as per 1 above. Some of these have been administering an activity on behalf of Government such as the business grants schemes in very short timescales.
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	Apart from the COVID 19 impact, no.
6. Are you aware of any guarantee contracts?	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Islington Council and Islington Council Pension Fund during the year? Please indicate where they are working on open litigation or contingencies from prior years.	<u>Islington council</u> 1.Sharpe Pritchard Leisure management contract – deed of variations dealing with impact of Covid-19. 2 DAC Beachcroft and Browne Jacobson – panel solicitors for non-recent child abuse and other historic civil litigation cases, and specifically DAC Beachcroft advising on the draft non-recent child abuse support payment scheme. 3 Kennedys Claim on behalf of the council arising out of fire at a leisure centre 4 Pinsent Masons Representing council in relation to proposed development at Finsbury Square 5 Bevan Brittan Expiry of PFI street property 2 contract  <u>Islington council pension fund</u> None
9. Have any of the Islington Council and Islington Council Pension Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No

10. Can you provide details of other advisors consulted during the year and the issues on which they were consulted?	N/A
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## Fraud Risk Assessment – Islington Council and Islington Council Pension Fund

Question	Management response
<p>1. Have Islington Council and Islington Council Pension Fund assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Authority and Pension Fund's risk management processes link to financial reporting?</p>	<p>Delivery of the 20/21 audit plan did not yield material findings in relation to fraud. Final Internal Audit reports, relating to planned audit delivery, have been routinely shared with External Audit throughout 20/21. External Audit has also been sighted of high priority Internal Audit recommendations as part of the bi-annual Audit Committee reporting process.</p> <p>The Council's Principal Risk Report (PRR), which was presented to Audit Committee in September 2020 and January 2021 (and shared with External Audit as part of Audit Committee papers), includes a principal risk in relation to serious fraudulent activity. Fraud was assessed as moderate risk indicating the inherent risk of fraud at a local authority. The PRR also outlines mitigating actions.</p> <p>The major risks are explained within the statement of accounts. The individual issues are considered as part of the financial monitoring preparation and also as part of the consideration of the required balances needed as part of budget setting.</p>
2. What have you determined to be the classes of accounts, transactions, and disclosures most at risk to fraud?	<p>Delivery of the 20/21 audit plan did not yield material findings in relation to fraud. The Council continues to operate without purchase orders, which is a key control in an accounts payable process.</p> <p>In 20/21 there was a risk of fraud relating to the payments of grants/dispensations as a result of the pandemic. Controls were put in place by the Revenues team, ahead of payment of grants. It is anticipated that the upcoming National Fraud Initiative will provide potential data of potentially fraudulent payments for further consideration/investigation.</p>
<p>3. Are you aware of any instances of actual, suspected, or alleged fraud, errors, or other irregularities either within Islington Council and Islington Council Pension Fund as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>A number of investigations have taken place in the 20/21 year and investigation progress/outcomes were reported to Audit Committee in May 2020, August 2020, September 2020 and November 2020; with a further report tabled for March 2021. Audit Committee papers, including the fraud and whistleblowing reports, will have been seen by Grant Thornton in their capacity as external auditors.</p> <p>In respect of financial loss, the 2019/20 Annual Fraud Report presented to Audit Committee in September 2020, highlighted a case of theft of £755.00 which was investigated, but no suspect could be identified. The 2019/20 Annual Fraud Report also stated that Housing Investigations reported that the team had undertaken 3 prosecutions and recovered 47 properties. 8 right to buy applications were cancelled, saving the Council £823,500 in discounts had the properties been sold.</p> <p>The Council has a robust anti-fraud and corruption strategy and suspected/alleged fraud is investigated by qualified investigators employed by the Council.</p> <p>The Council's Principal Risk Report (PRR), considers the Council's principal risks including the risk of fraud. The PRR is reviewed, updated and approved at Departmental Management Teams and the Corporate Management Board before being presented to Audit Committee.</p> <p>In relation to specific fraud risks identified following individual investigations, an investigation report (with control recommendations where appropriate) is shared with management.</p>

<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Islington Council and Islington Council Pension Fund where fraud is more likely to occur?</p>	<p>Delivery of the 20/21 audit plan did not yield material findings in relation to fraud. As part of Internal Audit annual and interim reports, high priority recommendations arising from Internal Audit reviews that had attracted a No or Limited assurance rating, were reported to Audit Committee. These high priority recommendations will have been seen by Grant Thornton in their capacity as external auditors via the September 2020 and January 2021 Audit Committee updates on the delivery of the audit plan (external audit also receive copies of final Internal Audit reports relating to planned delivery). Internal Audit have received satisfactory management responses to audit recommendations in 20/21 and follow up activity, to assess the level of implementation of recommendations, will take place in 21/22.</p> <p>The Council continues to operate without purchase orders, which is a key control in an accounts payable process. This specific weakness will be addressed during the 21/22 financial year. Specific fraud risks have been shared with the Audit Committee and External Auditor via the September 2020 annual fraud report and biannual whistleblowing report 2021.</p> <p>In 20/21 there was a risk of fraud relating to the payments of grants/dispensations as a result of the pandemic. Controls were put in place by the Revenues team and the team administering the discretionary grants, ahead of payment of grants. It is anticipated that the upcoming National Fraud Initiative will provide potential data of potentially fraudulent payments for further consideration/investigation.</p> <p>In relation to inherent fraud risk, locations that operate outside the Council's standard control framework or that are geographically separate from the Council inherently have an increased risk of fraud e.g. Voluntary Sector Organisations, schools and Tenant Management Organisations. There is also a greater inherent risk of fraud in those areas handling financial transactions, and the potential impact of fraud is greater in areas handling high value transactions (e.g. Treasury).</p>
<p>5. What processes do Islington Council and Islington Council Pension Fund have in place to identify and respond to risks of fraud?</p>	<p>The Council has a robust anti-fraud strategy and whistleblowing policy in place. Investigations are referred and investigated pursuant to these processes. Investigation outcomes are reported to the Corporate Management Board and Audit Committee.</p> <p>The Council's Principal Risk Report also identifies serious fraudulent activity as a principal risk, and details action to mitigate the risk of fraud.</p>
<p>6. How do you assess the overall control environment for Islington Council and Islington Council Pension Fund, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness of the system of internal control.</li> </ul> <p>If internal controls are not in place or not effective, where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter, or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>The control and governance environment is assessed through delivery of the annual Internal Audit plan, and the wider context of governance arrangements as included in the Council's Annual Governance Statement. The Head of Internal Audit provides an annual opinion on the Council's overall control environment within the Annual Governance Statement.</p> <p>The annual opinion categories range from No Assurance, Limited Assurance, and Moderate Assurance to Substantial Assurance. The annual opinion given for 2016-17 to 2019-20 was Moderate Assurance, indicating that overall the Council's systems for control, risk and governance were generally adequate with some improvement required. The Head of Internal Audit opinion for 20/21 will be considered when the audit plan concludes and the wider Annual Governance Statement is drafted early in Q1 21/22.</p> <p>High priority recommendations arising from Internal Audit reviews that have attracted a No or Limited assurance rating, are reporting to Audit Committee. High priority recommendations will have been seen by Grant Thornton in their capacity as external auditors via the September 2020 and January 2021 Audit Committee updates on the delivery of the audit plan. Internal Audit have received satisfactory management responses to audit recommendation in 20/21 and follow up activity, to assess the level of implementation of recommendations, will take place in 21/22.</p> <p>The council does not operate incentive schemes which would drive undue pressure to manipulate financial results. Equally the council's internal audit plan and</p>

	whistleblowing procedures have demonstrated they are effective at identifying procedural improprieties which cause incorrect reporting of financial results.
7. Are there any areas where there is potential for misreporting?	<p>Key areas where there is a risk of misreporting are identified within the significant accounting estimates section of the Audit Plan. Specifically:</p> <ul style="list-style-type: none"> <li>• Valuation of land and buildings</li> <li>• Depreciation</li> <li>• Provisions and accruals</li> <li>• Provision for business rates appeals</li> <li>• Credit loss and impairment allowances</li> <li>• Valuation of defined benefit net pension fund liabilities</li> <li>• Fair value estimates</li> <li>• Valuation of level 2 and 3 investments</li> </ul>
<p>8. How do Islington Council and Islington Council Pension Fund communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>An anti-fraud strategy and whistleblowing policy is in place to encourage fraud reporting and directing staff how and where to report cases of suspected fraud and wrongdoing.</p> <p>Human Resources policies and procedures, and our code of conduct also communicate and encourage ethical behaviours. Contractor behaviours are also monitored via our contract management procedures.</p> <p>A number of investigations have taken place in the 20/21 year and investigation progress/outcomes were reported to Audit Committee in May 2020, August 2020, September 2020 and November 2020; with a further report tabled for March 2021. Audit Committee papers, including the fraud and whistleblowing reports, will have been seen by Grant Thornton in their capacity as external auditors. A current investigation in relation to an alleged fraud perpetrated against the Council's Pension Fund has just commenced and external audit will be kept updated on the outcomes of this investigation.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed, and managed?</p>	<p>In respect of financial fraud, any post with the capacity to transact contains an inherent risk of fraud. In respect of corruption, leadership posts may be considered higher risk.</p> <p>Financial fraud risks are managed via control design in relation to accounting processes.</p> <p>Risks of corruption are managed via control design in relation to accounting processes, Human Resources policies and procedures, and the Council's code of conduct which also communicates and encourages ethical behaviours.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Delivery of the annual Internal Audit plan did not raise concerns surrounding related party transactions. A current fraud investigation in relation to an alleged theft and fraud from the Council's Pension Fund has just commenced. At this point, we are unable to determine the loss to the Council.</p> <p>Where risks have been identified as part of individual internal audits and fraud investigations. Control recommendations are made and subject to follow up reporting to ensure that the recommendations have been implemented.</p> <p>The council seeks information in relation to declarations of interests of both senior officers and members. An additional line of defence is then the audit of the related parties' arrangements within the council.</p>
11. What arrangements are in place to report fraud issues and risks to the Audit Committee and Audit Committee (Advisory)?	The overarching risk of serious fraudulent activity is considered within the Principal Risk Report which is reported to Audit Committee (in September 2020 and January 2021). In relation to specific investigations, once an investigation is completed, the investigation report is produced which contains control recommendations where



<p>How does the Audit Committee and Audit Committee (Advisory) exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>appropriate. Fraud issues/outcomes of investigations are reported to CMB and Audit Committee bi-annually (whistleblowing) and annually (annual fraud report).</p> <p>Audit Committee have reviewed and approved changes to the Council's Whistleblowing Policy in May 2020 and January 2021. Audit Committee have noted the outcome of investigations via the routine reporting process as outlined above. Where recommendations have been made in relation to key investigations Audit Committee has sought assurance regarding the implementation of the recommendations arising from the investigations.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>A number of whistleblowing complaints were made in the 2020-21 year. External Audit have been privy to those complaints as part of the detailed bi-annual whistleblowing monitoring reports that are shared with Audit Committee.</p> <p>The Council has a robust whistleblowing policy which was revised with amendments approved by Audit Committee in May 2020 and a further revision in January 2021. The Council takes any allegations of impropriety very seriously. All allegations are managed in line with the policy. Complaints are investigated by qualified investigators employed by the Council. Where appropriate, external investigators are engaged.</p> <p>In terms of key whistleblowing investigations, the progress in implementing the recommendations pertaining of whistleblowing investigations are reported to Audit Committee biannually.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No reports were made to Corporate Investigations under the Bribery Act in the 20-21 year to date.</p>

#### Laws and Regulations – Islington Council and Islington Council Pension Fund

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Islington Council and Islington Council Pension Fund have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority and Pension Fund's regulatory environment that may have a significant impact on the Authority and Pension Fund's financial statements?</p>	<p>Council's Legal Service provides proactive updates, training and advice to Chief Officers and Members on new legislation and case law developments and changes to existing legislation and regulations. All decision-making reports to the Council, its Committees and the Executive include appropriate legal implications. Legal Services also provide legal implication comments for reports to Chief Officers and to meetings of the Corporate Management Board. A representative of the Service attends all Council, Executive, Planning and Licensing meetings and other meetings. when requested.</p>
<p>2. How is the Audit Committee and Audit Committee (Advisory) provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Audit Committee has appointed a Pensions Sub-Committee. The Terms of Reference of the Pensions Sub-Committee include:</p> <ul style="list-style-type: none"> <li>To administer all matters concerning the Council's pension investments in accordance with the law and Council policy.</li> <li>To establish a strategy for disposition of the pension investment portfolio.</li> <li>To determine the delegation of powers of management of the fund and to set boundaries for the managers' discretion.</li> <li>To review the investments made by the investment managers and from time to time consider the desirability of continuing or terminating the appointment of the investment managers. (Note: The allocation of resources to the Pension Fund is a function of the Executive).</li> <li>To consider the overall solvency of the Pension Fund, including assets and liabilities and to make appropriate recommendations to the Executive regarding the allocation of resources to the Pension Fund.</li> </ul>

	<p>The Pensions Sub-Committee meets approximately every three months. The committee regularly receives reports on the performance of the pension fund, including assessments of the key risks of individual funds and receives detailed updates from individual fund managers. The committee also regularly reviews the investment strategy and the business plan. The committee received a paper on the impact of the Covid pandemic in September this year.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>The council is subject to many laws and regulations. We are not aware of any instances of non-compliance or suspected non-compliance since 1 April 2020 other than:</p> <ol style="list-style-type: none"> <li>1 Those that may have been set out in the Annual Governance Statement (AGS).</li> <li>2 As specified in successful claims brought against the council and dealt with by our legal department or insurers.</li> <li>3 As may be specified in proven complaints received by the council and dealt with through the council's complaints procedure.</li> </ol>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>Please see contingent liabilities set out in Islington Council's statement of accounts.</p>
<p>5. What arrangements does Islington Council and Islington Council Pension Fund have in place to identify, evaluate, and account for litigation or claims?</p>	<p>Litigation and claims are referred to Islington Council's Legal Services Department (or its external insurers if the claim is covered by insurance). They are evaluated and dealt with by Legal Services and, where considered appropriate due to their complexity or value, external lawyers and /or counsel are appointed.</p>
<p>6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?</p>	<p>The Council has not received any formal reports from regulatory bodies regarding non-compliance. The Council is presently in an ongoing business risk review in relation to VAT with HMRC. This will be ongoing in to 21/22.</p>

#### Related Parties – Islington Council and Islington Council Pension Fund

Question	Management response
<p>1. Have there been any changes in the related parties disclosed in Islington Council and Islington Council Pension Fund's 2019/20 financial statements?</p> <p>If so, please summarise:</p> <ul style="list-style-type: none"> <li>• the nature of the relationship between these related parties and Islington Council and Islington Council Pension Fund, whether Islington Council and Islington Council Pension Fund has entered or plans to enter into any transactions with these related parties.</li> <li>• the type and purpose of these transactions</li> </ul>	<p>Related Parties and the nature of the relationships are shown in the Statement of Accounts. These are as expected and no significant change from last year</p>

2. What controls does Islington Council and Islington Council Pension Fund have in place to identify, account for, and disclose related party transactions and relationships?	<p>There are templates that members and chief officers complete as a part of their annual declarations capturing relationships with other entities. Controls ensure all appropriate individuals have responded.</p> <p>Any pecuniary interests must be declared prior to making any decisions and are dealt with in line with the council's constitution.</p> <p>The council also undertakes a review as part of the completion of the Statement of Accounts which seeks to identify related party organisations which have not been identified through the previous processes set out.</p>
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	Related party transactions follow the same council authorisation process as any other transactions (including appropriate authorisation processes, approval levels & segregation of duties), whether part of normal business activity or not.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	See above

### Accounting Estimates – Islington Council and Islington Council Pension Fund

Question	Management response
1. What are the classes of transactions, events, and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	The type of transactions are documented in the statements of accounts under Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty
2. How does the Authority and Pension Fund's risk management process identify and addresses risks relating to accounting estimates?	In addition to assessing the materiality of estimates, the council manages risks around estimates by considering historical experience, specialist advice where necessary, current trends and other relevant factors in arriving at the estimates.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Management seeks best practice recommended by CIPFA and/or industry standard in identifying the best method and assumptions and whether changes are warranted. In addition, specialist advice is sought where necessary.
4. How do management review the outcomes of previous accounting estimates?	Management compares actual results to estimates made previously, taking into account materiality and assumptions made. Where significant, and impacting on financial results, these would be communicated in our formal monitoring processes.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	No changes made.
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Decisions are made based on the complexity of the estimate and the level of technical skill and knowledge available within the Council and that informs whether an expert is required.
7. How does the Authority and Pension Fund determine what control activities are needed for significant accounting	The type of transactions that warrant significant accounting estimates are identified in 1 above and management carries out a review before year end to determine the best way of determining those estimates following a review of actuals, current trends and audit feedback. In addition, management perform a robust review of estimates

estimates, including the controls at any service providers or management experts?	prepared by experts by being clear in the brief given to estimates and challenging assumptions and reasonableness plus benchmarking with other parties where appropriate to help assess reasonableness.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	The key estimates are monitored and reviewed by specific officers that are responsible for those areas thus are well versed with what controls are required to ensure a robust review.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates.</li> <li>- The methods and models used.</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	Management review of the statement of accounts which includes reviewing the basis and appropriateness (see 2 above) of key accounting estimates and in some cases seeking specialist advice where in house technical skills/ knowledge is not available.
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
12. How is the Audit Committee and Audit Committee (Advisory) provided with assurance that the arrangements for accounting estimates are adequate?	Significant estimates would be quality assured within the department prior to inclusion within the statement of accounts. This would include designing a quality process to undertake the estimation (first line of defence). This estimation would be subject to a quality assurance process and testing of reasonableness (second line of defence). The design of the external audit would then provide the third line of defence for material areas of estimation. Those estimates provided by specialists will be assured through the design of the commission and through the reasonableness checking by the client service area.

**Report of: Corporate Director of Resources**

<b>Meeting of:</b>	<b>Date:</b>	<b>Ward(s):</b>
Audit Committee	16 <sup>th</sup> March 2021	All

<b>Delete as appropriate</b>		<b>Non-exempt</b>
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## **SUBJECT: Risk Management Update – February 2021**

### **1. Synopsis**

- 1.1 Audit Committee requested, at its meeting of 28th July 2020, that a Risk Management update be included on Committee's agenda as a standing item. The purpose of standing item is to provide Committee with an update on risk management activity that has taken place in between comprehensive reports to Committee. The paper provides Committee with an insight of risk management activity that occurs outside of the Principal Risk Reporting cycle.

### **2. Recommendations**

- 2.1 Committee is asked to note the report; which includes key activity since the last comprehensive Principal Risk Report to Committee in September 2020 and the previous Risk Management Update that was presented to Committee in January 2021.

### **3. Principal Risks and related mitigating activity**

- 3.1 The next comprehensive Principal Risk Report for Committee is due in May 2021. Committee noted the last Principal Risk Report on 29<sup>th</sup> September 2020. Actions to mitigate Principal Risks continue to be implemented to target dates (as listed in Appendix 2 of the report, a copy can be accessed [here](#)). The Council's Risk Manager has continued to provide steer to risk leads as requested.

## **4. Covid-19**

- 4.1 Covid-19 has seen a wide-ranging and large-scale impact on Islington as a borough – affecting our citizens, partners, businesses, and us as an organisation. This has resulted in:
- Shifts in the delivery of services;
  - Changes in where and how people work;
  - Resourcing changes;
  - Financial challenges.

On 5<sup>th</sup> January 2021 the United Kingdom entered a state of National Lockdown.

- 4.2 Current key activity includes:

- The Council's Lateral Flow Testing began in December 2020;
- Our emergency response is active, with Gold and Silver command in place, providing regular updates and information to the senior leadership on risks and issues;
- Three rapid testing sites are open across the borough, making testing of frontline critical workers easier;
- All of our older residents and staff in older peoples' care homes have now had the opportunity to get the first vaccination;
- Council staff in the priority vaccination groups have also started receiving their vaccinations.

## **5. Financial Resilience**

- 5.1 We estimated the financial impact of Covid-19 on the Council is circa £52million this year, comprising £16m additional costs and £36m income losses (as reported in the 2020/21 Budget Monitoring – Month 9 to Executive). The Government have pledged to fund some of our Covid-19 costs, however the funding still lags behind the expenditure. Further detail of the financial risks presented by Covid-19 is in the Principal Risk Report [here](#).
- 5.2 The Council has been able to set a balanced budget for 2021/22 (2021/22 Medium Term-Financial Strategy), whilst continuing to make sure we are investing in the services and infrastructure that our residents need. The budget allows us to support those who are hardest hit by the pandemic and to work towards rebuilding a fairer borough. Alongside the immediate humanitarian response, the Council will continue to focus our efforts on our four key priorities – homes, jobs, environment and community safety. We will need to deliver £25m of savings and efficiencies during next year to achieve this balanced position.
- 5.3 There is significant uncertainty over the ongoing impact of the pandemic into 2021/22. This is perhaps most stark in terms of the potential impact on the Collection Fund (covering Council Tax Receipts and Business Rates income). In relation to business rates, the Council currently receives in the region of £10m more than its baseline funding level as a result of historical rises in the rates income. Whilst this has been a positive in previous years, it also means that income can drop further before Government support kicks in. More widely, confirmed Government support for Covid related pressures only runs to the end of June 2021. This presents a risk should the ongoing impact persist beyond that date in a significant way. The Council has mitigations within its budget to manage to a degree however any pressures not funded by the Government, impact on the sustainability of the Council.

## **6. EU Exit Resilience**

- 6.1 As included in our last update to Committee in January 2021, the Council undertook comprehensive planning and risk mitigation. This planning ensured that key risks arising from UK's Exit from European Union were managed effectively. The UK announced the agreement of a trade deal with Europe in late December 2020.
- 6.2 The Brexit Resilience Group (BRG) has governed this activity and helped provide assurance that the Council was as prepared as possible, given the continuing uncertainty and wider context of Covid-19 and an economic downturn. The Brexit Resilience Group met in January 2021 to review the immediate impact of the end of the transition period. The group reviewed the high velocity risks (i.e. those most likely to materialise most quickly) and noted that these risks did not materialise and we had not experienced any material impact.
- 6.3 In order to manage any residual risks and issues, the BRG (supported by the Council's Risk Manager) are currently reviewing the activity which will be required going forward. The group is keen to ensure the mitigation of the risks and issues we can control. This work will include a plan of how the Council will manage and report risks associated with trade deal going forward.

## **7. Risk Lead Engagement**

- 7.1 We are currently in the process of consulting with circa 33 Principal Risk Leads across the Council. The Principal Risk Leads work with risk sponsors (Corporate Directors) to determine what risk information is required, and to monitor and evaluate the risks. They are responsible for monitoring progress and updating their principal risks on the corporate risk register. The Council's Risk Manager is meeting with Risk Leads to obtain an update on the progress of mitigating actions and to review the positioning and articulation of Principal Risks ahead of discussion at Directorate Management Teams and the Corporate Management Board in March and April 2021.

## **8. Implications**

### **8.1 Financial implications:**

The programme of work has been met from within the existing risk management budget. The financial implications of individual principal risks are met by local budgets.

### **8.2 Legal Implications:**

There are no legal implications arising from this report. Legal advice and support will be provided, where necessary, in relation to individual risks.

### **8.3 Environmental Implications**

There are no environmental implications arising from the recommendations in this report.

### **8.4 Resident 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.

A Resident Impact Assessment has not been completed because the decision currently being sought does not have direct impacts on residents.

## **9. Reason for recommendations**

This report provides an overview of key risk management activities since the last update to Committee in January 2021.

Final report clearance:



**Signed by:**

David Hodgkinson

**Date:**

26 February 2021

Report Author:

Nasreen Khan, Head of Internal Audit, Investigations and Risk Management

Tel:

020 7974 2211

Email:

[Nasreen.Khan@islington.gov.uk](mailto:Nasreen.Khan@islington.gov.uk)

Financial Implications Author: Paul Clarke, Director of Finance

Tel: 0207 527 5636

Email: [Paul.Clarke@islington.gov.uk](mailto:Paul.Clarke@islington.gov.uk)

Legal Implications Author: David Daniels, Assistant Director of Law

Tel: 0207 527 3277

Email: : [david.daniels@islington.gov.uk](mailto:david.daniels@islington.gov.uk)

REPORT ENDS



**Report of: Corporate Director of Resources**

Meeting of:	Date:	Ward(s):
Audit Committee	16 <sup>th</sup> March 2021	All

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## **SUBJECT: Internal Audit update – February 2021**

### **1 Synopsis**

- 1.1 Audit Committee requested, at its meeting of 28th July 2020, that an Internal Audit update be included on Committee's agenda as a standing item. The purpose of this standing item is to provide Committee with a summary update on internal audit activity at meetings where Committee does not receive a comprehensive report. The paper is also intended to provide Committee with an insight into internal audit activity that occurs outside the bi-annual reporting cycle.

### **2 Recommendations**

- 2.1 Committee is asked to note the update, which includes key activity since the Internal Audit Interim Annual Report, which came to Committee on 25<sup>th</sup> January 2021.

### **3 Audit plan 2020-21**

- 3.1 The Internal Audit Annual Report for 2020-21 is tabled for Committee in September 2021. Committee noted the Internal Audit Interim Annual Report on 25th January 2021. Audits continue to be delivered in line with target dates (see Appendix 1 of the report [here](#)).

### **4 Follow up activity**

- 4.1 Follow up activity continues to be delivered (see Appendix 3 of the Internal Audit Interim Annual Report [here](#) for details of follow ups scheduled for Quarter 4). A focussed period of follow up activity is planned for April and May 2021.
- 4.2 Additional activity will be driven by the Controls Board (see item 5 below) to regularly revisit any unimplemented actions and close them off outside the formal follow up cycle, where

possible. This will lead to improved oversight over the effectiveness of management responses to audit recommendations.

## **5 Controls Board**

- 5.1 A Controls Board has been set up and had its inaugural meeting in January 2021. The Director of Finance chairs the Controls Board and its members include Internal Audit and representatives from all directorates. The board's role is to facilitate an ongoing dialogue between Internal Audit and Directorate Management Teams around the progress of the Internal Audit plan. This will cover emerging assurance themes, monitoring of audit actions and escalation of areas of concern.

## **6 Audit plan 2021-22**

- 6.1 The Internal Audit plan for 2021-22 is being drafted based on the Council's Principal Risk Report to provide assurance over the Council's activities to mitigate Principal Risks. Covid-19 has resulted in shifts in the delivery of services, changes in where and how people work, and resourcing and financial challenges. As a result, a number of new Principal Risks were added to the September 2020 Principal Risk Report. Based on available resource and an Internal Audit assurance map, Internal Audit will aim to provide assurance on the actions to mitigate these through delivery of the audit plan.
- 6.2 Additional work is being driven by Covid-19 grants from central government departments, some of which require assurance Internal Audit assurance. Internal Audit are working with colleagues in Finance and consulting with other boroughs to ensure that we have a complete picture of which grants require such assurance.
- 6.3 The plan will also include cyclical audits of schools, Tenant Management Organisations, and key financial systems.

## **7 Annual Governance Statement**

- 7.1 The 2020-21 Annual Governance Statement will be drafted in Quarter 1 of 2021-22. Planning for this exercise has begun, with particular consideration being given to the assessment of the impact of Covid-19 on governance arrangements.

## **8 Resourcing**

- 8.1 A new Principal Auditor joined the Internal Audit team in January 2021 and the team now has no vacancies. A fully resourced team will support greater flexibility to respond to emerging risks, and delivery of more timely audit and follow up activity.

## **9 Implications**

### **9.1 Financial implications**

The programme of work has been met from within the existing Internal Audit budget. The financial implications of individual audit recommendations are met by local budgets.

### **9.2 Legal implications**

The Local Audit and Accountability Act 2014 sets out the regulatory framework for the audit of local authorities. The Council must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance (Accounts and Audit Regulations 2015 (SI 2015/234), regulation 5). The Public Sector Internal Audit Standards 2017 provide a set of public sector internal audit standards, which are supplemented for local government by CIPFA standard setting guidance.

### 9.3 **Environmental implications**

There are no environmental implications arising from the recommendation in this report.

### 9.4 **Resident 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. A Resident Impact Assessment has not been completed because the decision currently being sought does not have direct impacts on residents.

## 10 **Reason for recommendations**

10.1 To note key Internal Audit activities since the last update to Committee in January 2021.

Final report clearance:

**Signed by:**



David Hodgkinson  
26 February 2021

**Date:**

Report Author: Nasreen Khan, Head of Internal Audit, Investigations and Risk Management  
Tel: 020 7974 2211  
Email: [Nasreen.Khan@islington.gov.uk](mailto:Nasreen.Khan@islington.gov.uk)

Financial Implications Author: Paul Clarke, Director of Finance  
Tel: 020 7527 5636  
Email: [Paul.Clarke@islington.gov.uk](mailto:Paul.Clarke@islington.gov.uk)  
Legal Implications Author: David Daniels, Assistant Director of Law  
Tel: 020 7527 3277  
Email: : [david.daniels@islington.gov.uk](mailto:david.daniels@islington.gov.uk)

REPORT ENDS

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**Resources**  
**7 Newington Barrow Way**  
**London N7 7EP**

**Report of: Corporate Director of Resources**

Meeting of:	Date:	Ward(s):
Audit Committee	16 March 2021	N/A

Delete as appropriate	Non-exempt	
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## THE APPENDIX TO THIS REPORT IS NOT FOR PUBLICATION

The appendix to this report is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information relating to the financial or business affairs of any particular person (including the authority holding that information).

## SUBJECT: Revocation of Exit Payment Regulations

### 1. Synopsis

- 1.1 This report provides an update on the impact of the revocation of the Restriction of Public Sector Exit Payments Regulations 2020 on individuals affected since the Regulations came into force. The financial impact for the individuals is set out in the exempt appendix.

### 2. Recommendations

- 2.1 To note the revocation of the Restriction of Public Sector Exit Payments Regulations 2020
- 2.2 To note that any decisions relating to enacting the new provisions during the period since the Cap was introduced are no longer relevant and changes to the council's redundancy procedures to allow that flexibility are not required
- 2.3 To note the fact that the council is complying with the HMT Directions in ensuring that affected staff receive all sums that have not or would not have been paid as a result of the application of the 2020 Regulations

### **3. Background**

- 3.1 On 25 January 2021, the Audit Committee received a report on *'The introduction of exit payments cap on redundancy/efficiency retirements'* setting out the impact of new Regulations on the Restriction of Public Sector Exit Payments. The Regulations had the effect of capping payments for exits such as redundancy at £95,000 and included pension strain costs.

Since the committee, the government has revoked the regulations as they had unintended consequences for affected staff.

The exempt appendix sets out the actions taken to comply with the provision in the revoking regulations *"to pay to former employees or the relevant pension fund all sums that were not paid as a result of the application of the 2020 Regulations"*.

### **4. Implications**

#### **4.1 Financial implications**

This information is contained within the exempt appendix. The Council's s151 officer is satisfied that the costs can be contained within the Council's budget.

#### **4.2 Legal Implications**

The actions proposed in the exempt appendix are appropriate.

#### **4.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030**

None arising from the content of this report.

#### **4.4 Resident 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.

A Resident Impact Assessment has not been completed because the decision currently being sought does not have direct impacts on residents.

### **5. Reason for recommendations**

- 5.1 To ensure that the most appropriate and reasonable outcome is achieved for the employees and the Council.

## Appendices

Exempt Appendix 1 – Revocation of Exit Payment Regulations (In the matter of employees)

Final report clearance:

**Signed by:**

A handwritten signature in grey ink, appearing to read 'DH', followed by a stylized signature that likely represents 'Julie Foy'.

David Hodgkinson

Corporate Director of Resources

Date 8 March 2021

Report author:

Julie Foy

Tel:

07812 491844

Email:

[julie.foy@islington.gov.uk](mailto:julie.foy@islington.gov.uk)

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**Report of: Corporate Director - Resources**

<b>Audit Committee</b>	<b>Date: 16<sup>th</sup> March 2021</b>	<b>Ward(s): All</b>
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<b>Delete as appropriate</b>	Exempt (Appendix)	
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Part of the report is not for publication because it contains exempt information under Schedule 12A of the Local Government Act 1972) Paragraphs 1, 2, 7 Schedule 12A of the Local Government Act 1972, namely: Information relating to an individual. Information which is likely to reveal the identity of an individual and Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

## **THE APPENDIX TO THIS REPORT IS NOT FOR PUBLICATION**

**SUBJECT: Whistleblowing Report – 1<sup>st</sup> April 2020 to 31<sup>st</sup> January 2021**

### **1. Synopsis**

- 1.1 The report seeks to provide assurance that whistleblowing arrangements are in place and operating effectively, and that investigating fraud is an integral part of the Council's Anti-Fraud Strategy. The Council's Whistleblowing Officer is the Head of Internal Audit, Investigations and Risk Management. Whistleblowing arrangements are a key element of the Council's overall governance arrangements. It is the mechanism to "empower the honest majority" in the fight against fraud and corruption and is an integral part of the Council's Anti-Fraud Strategy.
- 1.2 Whistleblowing allows employees, members, contractors and others, to raise concerns surrounding potential fraud and corruption. There are separate reporting mechanisms for adult and child protection allegations. The Whistleblowing policy was reviewed and updated in May 2020 and January 2021 in line with good practice. Whistleblowing information is located within the Human Resources policies and procedures section of the Council's intranet. The report gives detail of referrals made between 1<sup>st</sup> April 2020 and 31<sup>st</sup> January 2021.

### **2. Recommendations**

- 2.1 Committee is asked to note the contents of the report.

### **3. Background**

- 3.1 Effective whistleblowing arrangements are a key element of effective governance arrangements within the Council.

### **4. Implications**

#### **Financial implications:**

- 4.1 There are no specific financial implications associated with this report.

#### **Legal Implications:**

- 4.2 The original Public Interest Disclosure Act 1998 provisions, inserted in the Employment Rights Act 1996, were amended by the Enterprise and Regulatory Reform Act 2013 to introduce a new public interest requirement. The Council must have regard to the Government's Whistleblowing Guidance for Employers and Code of Practice (2015).

It is good practice to review regularly the referrals made under the Whistleblowing policy to provide assurance that they have been dealt with appropriately.

#### **Environmental Implications**

- 4.3 There are no environmental implications arising from the recommendations in this report.

#### **Resident Impact Assessment:**

- 4.4 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.

A Resident Impact Assessment has not been completed because the decision currently being sought does not have direct impacts on residents.

### **5. Reasons for the recommendations / decision:**

- 5.1 The report presents an update on whistleblowing referrals received from 1<sup>st</sup> April 2020 to 31<sup>st</sup> January 2021.
- 5.2 The Council is obliged under the Public Interest Disclosure Act to maintain a whistleblowing policy, designed to encourage staff, members, contractors and others to raise concerns without fear of reprisal.

#### **Appendices:**

**Appendix A** – Whistleblowing Monitoring Report (Exempt)

Final report clearance:



**Date:**

**Signed by:**

26 February 2021

Dave Hodgkinson – Corporate Director – Resources

Report Author: Nasreen Khan, Head of Internal Audit, Investigations and Risk Management

Tel: 020 7974 2211

Email: [nasreen.khan@islington.gov.uk](mailto:nasreen.khan@islington.gov.uk)

Financial Implications Author: Paul Clarke, Director of Finance

Tel: 07931 572314

Email: [Paul.Clarke@islington.gov.uk](mailto:Paul.Clarke@islington.gov.uk)

Legal Implications Author: Rob Willis, Chief Corporate and Commercial Litigation Lawyer

Tel: 0207 527 3302

Email: [Robert.Willis@islington.gov.uk](mailto:Robert.Willis@islington.gov.uk)

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By virtue of paragraph(s) 2, 3, 7 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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of the Local Government Act 1972.

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