Grant Thornton

# The Audit Findings for London Borough of Islington

**Year ended 31 March 2019**

**July 2019**

# Contents

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Islington Council ('the Council' or 'you') and the preparation of your financial statements for the year ended 31 March 2019 for those charged with governance.

| | | |
|---|---|---|
| **Financial Statements** | Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:<br>• give a true and fair view of the financial position of the Council and Council's income and expenditure for the year; and<br>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.<br><br>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. | Our audit work commenced on site in June. Our findings are summarised on the following pages.<br><br>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix D) or material changes to the financial statements, subject to the satisfactory resolution of the outstanding matters detailed on the following page. One material adjustment was required to your accounts. This related to an increase in past service costs in light of the McCloud-Sarjeant pensions ruling. This required management to request an updated actuarial report. The court matter was only finalised in June, after the accounts had been prepared for audit.<br><br>We also identified one prior year unadjusted errors which is not material. Management has not amended the accounts in respect of this error. Details of the error is set out in Appendix B. We have raised recommendations for management as a result of our audit work in Appendix A.<br><br>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.<br><br>Our anticipated audit report opinions will be unmodified. Our proposed opinions are subject to the satisfactory resolution of the outstanding matters outlined on the following page. |
| **Value for Money arrangements** | Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). | We have completed our risk based review of your value for money arrangements. We have concluded you have proper arrangements to secure economy, efficiency and effectiveness in your use of resources.<br><br>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 16 to 23. |
| **Statutory duties** | The Local Audit and Accountability Act 2014 ('the Act') also requires us to:<br>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and<br>• To certify the closure of the audit. | We have not exercised any of our additional powers or duties.<br><br>We have completed the majority of work under the Code but are unable to issue our completion certificate until we complete the required audit work on the Whole of Government Accounts return, in advance of the deadline of 13 September. |

**Acknowledgements**

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

# Summary

### Overview of the scope of our audit

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

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

**Audit approach**

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

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

We have not had to alter or change our Audit Plan, as communicated to you in February 2019.

### Conclusion

We have substantially completed our audit of your financial statements and subject to the satisfactory completion of outstanding matters, we anticipate issuing an unqualified audit opinion, as detailed in Appendix D. These outstanding matters include:

- receipt and review of supporting documentation for items sampled for testing in respect of debtors and revenue
- review of your proposed pension amendments as a result of the McCloud judgement to the primary statements and notes to the accounts
- completion of our review of the going concern, Narrative Report and Annual Governance Statement, PFI models, Financial instruments note and Other Land and Buildings and Council Dwelling valuations including assets not revalued in the year
- completion of our work to issue our whole government accounts assurance statement, which can only be undertaken once the financial statements audit is complete
- receipt and review of management representation letters
- complete our accounts closing procedures
- receipt and review of the final set of financial statements; and
- audit manager and engagement lead review of the work performed on the audit file and satisfactory follow-up and resolution to any queries raised.

### Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Materiality calculations remain the same as reported in our Audit Plan.

Our assessment of the value of materiality has been adjusted to account for the reduction in gross expenditure in Surplus/Deficit on Provision of Services within the draft Comprehensive income and expenditure statement.

| | Council Amount (£) |
|---|---|
| Materiality for the financial statements | 21,100,000 |
| Performance materiality | 14,700,000 |
| Trivial matters | 1,050,000 |

# Significant findings – audit risks

| | Risks identified in our Audit Plan | Commentary |
|---|---|---|
| 1 | **Management override of controls**<br>*As set out in our Audit Plan*<br>*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 Authority face external scrutiny of spending and activity, and this could potentially place management under undue pressure in terms of how they report performance.*<br>*We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement for the Authority.* | **Auditor commentary**<br>We have:<br>• documented the design effectiveness of management controls over journals<br>• analysed the journals listing and determined the criteria for selecting high risk unusual journals<br>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration<br>• gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence<br>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.<br><br>Our audit work is substantially complete and awaiting the resolution of residual queries.<br>Our testing of journals identified 4 manual journals posted by system administrators with super user rights. To ensure separation of duties, we would typically expect such journals to be posted by the finance team. The finance team is currently investigating our findings. We recommend a review of systems access to your financial systems and ensure super user access is restricted to appropriate persons.<br>Subject to the conclusion of our remaining audit work in this area and the satisfactory completion of outstanding work set out on page 4, there are no material issues arising to draw to the attention of those charged with governance in respect of the identified risk. |
| 2 | **Improper revenue recognition** *risk as reported in Audit Plan* | **Auditor commentary**<br>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.<br>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.<br>Having considered the risk factors set out in ISA240 and the nature of your revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br>• there is little incentive to manipulate revenue recognition<br>• opportunities to manipulate revenue recognition are very limited<br>• the culture and ethical frameworks of local authorities, including Islington Council, mean that all forms of fraud are seen as unacceptable<br>Our assessment remains unchanged and we do not consider this to be a significant risk. |

# Significant findings – audit risks

| | Risks identified in our Audit Plan | Commentary |
|---|---|---|
| 3 | **Valuations of Property, Plant and Equipment**<br><br>*As set out in our Audit Plan*<br>*You revalue your HRA assets on a rolling five-yearly basis, operational land and buildings on a rolling three-yearly basis and Investment Properties on a yearly basis. The 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 this estimate to changes in key assumptions. 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.*<br><br>*Valuations are given as at 1 April, and are updated to the 31 March with reference to assumptions within market update reports provided by the respective valuers.*<br><br>*We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.* | **Auditor commentary**<br>We have:<br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work<br>• evaluated the competence, capabilities and objectivity of the valuation experts<br>• written to the valuers to confirm the basis on which the valuation was carried out<br>• challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding<br>• tested revaluations made during the year to see if they had been input correctly into your asset register<br>• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied.<br><br>Our work is in progress. To date, we have not identified any material issue.<br><br>Subject to the conclusion of our remaining audit work in this area and the satisfactory completion of outstanding work set out on page 4, there are no material issues arising to draw to the attention of those charged with governance in respect of the identified risk. |

# Significant findings – audit risks

| | Risks identified in our Audit Plan | Commentary |
|---|---|---|
| 4 | **Accuracy and presentation of the Private Finance Initiative (PFI) liabilities and associated disclosures**<br>*As set out in our Audit Plan*<br>*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.*<br>*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.* | **Auditor commentary**<br>We have:<br>• reviewed your PFI models and assumptions contained therein.<br>• compared your PFI models to previous year to identify any changes.<br>• reviewed and test the output produced by your PFI models to generate the financial balances within the financial statements.<br>• reviewed the PFI disclosures to assess whether they are consistent with the Manual For Accounts and the International Accountancy Standard IFRIC12. We will check additional disclosures that you include within the financial statements to the PFI models.<br><br>Our audit work is substantially complete. Subject to the conclusion of our remaining audit work in this area and the satisfactory completion of outstanding work set out on page 4, there are no material issues arising to draw to the attention of those charged with governance in respect of the identified risk. |

# Significant findings – audit risks

| | Risks identified in our Audit Plan | Commentary |
|---|---|---|
| 5 | **Valuation of the pension fund net liability**<br>*As set out in our Audit Plan*<br>*Your pension fund net liability, as reflected in your balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.*<br><br>*The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£803 million in your balance sheet as at 31 March 2018) and the sensitivity of the estimate to changes in key assumptions.*<br><br>*We therefore identified valuation of your pension fund net liability as a significant risk of material misstatement* | **Auditor commentary**<br>We have:<br>• gained an understanding of the processes and controls put in place by management to ensure your pension fund net liability is not materially misstated and evaluate the design of the associated controls;<br>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;<br>• assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation;<br>• assessed the accuracy and completeness of the information provided to the actuary to estimate the liability;<br>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;<br>• Undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and<br>• obtained assurances from our audit of the Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.<br><br>We noted the actuary's estimate of the pension liability was as at 28 February 2019. We requested management confirm from the actuary that the liabilities was not materially different by year end.<br><br>During the audit period, the impact of the McCloud transitional protection pensions ruling arose. The Court of Appeal ruled in December 2018 that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was refused in late June 2019. The case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits. Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.<br><br>Management requested estimates from their actuary of the potential impact of the McCloud ruling along with updates of the pension liability as at 31 March 2019. The revised report was provided for audit on 16 July 2019. The actuary's estimate was of a possible increase in past service cost and overall pension liabilities of £102m. In conjunction with auditor's experts, we reviewed the analysis performed by Mercers to consider whether the approach that has been taken to arrive at these estimates is reasonable. No material issues were noted in this review.<br><br>Following receipt of this revised actuarial report, management is in the process of updating the financial statements to reflect the revised liability and impact on the cost of service. We received the amendments on 23 July. We are currently reviewing the amendments to the statements and related notes.<br><br>Additionally, we noted an uncorrected prior period error within the Opening Balance Sheet. It relates to the pension prepaid lump sum made in 2017/18 relating to 2018/19 and 2019/20 of £18m which was disclosed within last years accounts as a debtor, rather than being netted off against the pension liability. You have correctly accounted for the prepayments via the pension liability and reversed the debtor entry within 2018/19 but not restated the corresponding opening Balance Sheet. You have opted not to amend the opening Balance Sheet as the net impact isn't material to the statements.<br><br>Subject to the conclusion of our remaining audit work in this area and the satisfactory completion of outstanding work set out on page 4, there are no material issues arising to draw to the attention of those charged with governance in respect of the identified risk. |

# Significant findings – key judgements and estimates

| Accounting area | Summary of management's policy | Audit Comments | Assessment |
|---|---|---|---|
| **Provisions for NNDR appeals - £16.5m** | You are responsible for repaying a proportion of successful rateable value appeals. The calculation for the provision is performed internally by the team responsible for monitoring Business Rates collection across the area. The calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. The provision included within the accounts has increased significantly in 2018-19 due to you taking part in the Business Rate Retention Scheme across London, which whilst increasing the level of income you receive, also means you take on more of the risk of non-collection. | We reviewed:<br>• appropriateness of the underlying information used to determine the estimate<br>• impact of any changes to valuation method<br>• consistency of estimate against peers/industry practice<br>• reasonableness of decrease in estimate<br>• adequacy of disclosure of estimate in the financial statements.<br><br>Subject to the conclusion of our remaining audit work in this area and the satisfactory completion of outstanding work set out on page 4, there are no material issues arising to draw to the attention of those charged with governance in respect of the identified judgements. | **Green** |
| **Land and Buildings – Council Dwellings - £3,021m as at 31 March 2019 (NBV)** | You own 25,274 dwellings held within your Housing Revenue Account and are required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. You have used an externally qualified RICS valuer, Wilks Head and Eve LLP, to complete the valuation of these properties.<br><br>The year end valuation of Council Dwellings was £3,021m, a net decrease of £145m from 2017/18 (£3,166m). | • The valuer has correctly prepared the valuation using the stock valuation guidance issued by MHCLG, and has ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH) value disclosed within the accounts.<br><br>Subject to the conclusion of our remaining audit work in this area and the satisfactory completion of outstanding work set out on page 4, there are no material issues arising to draw to the attention of those charged with governance in respect of the identified judgements. | **(WIP)** |

**Assessment**

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

# Significant findings – key judgements and estimates

| | Summary of management's policy | Audit Comments | Assessment |
|---|---|---|---|
| **Land and Buildings – Other - £671m (NBV)** | Other land and buildings comprises of specialised assets, such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.<br><br>You have used your internally qualified RICS valuer to complete the valuation of these properties.as at 31 March 2019 on a five yearly cyclical basis. 48% of total assets were revalued during 2018/19. The valuation of properties valued by the In-house valuer has resulted in a net increase of £43.6m. The total year end valuation of Other land and buildings was £671m, a net increase of £45m from 2017/18 (£626m). | • We have assessed your In-house valuer to be competent, capable and objective.<br>• We have carried out completeness and accuracy testing of the underlying information used to determine the estimate, and have no issues to report.<br>• The valuation method remains consistent with the prior year.<br>• We confirm consistency of estimate against the Gerald Eve report on property market trends, and reasonableness of the increase in the estimate.<br>• We have agreed the valuation report to the fixed asset register and the financial statements.<br><br>Subject to the conclusion of our remaining audit work in this area and the satisfactory completion of outstanding work set out on page 4 (including assets not revalued in the year), there are no material issues arising to draw to the attention of those charged with governance in respect of the identified judgements. | ● (WIP) |

**Assessment**

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

# Significant findings – key judgements and estimates

| | Summary of management's policy | Audit Comments | Assessment |
|---|---|---|---|
| **Net pension liability – £813m** | Your net pension liability at 31 March 2019 is £813m, before consideration of the impact of the McCloud pensions ruling outlined elsewhere in this report (PY £277m) or adjusting IAS19 report to 31 March 2019. The Council used Mercers to provide actuarial valuations of its assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The next full actuarial valuation will be carried out in 2019. A roll forward approach from the last valuation in 2016 has been used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. | See below | ● Green |

**Audit Comments**

- We have assessed the actuary, Barnett Waddingham, to be competent, capable and objective.
- We have performed additional tests in relation to accuracy of contribution figures and benefits paid to gain assurance over the 2018/19 roll forward calculation carried out by the actuary. Our work in this area is in progress.
- We have used PwC as our auditor's expert to assess the actuary and assumptions made by the actuary – see table below for out comparison of actuarial assumptions:

| Assumption | Actuary Value | PwC range | Assessment |
|---|---|---|---|
| Discount rate | 2.40% | 2.40% - 2.50% | ● |
| Pension increase rate | 2.30% | 2.20% - 2.30% | ● |
| Salary growth | 3.70% | 3.10% - 4.35% | ● |
| Future pensioner aged 65 in 20 years time Male (Female) | 25.1 (28.4) | Assumptions reasonable | ● |
| Current pensioner aged 65 Male (Female) | 22.9 (26.1) | Assumptions reasonable | ● |

- We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.
- We have confirmed there were no significant changes in 2018/19 to the valuation method.
- Reasonableness of increase in estimate – our work confirms that the increase in the IAS 19 estimate is reasonable.

Other than the issue raised on page 8 of this report, our audit work has not identified any material issues in relation to the pensions disclosure. The actuarial assumptions made by Mercer LLP and accepted by the Council were reviewed by the audit team. Our review concluded that the assumptions made by Mercer LLP were reasonable following discussions with management. In respect of the assumptions, we continue to recommend that management keeps these under review for future periods in order to ensure that they remain appropriate to your circumstances.

**Assessment**

- ● (red) We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● (amber) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● (yellow) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● (green) We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

| | Significant matter | Commentary | |
|---|---|---|---|
| 1 | **Payroll testing** | • Our payroll testing is currently in progress. We noted from our sampling one instance from school payroll where the allowances had been paid twice in a particular month. Your exception report review focuses on month on month variance in excess of 40% and this error was below this threshold and was not identified. We extrapolated the error and concluded the impact was trivial.<br>• There is insufficient evidence at this stage to assess if the error was a system, input and/or deliberate error. | **Auditor view**<br>You should review the adequacy of the set exception threshold level of 40% for reasonableness. We recommend you enhance your exception reporting by reviewing a sample of exceptions below the 40% threshold.<br>**Management response**<br>Agreed. A review of the access rights to the system will be undertaken. |

# Significant findings - Going concern

### Our responsibility

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

### Going concern commentary

| Management's assessment process | Auditor commentary |
|---|---|
| The Statement of Accounts has been prepared on a 'going concern' basis on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. | As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).<br><br>Many of the potential future liabilities that you face continue to be, unpredictable in timing and scale. However, we are satisfied that you remain in close liaison with the relevant parties to ensure that your budgeting and forecasting are based on the most up to date information, and ensure that central support is secured where necessary.<br><br>We have reviewed in detail your 2019/20 budget and Medium Term Financial Strategy and have assessed the underlying assumptions and dependencies to be reasonable. We have also reviewed management's cashflow forecast up to 31 July 2020.<br><br>We do not consider there to be a material uncertainty which could cast doubt on your ability to continue as a going concern. You hold £285m of useable reserves as at 31 March 2019 which includes £92.3m General and Earmarked reserves.<br><br>Based on this, we are satisfied that it remains appropriate for you to prepare accounts on a going concern basis as at 31 March 2019. You have a reasonable expectation that services you provide will continue for the foreseeable future. For this reason we considered it appropriate for you to continue to adopt the going concern basis in preparing the financial statements. |

# Other communication requirements

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

| | Issue | Commentary |
|---|---|---|
| 1 | **Matters in relation to fraud** | • We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures. |
| 2 | **Matters in relation to related parties** | • From the work we carried out, we have not identified any related party transactions which have not been disclosed. |
| 3 | **Matters in relation to laws and regulations** | • You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| 4 | **Written representations** | • A standard letter of representation has been requested from the Council. |
| 5 | **Confirmation requests from third parties** | • We obtained direct confirmations from the PWLB loans and requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests sent.<br>• We received all confirmations and no issues arising.. |
| 6 | **Disclosures** | • Our review found no material omissions in the financial statements. |
| 7 | **Audit evidence and explanations/significant difficulties** | • All information and explanations requested from management was provided. |

# Other responsibilities under the Code

| | Issue | Commentary |
|---|---|---|
| 1 | **Other information** | • We are required to give an opinion on whether the other information published together with your audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.<br>The Narrative Report is balanced and largely covers the expected content as per the Code of Practice. Our review is substantially complete.<br>Subject to the satisfactory conclusion of our review, we plan to issue an unmodified opinion in this regard. |
| 2 | **Matters on which we report by exception** | We are required to report on a number of matters by exception in a numbers of areas:<br>• If the Annual Governance Statement (AGS) does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit<br>• If we have applied any of our statutory powers or duties<br>Our review of the AGS is in progress. To date, we have nothing to report on these matters. |
| 3 | **Specified procedures for Whole of Government Accounts** | We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.<br>As the Council exceeds the specified group reporting threshold of £500m, we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.<br>This work will take place following the completion of the financial statements audit. We will complete the required procedures in advance of the reporting deadline of 13 September 2019. |
| 4 | **Certification of the closure of the audit** | We are unable to certify the closure of the 2018/19 audit until the required procedures in respect of the WGA outlined under point 3 above have been performed. This necessarily takes place following the conclusion of the financial statements audit. This is reflected in the audit opinions. We intend to certify the closure of the audits in advance of the WGA reporting deadline of 13 September 2019. |

# Value for Money

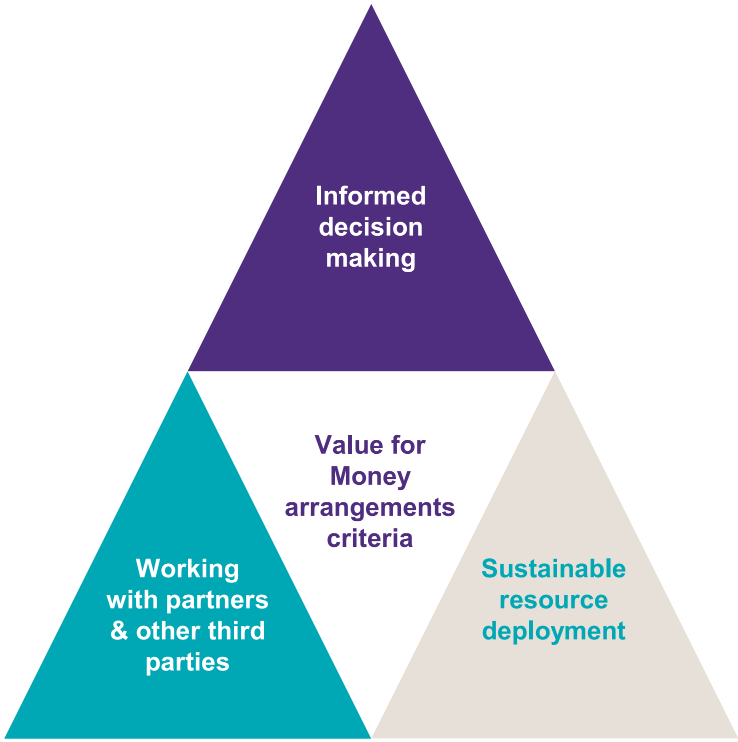
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single 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."*

This is supported by three sub-criteria, as set out below:




## Risk assessment

We carried out an initial risk assessment during January and February 2019 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated the risks below to you in our Audit Plan dated 11 March 2019.

- Medium-term financial planning
- Change and transformation programmes and governance.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

# Value for Money

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Financial outturn for 2018/19
- Budget for 2019/20
- Medium Term Financial Strategy for the next three years, including underlying assumptions and forecast savings plans
- Council Plan

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 18 to 23.

Additionally, we considered the results from regulatory bodies including Ofsted. You had a focused visit of your children's services by Ofsted in April 2018. The review focused on your arrangements for vulnerable adolescents in accordance with the Inspection of Local Authority Children's Services framework (ILACS). The overview concluded:

- the service provision for vulnerable adolescents was strong and robust
- there is a determined focus to improve outcomes for these young people across the council
- risks to vulnerable adolescents considered during this visit were identified well and comprehensively assessed
- partnership working is strong within the council as well as with partner agencies and the voluntary sector.

The report also highlighted following two areas for improvement:

- plans considered during this visit for children are not universally clear
- insufficient analysis of all recorded information to inform case planning in a small number of return home interviews.

We also considered the results of the Joint targeted area inspection of the multi-agency response to sexual abuse in the family in Islington issued in January 2019. The report highlighted a number of strengths along with some areas for improvement.

## Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix D.

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

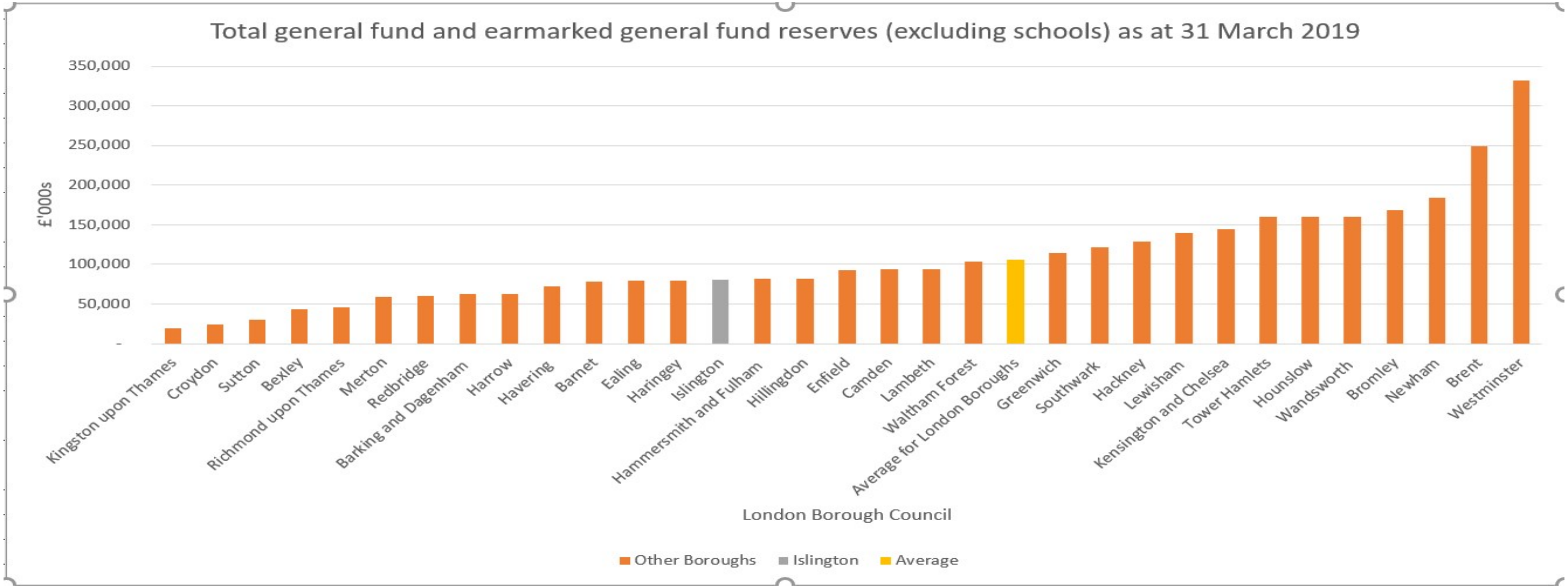
## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| | Significant risk | Findings and Conclusion |
|---|---|---|
| 1 | **Medium Term Financial Planning**<br><br>*As set out in our Audit Plan*<br><br>*In the context of tightening central government funding over recent years and rising demand for your services, you have identified the need to close your revenue budget gap of £50 million over the next three years. You will be required to make significant savings in areas where these have not previously been necessary, in order to close the budget gap in the medium term.* | <u>2018/19 outturn</u><br><br>In 2018/19 you reported a net revenue underspend of around £5.5 million, a successful outcome for you and your taxpayers. The underspend will be transferred to both the Insurance Fund provision and Insurance Fund earmarked reserve, leaving you with a net break-even position.<br><br>The underspend was reflected across all but one of your directorates, the exception being Environment and Regeneration which ended the year with a net overspend of £0.6 million. Your underspends consisted of a number of one-off factors such as managing existing vacancies, improved Better Care Fund income levels, unbudgeted business rates retention levy surplus grant and savings in running costs. Your Treasury Management Strategy of short-term borrowing at low interest and unbudgeted investment income also yielded £2.8 million of unplanned savings. The underspends across the directorates also meant you did not need to use the £2 million contingency built into the 2018/19 budget.<br><br>Whilst the level of underspend is a good outcome for you in achieving a balanced budget in-year, the key inputs into this net position do not represent sustainable savings in the medium-term and cannot be relied upon to maintain ongoing financial balance.<br><br>The Housing revenue Account achieved the forecast break-even position for the year.<br><br>You delivered 88% of your revised capital budget of £129 million, re-profiling the balance into future years. Children, Employment and Skills had the greatest level of capital slippage with 39% (£7.4m) schemes re-profiled into future years. However, you are confident that the schools capital programme remains on time and on budget.<br><br>You ended the financial year with £115 million and £19 million of short-term investments and debt respectively. Total long term debt increased by £19 million to £277 million with gross borrowing of £293 million as at 31 March 2019.<br><br><u>2019/20 budget</u><br><br>A balanced budget has been set for 2019/20 and the detailed planning in respect of 2020/21 and 2021/22 is already underway. This is part of the wider process of your on-going review of your Medium Term Financial Strategy.<br><br>In respect of 2019/20, the maximum increase in Band D Council Tax of 2.99% was approved by the Council in February 2019.<br><br>Central government funding continues to fall and the impact is felt across your services. You have been successful in managing your costs, achieving savings circa £225 million since 2010. The direction of travel for central government funding shows no signs of abating and you have taken steps to carry out an extensive organisation-wide exercise to re-examine the way you provide your services and ensure you are prioritising spend on the right things. The exercise has enabled revenue savings proposals to be proposed for the next three years, to enable more strategic planning and support a transformation of the way you work. |

| | Significant risk | Findings and Conclusion |
|---|---|---|
| 1 | **Medium Term Financial Planning**<br>*- continued* | Medium-term forecasting and planning<br>The organisation-wide exercise will be instrumental in ensuring that the future challenges, including a circa £50 million savings gap requirement in the three years to 2019-22, are achievable. These need to be delivered in the context of demand pressures which could be faced, in conjunction with retaining an adequate level of useable reserves in line with your reserves policy.<br>As part of your commitment to managing your funding gap, a new, earmarked budget reserve of £15.1 million has been created to provide up-front investment for the delivery of transformational revenue savings over the medium term.<br>Key assumptions underpinning your medium-term forecast are:<br>• 5% of the net General Fund budget requirement (excluding school's expenditure) over the course of the medium-term financial strategy.<br>• Fees and charges to increase in line with RPI<br>• Funding reductions as set out in the latest (2019-20) local government finance settlement. Government is currently consulting on a new national funding formula that will determine the baseline level of need and therefore the level of business rates retained.<br>• An increase in business rates (NNDR) income each financial year (to keep the Council above the Government's funding distribution system threshold and also cover the annual increase in the cost of the tariff). The Council is part of year 2 of the London pooling pilot. Government is currently consulting on changes to the Business Rates scheme from 2020 which will roll out 75% Business Rates Retention across the country.<br>• An assumption that any reductions in service specific grants can and will be contained within service budgets.<br>• An increase in Council tax in line with inflation and the assumed referendum limit of 2.99%<br>These assumptions will be revisited in the refresh of the MTFS from 2020/21-2021/22 which will take place in July, to determine whether they remain the most appropriate for your current circumstances based on the information available to you.<br>You have also clearly identified a number of risks impacting the reliability of the forecast and achievability of your plans, including uncertainties relating to the government's national funding formula review. These risks have been openly communicated within the leadership team, committee structures and full Council settings, and the implications are being carefully worked through, including requirement for service redesign to make meeting the potential challenges faced manageable.<br>Reserves position<br>As set out in the 2018/19 outturn and 2019/20 detailed budget, some use of reserves to fill funding gaps has been approved in each year, and further reserves use has been approved in the medium term.<br>Whilst the 2019/20 budget has been mapped out with as much certainty as possible, you are conscious that there are some demand pressures and other spend and income issues which cannot be specifically foreseen, and as such – as in previous years – you continue to hold a central contingency budget of £5 million to address any issues arising in-year. This also protects your general fund position, which you aim to maintain at £10.7 million. It is not proposed to reduce or remove the contingency provision and any unused amounts will be allocated to specific budgets to deal with future fluctuations. |

| | Significant risk | Findings and Conclusion |
|---|---|---|
| ❶ | **Medium Term Financial Planning**<br>*- continued* | The practical realities of this funding are at present uncertain, not least due to the current Conservative leadership contest and potential for the appointment of a new secretary of state.<br>Despite the pressures on your reserves which have arisen over recent years, your available reserves are just below the average in comparison with other London Borough Councils, in particular those of a comparable size, as illustrated by the graph below: |




The analysis above supports the S151 Officer's recommendation to increase the General Fund balance by £2 million to £10.7 million, bringing the 2019/20 level of the Council's general balances to 5% of the net budget requirement.

| Significant risk | Findings and Conclusion |
|---|---|
| ❶ **Medium Term Financial Planning** *- continued* | The following table sets out a summary of your reserves position and key financial ratios as at 31 March 2019 relative to other London Boroughs as per their draft published financial statements for 2018/19: |

| Measure | Islington | Average for London Boroughs | Ranking relative to other London Boroughs (/32) |
|---|---|---|---|
| Total general fund and non-schools earmarked general fund reserves as at 31 March 2019 (£'000s) | 80,452 | 106,462 | 18 |
| Total general fund and earmarked general fund reserves as at 31 March 2019 (£'000s) | 92,293 | 118,126 | 18 |
| General fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure (%) | 36% | 42% | 15 |
| | | | **2017/18** |
| **Measure** | **Islington** | **Average for London Boroughs** | **Ranking relative to other London Boroughs (/32)** |
| Total general fund and non-schools earmarked general fund reserves as at 31 March 2018 (£'000s) | 74,144 | 97,064 | 21 |
| Total general fund and earmarked general fund reserves as at 31 March 2018 (£'000s) | 83,463 | 108,873 | 21 |
| General fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure (%) | 33% | 48% | 16 |

This analysis supports the view that you are continuing to build on your overall resilience levels compared to 2017/18,but still below the average in comparison to other London Boroughs.

**Conclusion**

Whilst in the medium-term the financial outlook is more challenging than it has been in previous years and has potential for volatility in relation to macro-economic and national political factors beyond your direct control, we are satisfied that arrangements are in place to support your medium term financial sustainability. We are therefore satisfied that this risk has been sufficiently mitigated.

| | Significant risk | Findings and Conclusion |
|---|---|---|
| 2 | **Change and transformation programmes and governance**<br><br>*As per our Audit Plan*<br><br>*You are embarking on some significant transformation programmes, including within Adults and Children's social care. 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. You have brought in senior resource to provide experience and leadership in programme development and delivery, business case development and benefits realisation.* | You are embarking on some significant transformation programmes, including within Adults and Children's social care. Your plans are ambitious and complex and require robust arrangements. The organisation-wide exercise will be instrumental in ensuring that the future challenges, including circa £50 million savings gap requirement in the three years to 2019-22, are achievable.<br><br>As part of your budget proposals to Council in February 2019, management presented a 3 year savings plan to 2021/22 totalling £33.8 million. In all, 38 schemes or projects across all directorates had been identified over the three years.<br><br>Your transformation change programme covers at least two distinct phases:<br><br>(1) Leadership, ambition setting and idea generation – this entails a review of spend against your Council Plan outcomes to identify the elements of high spend which arise from a policy decision and those which arise from inefficiencies. Idea generation will develop a range of options for redesigning services and take forward to localities . You are conscious that whilst identifying savings is a key factor, the primary aim of the process is setting out the services which will be delivered and how this will be done to achieve the Council Plan outcomes. This phase of the scheme is overseen by the Programme Delivery Board (PDB). The Chair of the PDB the Interim Corporate Director, a member of the senior executive team. The PDB has representations from each directorate as well as representatives from finance, governance and S151 Officer and meets at least once a month.<br><br>(2) Business case development – which will take forward ideas to design and develop into an outline and final business case (including costing and modelling) which can be presented as draft savings proposals to the PDB. This phase will require close consultation with officers across the organisation to ensure the realism and challenge of each option, development of implementation plans and profiling of investment and savings. The Design and Compliance Authority (D&C) is chaired by the Service Director with representatives from resources, HR, legal, property, strategy and change, digital, governance and risk. D&C also meets at least once month.<br><br>Your in-house programme management office (PMO) is led by the Head of Strategy and Change. The PMO is available to assist with each phase and actions from each stage, reporting and monitoring progress against project to PMB.<br><br>Of your £33.8 million savings identified over the three years to 20121/22, £13.8 million has been identified for delivery in 2019/20 spanning across 34 projects.<br><br>One such project is efficiencies in revenues and benefits with planned savings of £1.4 million. You have in place business case setting with plans to achieve the target. Your plans included recurrent income generating opportunities such as agreeing a fee contribution towards salary costs for manager support provided to a partner organisations and streamlining your processes and taking out vacant posts without compromising service delivery. Other aspects of the plans include improving your Council Tax collection rates and recovery rates of old Council Tax and Business Rates debt. You already acknowledge both services are performing at a good level and it is less clear from your plans whether further efficiencies can be gained within these schemes. Overall you have rated this scheme with a high confidence level that it will deliver as planned. |

| | Significant risk | Findings and Conclusion |
|---|---|---|
| 2 | **Change and transformation programmes and governance**<br><br>*- continued* | Your transformation plan is viewed as a three year plan to transform services and not so much as one-off projects. One of the areas key to your plans is some of your demand-led services such as Adults and Children social care services. You recognise changes will be required if you are to continue to meet local need within available resources.<br><br>With an aging demographic, Adult Social care is one of those areas you are reviewing your services. You have in place an Adult Social Care Plan 2019-2022 which sets out how the service will achieve the changes required with reducing resources and the ongoing need to deliver services in line with the Care Act and other legislation.<br><br>From a finance perspective, you are conscious of the interdependencies related to your future planning and forecasting, for instance how current demand and activity within Adult's Services may impact upon Adults Social Care and Housing needs in the medium-term. Understanding this future demand as thoroughly as is possible will be key to ensuring that the wider service redesign programme is focused in such a way to meet the intended objectives.<br><br>You recognise the need to make significant ongoing savings in order to contribute to the overall requirements to deliver a balanced budget each year. However, you see the delivery of savings as one of the outcomes of successfully achieving your transformation and improvement goals, rather than the driving force of your work. Your aim is to manage savings pressures through reducing the need for costly service interventions, delivering and commissioning more effective and efficient services.<br><br>Your plans, including the planned savings for Adults Localities of £3.5 million, are still evolving. Your outline business case has phased the planned savings of £1 million in 2020/21 and £2.5 million in 2021/22 and can be described as aspirational. The business case has a lead officer and Executive sponsor and includes detailed estimate of the required resources to deliver the savings. You have a timetable in place for the outline business case to be presented back to PDB in the autumn.<br><br>Our review of the initial plans in place indicate that the progress to date has been made on a firm foundation. However, given that the project is in an early stage, a high degree of its success will be contingent on whether the plans in place can be realised with the required level of oversight and review within the projected timeframes. You are taking an incremental approach in terms of ensuring that practices become embedded and part of the norm, providing the cultural environment the space to transition alongside. Once the change programme is delivered and the business cases have been approved by PDB, it will be crucial that a comprehensive delivery plan is devised, with resources and responsibilities appropriately allocated, to ensure that changes are implemented as intended and progress and benefits are effectively monitored and evaluated.<br><br>Your monitoring and reporting arrangements allows you to be responsive to issues and escalate as necessary. We note regular reporting and monitoring of savings plan performance to the PDB. From our review of a small number of reports, it was not always clear from the regular reports what proportion of 2020/21 and 2021/22 schemes have a final business case with risk rating and the proportion that are still at outline business case which could be described as allocated savings. This will improve the accuracy and transparency of the schemes that had been identified and level of gap that exists.<br><br>**Conclusion**<br><br>It is evident that you have carefully considered how to reinvigorate your organisation to modernise and become forward looking. The timeframes are ambitious and unlikely to be realised completely within a short period of time. Early thinking is promising, but many of the detailed arrangements are yet to be established, and these are essential for supporting an organisation-wide transformation programme.<br><br>A strong vision for the future is essential, to enable a target operating model to be developed within a narrative that engages 'hearts and minds' and provides a direction of travel for future transformation programmes to drive efficiencies, new ways of working and cultural change.<br><br>We will continue to review progress as you develop your arrangements. |

# Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were chargeable from the beginning of the financial year to 29 July 2019, as well as the threats to our independence and safeguards that have been applied to mitigate these threats

| | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| **Audit related** | | | |
| Housing Benefit subsidy claim certification | 28,226 | 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 of £156,179 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. |
| Certification of Housing Capital Receipts Grant | 2,000 | 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 low in comparison to the total fee for the audit of £156,179 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. |
| Teachers' Pension return certification | 5,000 | 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 of £156,179 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. |
| **Non-audit related** | | | |
| Place analytics – CFO Insights subscription | 10,000 | 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 subscription is low in comparison to the total fee for the audit of £156,179 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 mitigate the perceived self-interest threat to an acceptable level. |

These services are consistent with your policy on the allotment of non-audit work to your auditors. All services have been / will be approved by the Audit Committee. None of the services provided are subject to contingent fees.

# Action plan

We have identified [X] of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| | Assessment | Issue and risk | Recommendations |
|---|---|---|---|
| 1 | ● | We undertook a review of your IT general controls and made 2 high and 4 medium priority recommendations around the following areas:<br>• The number of Domain Admins and Enterprise Admins for Active Directory is not appropriately limited and reviewed<br>• Proactive review of Logical Access<br>• Lack of Information Security Policies and Procedures review and approval<br>• IT security training for employees<br>• Password complexity enforcement<br>• Independent audit report on vendor's security systems. | Management have responded and agreed to the recommendations.<br>**Management response**<br>Agreed |
| 2 | ● | **Payroll**<br>We note from our sampling one instance from school payroll where the allowances had been paid twice in a particular month. Your exception report review focuses on month on month variance in excess of 40% and this error was below this threshold and was not identified. | We recommend you review the adequacy of the set exception threshold level of 40% for reasonableness. You should enhance your exception reporting by reviewing a sample of exceptions below the 40% threshold<br>**Management response**<br>Agreed. The Council will look to enhance its exception reporting and sampling. |
| 3 | ● | **Journals**<br>Our testing of journals identified 4 manual journals posted by system administrators with super user rights. To ensure separation of duties, we would typically expect such journals to be posted by the finance team. | We recommend a review of systems access to your financial systems and ensure super user access is restricted to appropriate persons<br>**Management response**<br>Agreed. A review of the access rights to the system will be undertaken. |

**Controls**

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

# Audit Adjustments

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

### Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

| | Detail | CIES £'000 | Balance Sheet £' 000 | Impact on net Cost of Services £'000 |
|---|---|---|---|---|
| 1 | **Impact of the McCloud pensions ruling**<br>Management requested estimates from their actuary of the potential impact of the McCloud ruling. The actuary's estimate for the was of a possible increase in past service cost and overall pension liabilities of £102m. Management have chosen to update their financial statements and related notes to reflect the revised estimate of the total liabilities. We are currently reviewing the draft amendments | 22,828 CoS<br>80,168 loss | (102,996) | 22,828 |
| 2 | **Pooled Budget**<br>You account for your share of the income and expenditure on pooled budgets within the net cost of services line. You incorrectly excluded in excess CCG income and expenditure. This resulted in gross income and gross expenditure being understated by £2.88m, which has a nil impact on the bottom line | 2,880<br>(2,880) | nil | nil |
| | **Overall impact** | £102,996 | £(102,996) | £22,828 |

### Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

| Disclosure omission | Detail | Adjustment agreed? |
|---|---|---|
| **Events after the Balance Sheet date Note 35** | • The Chief Executive and section 151 Officer resigned between April and June 2019 post year end. Recommended the note disclose this significant facts | ✓ |
| **Defined Benefit Pension Schemes Note 36** | • Disclose your assumptions and impact of the McCloud and Guaranteed Minimum Pensions rulings | ✓ |
| **General** | • A number of minor disclosure amendments have been made to the disclosure notes and statements including the Narrative Report. None were material for inclusion in this report | ✓ |

# Audit Adjustments

### Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2017/18 financial statements.

| | Detail | Reason for not adjusting |
|---|---|---|
| 1 | An uncorrected prior period error within the Opening Balance Sheet. It relates to the pension prepaid lump sum made in 2017/18 relating to 2018/19 and 2019/20 of £18m which was disclosed within last years accounts as debtors, rather than being netted off against the pension liability. You have correctly accounted for the prepayments via the IAS19 and reverse the debtor entry within 2018/19 but not restated the corresponding opening Balance Sheet. You have opted not to amend the opening Balance Sheet as the net impact isn't material to the statements. | The impact on the Balance Sheet isn't material |

# Fees

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

## Audit Fees

| | Proposed fee | Final fee |
|---|---|---|
| Council Audit | £156,179 | TBC |
| Total audit fees (excluding VAT) | **£156,179** | **TBC** |

The fees reconcile to the financial statements Note 11. During the year additional work was undertaken in respect of the restatement of the accounts for the McCloud judgement, which impacted your pension liabilities and related notes. We will confirm the final fee upon completion of the audit.

## Non Audit Fees

| **Fees for other services** | **Fees £** |
|---|---|
| **Audit related services:** | |
| • Housing Benefit subsidy claim certification | 28,226 |
| • Teachers' Pension return certification | 5,000 |
| • Pooling Housing Capital Receipts grant claim certification | 2,000 |
| **Non-audit services** | |
| • Place Analytics – CFO Insights subscription | 10,000 |

# Audit opinion

**We anticipate we will provide the Council with an unmodified audit report. This is a draft version that will be updated.**

**Independent auditor's report to the members of Islington Council**
**Report on the Audit of the Financial Statements**
**Opinion**
We have audited the financial statements of Islington Council (the 'Authority') for the year ended 31 March 2019 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account Balance, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:
- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

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

**Conclusions relating to going concern**
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the Director Financial Management's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director Financial Management has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**Other information**
The Director Financial Management is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report to the Statement of Accounts and Summary of the Council's Financial Performance in the Year 2018/19 and the Annual Governance Statement, other than the financial statements and, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.
We have nothing to report in this regard.

**Other information we are required to report on by exception under the Code of Audit Practice**
Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.
We have nothing to report in this regard.

**Opinion on other matter required by the Code of Audit Practice**
In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, [the Narrative Report to the Statement of Accounts and Summary of the Council's Financial Performance in the Year 2018/19 and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Audit opinion

**Matters on which we are required to report by exception**
Under the Code of Audit Practice, we are required to report to you if:

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

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

**Responsibilities of the Authority, the Director Financial Management and Those Charged with Governance for the financial statements**
As explained more fully in the Statement of Responsibilities set out on page 19, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director Financial Management. The Director Financial Management is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Director Financial Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director Financial Management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.
The Audit Committee and Audit Committee Advisory is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

**Auditor's responsibilities for the audit of the financial statements**
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**
**Conclusion**
On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

**Report on other legal and regulatory requirements - Delay in certification of completion of the audit**
We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2019. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.
AND

# Audit opinion

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

**Use of our report**

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

[Signature]

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

London
Date

**grantthornton.co.uk**