Joint external Audit Plan

Year ending 31 March 2020

London Borough of Islington and London Borough of Islington Pension Fund

March 2020

Contents

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1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audits of the London Borough of Islington ('the Council') and the London Borough of Islington 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 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 the Pension Fund. We draw your attention to both of these documents on the [PSAA website](). We draw your attention to both of these documents.

Scope of our audit

The scope of our audits are 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));
- Pension Fund'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 and the Pension Fund to ensure that proper arrangements are in place for the conduct of their businesses, and that public money is safeguarded and properly accounted for. We have considered how the Council and Pension Fund are fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of these businesses 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 in the accounts is materially misstated
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated
- The risk that the accuracy and the presentation of the Private Finance Initiative (PFI) liability and associated disclosures are materially misstated
- The risk of Management override of controls.

Pension Fund

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

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) Reports.

Materiality	**Council** We have determined planning materiality to be £16.5m (PY £21.0m) for the Council, which equates to 1.5% of the 2018/19 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 £0.8m (PY £1.05m). **Pension Fund** We have determined materiality at the planning stage of our audit to be £13.7m (PY £13m) for the Pension Fund, which equates to 1.0% of the 2018/19 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 £0.69m (PY £0.65m).
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risks: • Medium term financial planning • Change and transformation programmes and governance
Audit logistics	Our interim visits are taking place in February and March. Our final visits will take place in June and July. Key deliverables are this joint Audit and Pension fund Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. Our fee for the audits will be £181,079 (PY: £165,779) for the Council and £25,000 (PY: £16,170) for the Pension Fund, subject to meeting our requirements set out on page 18.
Independence	We have complied with 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.

2. Key matters impacting our audit – Council and Pension Fund

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For the London Borough of Islington, there is uncertainty over the future funding that will be made available by a new government. The outcome of the 3 year Spending Review as well as the fair funding review will determine how funding will be allocated between Local Authorities but until the outcome of these two events is known there is huge uncertainty over the Council's funding position from 2021/22.

As of month 9, your forecast outturn position is an underspend to budget of £1.973m for 2019/20, and you have set a balanced budget for 2020/2021.

At a national level, the government continues its negotiation with the EU over Brexit, with uncertainty over the position after 31 December 2020. The Council will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

Change and Transformation

The Council continues to undergo extensive change and transformation. Central to this is 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 yet achievable within the Council's financial and resourcing constraints.

Collaboration with the Healthcare Sector

The Council continues to promote integration locally and improve resident outcomes and experiences through its pooled budget arrangements across Islington Health and Social Care. The Council's pooled budgets total just over £88m, including the Better Care Fund, of which £31.8m comes from the NHS. The move to 5 borough commissioning for the NHS, especially in the context of a very significant financial deficit across the North Central London region, could pose a risk to the Council's existing local financial and strategic collaboration.

Accounting developments

International Financial Reporting Standard (IFRS) 16 will be introduced across the public sector from 1 April 2020 and will have a significant impact on the way in which the Council accounts for leases, or other contracts which contain a lease. The standard will require management to assess the value of the right of use asset underlying any arrangement containing a lease and bring this on to the Balance Sheet, along with the present value of any associated liability. The Council will be required to disclose in its 2019/20 financial statements the expected initial impact of the implementation of IFRS 16 on its net asset position and reserves as at 1 April 2020.

Financial reporting and audit – raising the bar

The Financial Reporting Council (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 more robust testing as detailed in Appendix 1.

Our national work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

Our response

We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.

We will consider whether your financial position leads to material uncertainty about the going concern of the Council and will review related disclosures in the financial statements.

We have invited members of the finance team to attend our financial reporting workshops taking place over the next few weeks, where further guidance and support on IFRS 16 implementation will be provided.

We will review management's assessment of the impact of IFRS 16 on the net assets and reserves of the Council as at 1 April 2020, and review disclosures made in the 2019/20 financial statements, to gain assurance that the standard has been appropriately applied.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee on the Council and Pension fund, as set out in our Audit Plan, has been agreed with the Acting S151 Officer and is subject to PSAA agreement.

2. Key matters impacting our audit – Pension Fund

Factors

The wider picture and political uncertainty

- Local Government funding continues to be stretched with increasing cost pressures.
- The market value of LGPS funds at end of March 2019 was £287.2 billion (an increase of £16.3 billion or 6.0%) but for the first time, the LGPS in England & Wales is now cashflow negative, with benefit payments rising to £10.4bn while contributions fell to £9.3bn. There are now over 18,000 employers. Local authorities represent around 18.3% of these but have 74% of the members.
- 2018/19 saw Islington Pension fund return 7.0% on its investments compared to the average local authority fund return of 6.6%. Islington has three funds managed on the London CIV platform, with pooling estimated to have saved £183k in the year.
- The economic impact of leaving the EU this year remains uncertain, as does the wider global economic picture. The Pension Fund will need to ensure that its investment strategy has considered potential outcomes.

Governance

- The Scheme Advisory Board (SAB) has published the *Good Governance – Phase II Report*. Proposals include having a single named officer responsible for the delivery of LGPS related activity for a fund, an enhanced annual governance compliance statement and establishing a set of key performance indicators.
- SAB is also consulting on Responsible Investment guidance to assist and help investment decision makers.
- The Pensions Regulator (tPR) continues to apply pressure on pension schemes to improve the quality of scheme member data. The 2019 valuation process will likely have thrown up some data issues (large or small) that need addressing.

Triennial LGPS valuation

The local government pension scheme underwent a full triennial valuation as at 31 March 2019 The impact on liabilities and assets of the Fund will be reported for the first time in the 2019/20 financial statements, with forward contributions required being determined from 2020/21 onwards.

Financial reporting and audit – raising the bar

The Financial Reporting Council (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 more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where financial reporting, in particular Level 3 and Financial Instrument investment valuations and disclosures, needs to be improved, with a corresponding increase in audit procedures.

Our response

- We will consider whether your financial position leads to material uncertainty about the going concern of the Pension Fund and will review related disclosures in the financial statements.

We will consider the Pension Fund's responses to the SAB initiatives and whether they impact upon our risk assessment.

We will consider the impact of any data issues raised as part of the 2019 valuation on the risks identified as part of our 2019/20 audit.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee on the Council and Pension fund, as set out in our Audit Plan, has been agreed with the Acting S151 Officer and is subject to PSAA agreement.

We will perform additional procedures to gain assurance over the completeness and accuracy of financial and non-financial data provided to the Pension Fund actuary in respect of the triennial valuation, and consider the impact of the updated funding ratio on the Fund's going concern position.

3. 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	Entity 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**	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council and Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including that of the London Borough of Islington, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for the London Borough of Islington and the London Borough of Islington Pension Fund.	
Management over-ride of controls	**Council and Pension Fund**	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. In particular journals, management estimates and transactions outside the course of business are areas susceptible to management override.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

3. Significant risks identified - continued

Risk	Entity 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**	You revalue your assets as follows: • operational land and buildings on a rolling three-yearly basis • council dwellings based on a rolling five-year approach using underlying valuations of beacon properties; and • Investment Properties on a yearly basis. 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. 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. 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. 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.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met • 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. • test revaluations made during the year to see if they had been input correctly into the Council's asset register • assess the value of a sample of assets in relation to market rates for comparable properties. • test a sample of beacon properties in respect of council dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group.
Accuracy and presentation of the Private Finance Initiative (PFI) liabilities and associated disclosures	**Council**	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. 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. 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.	We will: • review your PFI models and assumptions contained therein. • compare your PFI models to previous year to identify any changes. • review and test the output produced by your PFI models to generate the financial balances within the financial statements. • review 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.

3. Significant risks identified - continued

Risk	Entity Risk Relates To	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	**Council**	The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£916 million in the Council's balance sheet as at 31 March 2019) and the sensitivity of the estimate to changes in key assumptions.	We will: • 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; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • 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 and Guaranteed Minimum Pension cases; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • 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; • 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

3. Significant risks identified - continued

Risk	Entity 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**	The Fund values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£67 million) and the sensitivity of this estimate to changes in key assumptions Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020.	We will: • evaluate management's processes for valuing Level 3 investments • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • independently request year-end confirmations from investment managers and/or custodian(s) • 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. We will reconcile those values to the values at 31 March 2020 with reference to known movements in the intervening period. • In the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert, and • where available review investment manager service auditor report on design effectiveness of internal controls.

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 in July 2020.

4. Other risks identified

Risk	Entity 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**	Non-pay expenditure on goods and services represents a significant percentage (63%) of your gross operating expenditure. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenditure and associated short-term creditors as a risk requiring particular audit attention.	We will: • evaluate your accounting policy for recognition of non-pay expenditure for appropriateness, including the use of de minimis level set; • gain an understanding of your system for accounting for non-pay expenditure and evaluate the design of the associated controls; • obtain and test a listing of non-pay payments made in April and May 2020 to ensure that they have been charged to the appropriate year.
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	**Council**	The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). In accordance with IAS 8 and paragraph 3.3.4.3 of the Code, disclosures of the expected impact of IFRS 16 should be included in the Council's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.	We will: • evaluate the processes the Council has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements. • assess the completeness of the disclosures made by the Council in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC Local Authority Leasing Briefings.

4. Other risks identified - continued

Risk	Entity 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**	The Fund discloses the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represents a significant estimate in the financial statements. The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£2.3 billion) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a risk of material misstatement.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Fund's pension fund valuation; • assess the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability; • test the consistency of disclosures with the actuarial report from the actuary; • 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.
Valuation of Level 2 Investments	**Pension Fund**	While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly. We therefore identified the valuation of the Fund's Level 2 investments as a risk of material misstatement.	We will: • gain an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls; • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; • review the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and seek explanations for variances; • independently request year-end confirmations from investment managers and custodian; • review investment manager service auditor report on design effectiveness of internal controls, and, • where necessary, test a sample of unit values used to value level 2 investments to externally quoted information sources, or where not quoted, to unit values provided by the investment manager's own independent custodian. We may consider the use of our specialist valuation team.

4. Other risks identified - continued

Risk	Entity Risk Relates To	Reason for risk identification	Key aspects of our proposed response to the risk
Contributions	**Pension Fund**	Contributions from employers and employees' represents a significant percentage of the Fund's revenue. We therefore identified the completeness and accuracy of the transfer of contributions as a risk of material misstatement.	We will: • evaluate the Fund's accounting policy for recognition of contributions for appropriateness; • gain an understanding of the Fund's system for accounting for contribution income and evaluate the design effectiveness of the associated controls; • agree changes in Admitted/Scheduled bodies to supporting documentation and agree total contributions for each employer to employer contributions reports • test a sample of contributions to source data to gain assurance over their accuracy and occurrence; and • test relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in member body payrolls and the number of contributing pensioners to ensure that any unusual trends are satisfactorily explained.
Pension Benefits Payable	**Pension Fund**	Pension benefits payable represents a significant percentage of the Fund's expenditure. We therefore identified the completeness, accuracy and occurrence of the transfer of pension benefits payable as a risk of material misstatement.	We will: • evaluate the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness; • gain an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls; • test a sample of lump sums and associated individual pensions in payment by reference to member files; • 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

5. Other matters

Other work

The Pension Fund is administered by the London Borough of Islington (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements. Both entities are considered here. 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 to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Council.
- 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 the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
    - Issue of a report in the public interest or written recommendations to the Council under section 24 of the Act, copied to the Secretary of State
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
    - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.
- 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 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 both the Council's and the Pension Fund's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

6. Materiality

The concept of 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. 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 £16.5m (PY £21.0m) for the Council, which equates to 1.5% of the Council's prior year gross expenditure for the year. The reduction in materiality compared to the previous year reflects the higher profile of local audit following external reviews such as those led by Sir John Kingman and Sir Tony Redman.

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 £13.7m (PY £13.0m) for the Pension Fund, which equates to 1.00% of the Pension Fund's prior year net assets.

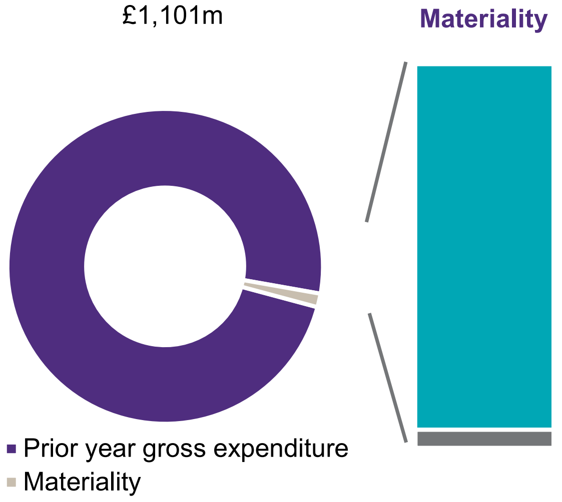
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

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 and Audit Committee (Advisory) 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 £0.8m (PY £1.05m) and for the Pension Fun we propose £0.69m (PY £0.65m).

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 and Audit Committee (Advisory) to assist it in fulfilling its governance responsibilities.

Council prior year gross expenditure



£16.5m

Council financial statements materiality

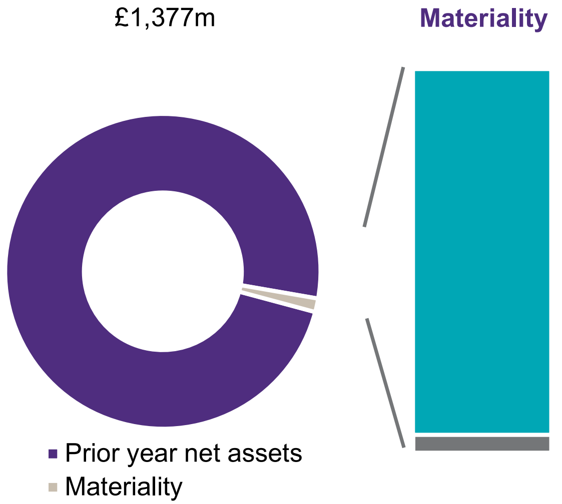
(PY: £21.0m)

£0.8m

Council misstatements reported to the Audit Committee and Audit Committee (Advisory)

(PY: £1.05m)

Pension Fund prior year net assets



£13.7m

Pension Fund financial statements materiality

(PY: £13.0m)

£0.69m

Pension Fund misstatements reported to the Audit Committee and Audit Committee (Advisory)

(PY: £0.65m)

7. Value for Money arrangements

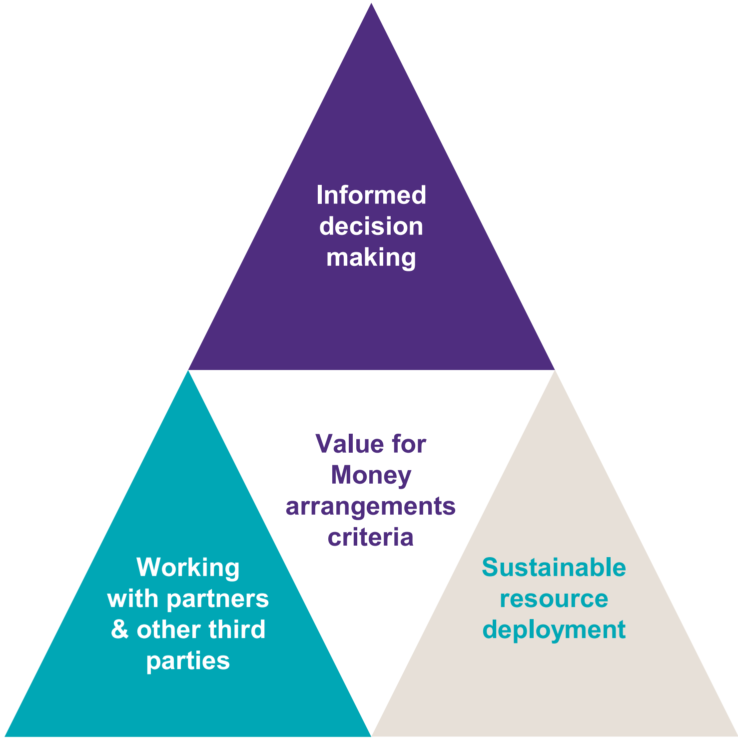
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place to secure value for money.

The guidance 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:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.

Medium term financial planning

Future 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.

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.

We will review your arrangements for setting the MTFP and examine underlying assumptions and dependencies for robustness. We will examine in detail the savings plans aimed at reducing future funding gaps.

Change and transformation programmes and governance

You are embarking on some significant transformation programmes, including transformation of ICT under Islington Digital Services, and in Adult 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.

We will review your arrangements for implementing cultural change and designing, implementing and monitoring specific programmes for embedding your strategic objectives through transformation and change.

8. Audit logistics & team

Paul Grady, Key Audit Partner

Paul is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Audit Committee and Audit Committee (Advisory). 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.

Marc Chang, Audit Manager

Marc 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.

Ade Oyerinde, Audit Senior Manager

Ade will work with the senior members of the finance and executive teams, ensuring early delivery of testing and agreement of accounting issues on a timely basis. Ade will attend Audit Committee and Audit Committee (Advisory) meetings, undertake reviews of the team's work and draft reports. Ade will work with Internal Audit to secure efficiencies and avoid duplication, providing assurance for the Annual Governance Statement.

Lydia Smith, Audit In-Charge

Lydia is responsible is 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.

8. Audit logistics & team continued

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, you must ensure that:

- all audit queries in our interim and final work are responded to in a timely manner and all required samples provided to enable completion of the interim audit prior to the end of March.
- the draft accounts are provided to us by 31 May and are fully accurate with minimal errors.
- supporting schedules to all figures in the accounts and other working papers are provided to us by 31 May and in accordance with the agreed upon information request list. This must include all notes, the narrative report and Annual Governance Statement.
- 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. All supporting schedules are clearly presented and agree to figures in the accounts.
- key management and accounting staff identified in our information request list are available throughout the duration of our audit visits to help us locate information and to provide explanations.
- all audit queries are resolved promptly and fully and within agreed timescales.

If any of the above requirements are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

9. Audit fees

Planned audit fees 2019/20

- 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. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Acting S151 Officer and is subject to PSAA agreement.

	Actual Fee 2018/19	Proposed fee 2019/20
Council Audit	£165,779	£181,079
Pension Fund Audit	£16,170	£25,000
Total audit fees (excluding VAT)	**£181,949**	**£206,079**

Assumptions:
In setting the above fees, we have assumed that the Council and Pension Fund 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 which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

9. Audit fee variations – Council

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	£156,179	This is this is the PSAA scale fee and is unchanged from 2018/19
Increased challenge and depth of work	£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	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 – IFRS 16	£2,500	The Council will be required to disclose in its 2019/20 financial statements the expected initial impact of the implementation of IFRS 16 on its net asset position and reserves as at 1 April 2020, to meet the requirements of IAS 8. This will require additional audit procedures.
Revised scale fee (to be approved by PSAA)	**£181,079**	

9. Audit fee variations – Pension Fund

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees.

Audit area	£	Rationale for fee variation
Scale fee	£16,170	This is the PSAA scale fee and is unchanged from 2018/19
Raising the bar	£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.
Valuation of Pension Fund investments	£3,830	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of investments this year, particularly Level 3 investments, to reflect the expectations of the FRC and ensure we issue a safe audit opinion.
Revised scale fee (to be approved by PSAA)	**£25,000**	

10. Independence & 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 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.

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 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following other services were identified:

Service	£	Threats	Safeguards
Audit related:			
Certification of Housing Benefits subsidy claim	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 the Council in 2018/19 of £181,079* 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 Pooling of Housing Capital Receipts	3,000	As above	As above
Agreed upon procedures engagement relating to the Teachers' Pensions End of Year Certificate	5,000	As above	As above
Non-audit related:			
CFO Insights subscription	10,000	As above	As above

* Revised scale fee (to be approved by PSAA)

10. Independence & non-audit services - continued

No non-audit services were identified in respect of the Pension Fund.

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. All services have been approved by the Audit Committee and Audit Committee (Advisory). 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.

The firm is committed to improving our audit quality – please see our transparency report - https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf

Appendix

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.

Grant Thornton

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