Grant Thornton

The Audit Findings for Islington Council and Islington Council Pension Fund

Year ended 31 March 2020

September 2020

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

This table summarises the key findings and other matters arising from the statutory audits of the Islington Council ('the Council') and Islington Council Pension Fund ('the Pension Fund') and the preparation of the Council and Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid - 19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council and Pension Fund. The Council has faced extensive front-line challenges as a result of the pandemic such as administration of grants to businesses, closure of schools and car parks with additional complexities of reopening services under new government guidelines. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an Audit Plan addendum to management in April 2020. This was shared with the Audit Committee and Audit Committee (Advisory) in the papers for the meeting held on 18 May 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6. Restrictions for non-essential travel have meant that Council, Pension Fund and audit staff have undertaken the accounts closedown and audit process remotely making use of remote access to financial systems and video conferencing, including screen sharing to verify information provided by the entity. The financial statements were published and provided to the audit team on 03 July 2020. No significant challenges were encountered in interactions between the Council and Pension Fund finance teams and the audit team as a result of remote working, although by its nature, remote working takes significantly longer than auditing on-site. Challenges were also faced in obtaining third party information remotely from the Council's investment parties with the result that, at the time of writing, our audit work in respect of long and short term investments remains in its early stages.
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 and Pension Fund's financial statements: • give a true and fair view of the financial position of the Council and Pension Fund and Council and Pension Fund's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work is being completed remotely during July-October. Our findings to date are summarised on pages 6 to 20. As at the date of writing there are no changes to the reported Total Comprehensive Income and Expenditure, although you advised us of a £152m material classification adjustment within the cashflow and related notes. The misclassification has no impact on your Cash and Cash equivalents balance at the 31 March 2020. Your accounts have been prepared to a good standard. Amendments to the financial statements from the audit work to date are set out on page 39 in Appendix C. We raised three recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Our work is well progressed and there are no matters of which we are aware that would require modification of our audit opinions (Appendices E and F) or material changes to the financial statements, subject to the outstanding matters outlined on page 5 of this report. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. Our anticipated audit opinion for the Council will be unmodified. It will include an Emphasis of Matter, highlighting material uncertainties around the valuation of land and buildings, investment properties and Pension Fund assets attributable to the Council as at 31 March 2020 due to the Covid-19 pandemic. Our anticipated audit opinion for the Pension Fund will be unmodified. It will also include an Emphasis of Matter, highlighting material uncertainties around the valuation of private equity, infrastructure and pooled property investments as at 31 March 2020, also due to uncertainties resulting from the pandemic.

Headlines - continued

Value for Money arrangements **(Council only)**	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. Our findings are summarised on pages 23 to 32.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. Our work under the Code is well progressed and on course to issue our opinion in October but are unable to issue our completion certificate until: • the required procedures in respect of the WGA have been performed, and • the Pension fund annual report has been reviewed for consistency.

Audit approach

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.

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

Audit approach

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

- An evaluation of the Council and Pension Fund's internal control environments, including their 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 had to alter our Audit Plan, as communicated to the Audit Committee and Audit Committee (Advisory) in May 2020, to reflect our response to the Covid-19 pandemic and its impact on the Council and Pension Fund's financial statements and the Council's value for money arrangements.

Conclusion

Our audit of the Council and Pension Fund's financial statements is well progressed and, subject to outstanding queries being resolved, we anticipate issuing unqualified audit opinions in the month following the Audit Committee and Audit Committee (Advisory) meeting on 29 September 2020, as detailed in Appendices E and F. As at the date of writing (16 September) the outstanding items include:

- awaiting responses from the Council's Pension Fund valuation specialists to enable us to complete the required audit procedures in respect of this risk;
- awaiting receipt of cashflow forecast to at least October 2021 and Management's going concern assessment;
- awaiting third party receipt of one outstanding investment and five borrowing balance confirmations from counterparties;
- reviews of journals, non-pay operating expenditure, debtors and business rates reliefs;
- finalisation of our review of the Council's property valuation, pension fund unfunded benefits, payroll disclosures, narrative report and Annual Governance statement,
- senior manager and engagement lead quality review of audit files and resolution of any arising queries;
- updating our review of events after the reporting date;
- receipt of management representation letters; and
- receipt and review of the final sets of financial statements.

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.

For the Council, materiality levels remain the same as reported in our Audit Plan.

For the Pension Fund, we have revised materiality levels from that reported in our Audit Plan due to a reduction in net assets for 2019/20 from the 2018/19 position.

	Council Amount (£'000)	Pension Fund Amount (£'000)
Materiality for the financial statements	16,500	13,500
Performance materiality	12,375	9,450
Trivial matters	800	675

Significant audit risks

Risks identified in our Audit Plan	Applicable to	Auditor commentary
Covid – 19 The global outbreak of the Covid -19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	Council and Pension Fund	Audit procedures undertaken in response to the identified risk included: • working with management to understand the implications the response to the Covid -19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported as a result of Covid-19 specifically. The draft financial statements were provided on 03 July 2020; • liaison with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert; • evaluating the adequacy of the disclosures in the financial statements that arose in light of the Covid -19 pandemic; • evaluating of whether sufficient audit evidence could be obtained through remote technology; • evaluating whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • evaluating management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussion with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. The Council's property valuation specialists reported that valuations of land and buildings and investment properties were subject to 'material valuation uncertainty' as at 31 March 2020 as a result of the impact of the Covid -19 pandemic on market activity, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. Management appropriately included an uncertainty disclosure in Note 5 to the Council's financial statements, and have updated the disclosure to include a sensitivity analysis as a result of audit challenge. In addition, the fund managers for the Pension Fund's pooled property investments and private equity and infrastructure investments declared material valuation uncertainties around the valuation of these investments on the same basis. This impacts upon both the valuation of investments in the Pension Fund accounts and the valuation of the net defined benefit liability in the Council's balance sheet. Management have agreed to include this uncertainty in Note 5 to the Pension Fund financial statements, and have included it in Note 5 to the Council financial statements, as appropriate. These disclosures will be referred to in our auditor's reports for the Council and Pension Fund respectively, in emphasis of matter paragraphs. These references do not constitute qualifications of the audit opinions. To date, no further issues have been identified which are required to be reported to those charged with governance. Should any residual issues arise that require reporting, we will do so before issuing our auditor's report.

Significant audit risks

Risks identified in our Audit Plan	Applicable to	Auditor commentary
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. In our audit plan we reported that having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we had determined that the risk of fraud arising from revenue recognition could 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 the Islington Council, mean that all forms of fraud are seen as unacceptable Therefore we did not consider this to be a significant risk for Islington Council or Islington Council Pension Fund. Our assessment remains consistent with that reported in our Audit Plan.
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. In particular journals, management estimates and transactions outside the course of business are areas susceptible to management override.	Council and Pension Fund	Audit procedures undertaken in response to the identified risk included: • evaluation of the design effectiveness of management controls over journals • analysis of the journals listing and determine the criteria for selecting high risk unusual journals • testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gaining an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions. To date, no material issues have been identified which are required to be reported to those charged with governance, subject to the resolution of outstanding matters set out on page 5. Should any residual issues arise that require reporting, we will do so before issuing our auditor's report. We recommended in our 2018/19 Audit Findings Report a review of systems access to your financial systems to ensure super user access is restricted to appropriate persons and they are not involved in day to day operations such as approving manual journals. This would ensure separation of duties as we would typically expect such journals to be posted by the finance team. We note that system administrators with super user rights continue to have the ability to post manual journals. Our testing to date has identified three manual journals posted by system administrators. Further details on our follow up recommended can be found on pages 36 and 37.

Significant audit risks

Risks identified in our Audit Plan	Applicable to	Auditor commentary
Valuation of land and buildings including council dwellings 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.	Council	Audit procedures undertaken in response to the identified risk included: • evaluating management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluating the competence, capabilities and objectivity of the valuation expert • writing to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met • engaging our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. • testing revaluations made during the year to see if they had been input correctly into the Council's asset register • assessing the value of a sample of assets in relation to market rates for comparable properties. • testing a sample of beacon properties in respect of council dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group. As discussed under 'Covid -19' above, the Council's property valuation specialists reported that valuations of land and buildings, including investment properties and council dwellings, were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid -19 pandemic on market activity, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. Management appropriately included an uncertainty disclosure in Note 5, and have updated the disclosure to include a sensitivity analysis as a result of audit challenge. This disclosure will be referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion. To date, no further issues have been identified which are required to be reported to those charged with governance. Should any residual issues arise that require reporting, we will do so before issuing our auditor's report.

Significant audit risks

Risks identified in our Audit Plan	Applicable to	Auditor commentary
Accuracy and presentation of the Private Finance Initiative (PFI) liabilities and associated disclosures 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.	Council	Audit procedures undertaken in response to the identified risk included: • reviewing your PFI models and assumptions contained therein. • comparing your PFI models to previous year to identify any changes. • reviewing and test the output produced by your PFI models to generate the financial balances within the financial statements. • reviewing the PFI disclosures to assess whether they are consistent with the Code and the International Accountancy Standard IFRIC12. We will check additional disclosures that you include within the financial statements to the PFI models. Our audit work is substantially complete. We have not identified any issue in respect of the identified risk.

Significant audit risks

Risks identified in our Audit Plan	Applicable to	Auditor commentary
Valuation of pension fund net liability 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.	Council	Audit procedures undertaken in response to the identified risk included: • updating our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluating of the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessing the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessing of the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud and Guaranteed Minimum Pension cases. • assessing the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • testing the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaking procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtaining assurances from our audit of the Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements Material valuation uncertainties are attached to the valuation of private equity, infrastructure and pooled property investments in the Pension Fund accounts. Given that the majority of the Pension Fund's assets are attributable to the Council as the administering authority for the Fund, there is also a material uncertainty surrounding the valuation of the net defined benefit liability in the Council's balance sheet. Management have included a disclosure Note 5 to reflect the uncertainty. The disclosures will be referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion. To date, no material issues have been identified which are required to be reported to those charged with governance. Should any residual issues arise that require reporting, we will do so before issuing our auditor's report.

Significant audit risks

Risks identified in our Audit Plan	Applicable to	Auditor commentary
Valuation of Level 3 Investments (Annual revaluation) 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.	Pension Fund	Audit procedures undertaken in response to the identified risk included: • evaluating management's processes for valuing Level 3 investments • reviewing the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • independently requesting year-end confirmations from investment managers and/or custodian(s) • for a sample of investments, testing the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciling those values to the values at 31 March 2020 with reference to known movements in the intervening period • in the absence of available audited accounts, evaluating the competence, capabilities and objectivity of the valuation expert • testing revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register • where available, reviewing investment manager service auditor report on design effectiveness of internal controls. Our audit procedures in this area is substantially complete. No issues have been identified to date which are required to be reported to those charged with governance.

Significant findings – other issues

This section provides commentary on issues and risks which were identified within our Audit Plan and during the course of the audit and a summary of any significant control deficiencies identified during the year.

Issue	Applicable to	Commentary	Auditor view
Completeness of non-pay operating expenditure and associated short-term creditors 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.	**Council**	Audit procedures undertaken in response to the identified issue included: • evaluating your accounting policy for recognition of non-pay expenditure for appropriateness, including the use of de minimis level set; • gaining an understanding of your system for accounting for non-pay expenditure and evaluate the design of the associated controls; • obtaining and testing a listing of non-pay payments made in April and May 2020 to ensure that they have been charged to the appropriate year.	Our audit work is substantially complete and there are no issues arising to date to draw to the attention of those charged with governance.
IFRS 16 implementation has been delayed by one year Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.	**Council**	Management disclosed in Note 3 to the financial statements the title, date of initial application and the nature of changes in accounting policy which would arise from IFRS 16 implementation.	Our audit work is substantially complete and there are no issues arising to date to draw to the attention of those charged with governance. For 2020/21, management will need to be in a position to provide a monetary estimate of the impact on assets, liabilities, income, expenditure and reserves of the transition to IFRS 16 to allow for auditor assessment of the adequacy of associated disclosures in the financial statements. We will review the estimated impact on the financial statements as at 31 March 2021 as part of the 2020/21 audit. As part of your on-going IFRS 16 preparations for implementing the standard, we would recommend you consider the following: • documenting your arrangements for ensuring the completeness of leases, and • considering the risk of impairment on lease asset values as at 1 April 2021 due to Covid - 19 and the level of uncertainty around the asset values.

Significant findings – other issues continued

Issue	Applicable to	Commentary	Auditor view
Actuarial Present Value of Promised Retirement Benefits 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.	**Pension Fund**	Audit procedures undertaken in response to the identified issue includes: • updating 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; • evaluating the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessing the competence, capabilities and objectivity of the actuary who carried out the Fund's pension fund valuation; • assessing the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability; • testing the consistency of disclosures with the actuarial report from the actuary; • undertaking procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.	There are no issues arising to date to draw to the attention of those charged with governance. Should any residual issues arise that require reporting, we will do so before issuing our auditor's report.
Valuation of Level 2 Investments 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.	**Pension Fund**	Audit procedures undertaken in response to the identified issue includes: • gaining an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls; • reviewing the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; • reviewing 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; • reviewing investment manager service auditor report on design effectiveness of internal controls, and, • where necessary, testing 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.	Our audit work is substantially complete and there are no issues arising to date to draw to the attention of those charged with governance. Should any issues arise that require reporting, we will do so before issuing our auditor's report.

Significant findings – other issues continued

Issue	Applicable to	Commentary	Auditor view
Contributions 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.	**Pension Fund**	Audit procedures undertaken in response to the identified issue includes: • evaluating the Fund's accounting policy for recognition of contributions for appropriateness; • gaining an understanding of the Fund's system for accounting for contribution income and evaluate the design effectiveness of the associated controls; • agreeing changes in Admitted/Scheduled bodies to supporting documentation and agree total contributions for each employer to employer contributions reports • testing a sample of contributions to source data to gain assurance over their accuracy and occurrence; and • testing 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.	Our audit work is substantially complete and there are no issues arising to date to draw to the attention of those charged with governance.
Pension Benefits Payable 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.	**Pension Fund**	Audit procedures undertaken in response to the identified issue includes: • evaluating the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness; • gaining an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls; • testing a sample of lump sums and associated individual pensions in payment by reference to member files; • testing 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	Our audit work is substantially complete and there are no issues arising to date to draw to the attention of those charged with governance.

Significant findings – key estimates and judgements – Council

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provisions for NNDR appeals – £15.9m	The Council are responsible for repaying a proportion of successful rateable value appeals. In 2019/20, management used an external organisation, Analyse Local, to calculate the level of provision required. Analyse Local's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. Due to a reduction in outstanding appeals, the provision in the draft financial statements had marginally decreased by £547k in 2019/20.	Audit procedures undertaken in response to the identified issue included: • appropriateness of the underlying information used to determine the estimate • impact of any changes to valuation method • consistency of estimate against peers/industry practice • reasonableness of decrease in estimate • adequacy of disclosure of estimate in the financial statements. We have not identified any issue to date in respect of the identified judgement and estimate. Should any residual issues arise that require reporting, we will do so before issuing our auditor's report.	● (green)
Land and Buildings – Council Housing – £3,048m	The Council owns 25,240 dwellings and is 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. The Council has engaged Wilks Head and Eve LLP to complete the valuation of these properties. The year end valuation of Council Housing was £3.1 billion, a net increase of £26.3m from 2018/19.	• From the work performed to date, no material issues have arisen in relation to the valuation of the Council's housing stock included within the accounts. • We have assessed management's expert, Wilks Head and Eve LLP, to be competent capable and objective. • The valuer has correctly prepared the valuation using the stock valuation guidance issued by MHCLG, and has ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH) value disclosed within the accounts. • All properties were valued as at 01 April 2019 and the valuer issued a follow up report commenting on market changes to the 31 March 2020 to correctly state the value of the portfolio in current terms. Other than the material valuation uncertainty referred to on page 8, we have not identified any other material issue to date. Should any residual issues arise that require reporting, we will do so before issuing our auditor's report.	● (green)

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 estimates and judgements – Council

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other – £691m; **and Investment Properties - £33.2m**	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. Investment property is required to be valued at fair value. You have used your internally qualified RICS valuer to complete the valuation of properties on a five yearly cyclical basis. Land and buildings and investment properties were valued as at 01 April 2019 and the valuer issued a follow up report commenting on market changes to the 31 March 2020 to correctly state the value of the portfolio in current terms. This exercise resulted in additional valuations at the balance sheet date in cases where the valuer assessed that material movements had occurred.	• From the work performed to date, no material issues have arisen in relation to the valuation of the Council's operational land and buildings and investment properties included within the accounts. • We have assessed your In-house valuer to be competent, capable and objective. • We have carried out completeness and accuracy testing of the underlying information used to determine the estimate, and have no issues to report. • The valuation method remains consistent with the prior year. • We confirm consistency of estimate against the Gerald Eve report on property market trends, and reasonableness of the increase in the estimate. • We have agreed the valuation report to the fixed asset register and the financial statements. Other than the material valuation uncertainty referred to on page 8, we have not identified any other material issue to date. Should any residual issues arise that require reporting, we will do so before issuing our auditor's report.	(green)

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 assumptionswe 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 estimates and judgements – Council

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £911m	Your net pension liability at 31 March 2020 is £911m. The Council used Mercer to provide actuarial valuations of its assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. A full actuarial valuation was carried out as at 31 March 2019 and used in determining the contribution rates with effect from 01 April 2020 to 31 March 2023. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.	• We have assessed the actuary, Mercer, 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 2019/20 calculation carried out by the actuary. • 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:	● (green)

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.3% - 2.4%	●
Pension increase rate	2.1%	2.1% - 2.2%	●
Salary growth	3.6%	3% - 4%	●
Longevity at 65 for future pensioners Male (Female)	24.2 (27.6)	22.5 – 24.7 (25.9 – 27.7)	●
Longevity at 65 for current pensioners Male (Female)	22.7 (25.7)	20.9 – 23.2 (24.0 – 25.8)	●

- 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.
- Our work to date confirms that the decrease in the IAS 19 estimate is reasonable.

Subject to the conclusion of the outstanding matters highlighted on page 5, we have not identified any issue to date in respect of the identified judgement and estimate. 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

- ● 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 estimates and judgements – Pension Fund

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 2 and 3 investments	The Pension Fund have investments in pooled investment vehicles which include equity, private equity and property funds that in total are valued on the balance sheet as at 31 March 2020 at £1.2 billion. These investments are not normally traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management make use of evaluated price feeds, with the exception of the valuation of property investments which is based on evaluation of market data. The value of the investment has increased by £18m in 2019/20, largely due to sales and changes in market value.	• From the work performed to date, no material issues have arisen in relation to this risk • We are assessing the appropriateness of the underlying information used to determine the estimate, including fund manager and custodian reports, and audited accounts of the private equity funds as at 31 December 2019 • We are assessing the consistency of the estimate against peers and industry practice • We are reviewing the reasonableness of the increase in the estimate • We are assessing the adequacy of disclosure of estimate in the financial statements including classification between level 2 and 3 investments. Should any residual issues arise that require reporting, we will do so before issuing our auditor's report.	● (green)

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

Other 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	Auditor view
Historical trial balance (TB) code	Our review of the consistency between the draft accounts and the TB identified a number of redundant pension fund codes which are no longer in use. There are about 87 redundant codes still on the TB.	All redundant pension fund codes should be deleted to minimise risk of mis-classification and transactions not being reported in the accounts.

Going concern – Council and Pension fund

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

The Council's financial statements including the Pension fund have been prepared on a going concern basis, as disclosed in the Narrative report and Statement of Responsibilities for the Statement of Accounts.

Management provided the Medium Term Financial Strategy extending over the three-year period to March 2023. Management's assessment acknowledges that the financial outlook for the Council is challenging, with a £10.6m budget gap which assumes delivery of savings of £23.6m over the medium term, prior to the Covid -19 pandemic and its ensuing impact. The Council has an on-going service transformation programme to align future spending plans to the Council's strategic priorities with the joint goals of bridging this gap and ensuring better outcomes for residents.

As a result of increased expenditure and diminished income, for instance from parking and commercial rents, due to the Covid -19 pandemic, the original 2020/21 budget is now forecast to overspend by over £23m. The majority of this will be offset by government funding and the use of the prior year underspend. The residual c£4m overspend will be filled through identification of additional savings opportunities or, if necessary, use of reserves or contingency fund.

The situation beyond 2020/21 is more uncertain as the longer-term impact of the pandemic on individuals and businesses in the Borough, and by consequence demand for services, remains unclear. However, management are confident that the Council retains sufficient levels of useable reserves which as a last resort can be used to withstand the pressures faced during the period of their assessment.

Work performed

Our review of going concern disclosures is in progress. Our review includes review of management's disclosures, going concern assessment and Medium Term Financial Strategy, corroborating key inputs and assumptions to our wider knowledge gained through the audit process, and where applicable to supporting documentation. We will considered, based on our understanding of the Council and the wider political and economic climate, whether material uncertainties exist which were not explicitly covered by management's assessment.

Initial conclusions is management's assessment is based on accurate information including prudent assumptions around future income and expenditure levels, and likely shortfalls based on known events and best available information. We are satisfied that the Council holds sufficient useable reserves to mitigate the risk of any short-term funding shortfalls which may arise throughout the period of management's assessment. We will complete our review on receipt of management's cashflow forecast to at least October 2021.

Concluding comments

Subject to the satisfactory conclusion of our work, we are satisfied from the work performed that:

- the going concern basis of preparation is appropriate for the Council's financial statements and Pension Fund
- no events or conditions exist which may give rise to material uncertainties casting significant doubt on the Council's ability to continue as a going concern
- the disclosures in the Council's financial statements (including the Pension Fund) relating to going concern are adequate.

Our audit opinion in respect of going concern will be unmodified.

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee and Audit Committee (Advisory). We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A standard letter of representation will be requested for the Council and Pension fund at the conclusion of the audit.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all banking and investment counterparties. This permission was granted and the requests were sent. At the time of writing, the majority of these requests have been returned with positive confirmation, although one investment and five borrowing confirmation requests are yet to be received. We sent letters to those solicitors who worked with the Council and Pension Fund during the year and responses were received.
Disclosures	Our review of disclosures found no material omissions in the financial statements of either the Council or Pension Fund. Changes made to disclosures during the course of the audit are summarised in Appendix C.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management were provided

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement 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 • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
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. 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. At the time of writing, the group instructions have yet to be issued by the NAO, with these due to be communicated to group auditors during September 2020. These procedures will be completed alongside the issue of our auditor's report.
Certification of the closure of the audit	We are unable to certify the closure of the 2019/20 audit until • the required procedures in respect of the WGA outlined above have been performed, and • the Pension fund annual report has been reviewed for consistency. This will take place following the conclusion of the financial statements audit. This is reflected in the audit opinions.

Value for Money

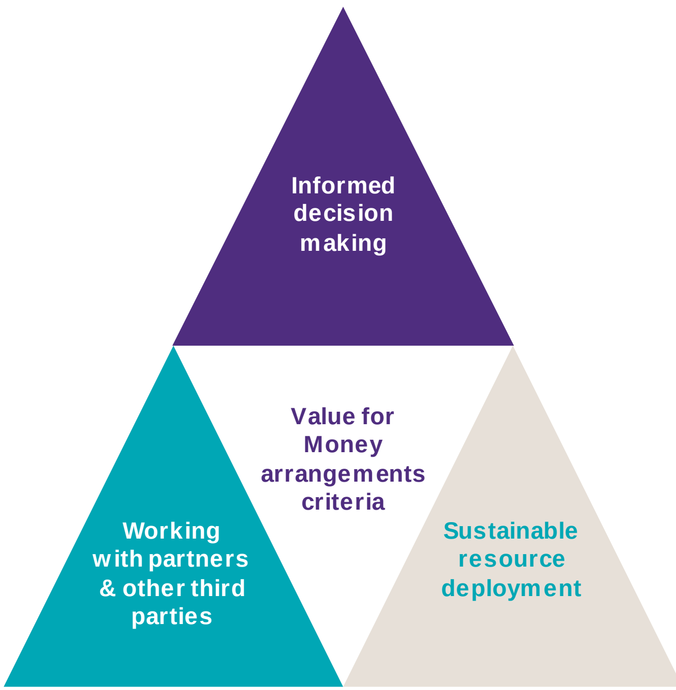
Background to our VFM approach

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 April 2020. 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 in January and February 2020 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2020.

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 have not identified any new VfM risks in relation to Covid -19, however we have considered and commented on the potential impact of Covid -19 on the Council's future financial sustainability, and plans for addressing the arising issues, as part of our work in addressing the previously identified significant VfM risks around the arrangements in place for Medium Term Financial Planning and change and transformation programmes.

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:

- Revenue and capital outturn for 2019/20
- Approved revenue and capital budget for 2020/21
- Officer assessment of the impact of Covid -19 on forecasted costs and income for 2020/21 and future years, as reported to members
- Medium term financial plan for 2020/21-2022/23
- Analysis of reserves position relative to other comparable local authorities
- Discussions with key officers
- Ofsted inspection of children's social care services in March 2020 rated 'outstanding' overall.

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 25 to 32.

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.

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.

Value for Money – Medium Term Financial Planning

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 Conclusions
Medium Term Financial Planning Future funding uncertainty arising from the fairer funding review and longer-term settlement decisions has created financial uncertainty for the Council over the medium to long term. You have set a balanced budget for 2020/21 and your Medium Term Financial Plan for 2020 – 2023 identifies that you needed to close a 3 year budget gap of £10.6m to maintain financial balance. This assumes that you will deliver £23.6m savings under a revised savings programme. 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.	**2019/20 Outturn** You achieved an overall General Fund underspend, including schools, of £7.8m, of which £2.6m was then transferred to a new Budget Strategy Reserve, giving a net General Fund underspend of £5.2m and a corresponding transfer to General Fund balances. Overall, 2019/20 was a successful year for the Council, but is recognised as one-off in nature, and comes before a highly uncertain financial outlook for 2020/21. The revenue underspend was driven in-part by lower than forecast borrowings costs, including a net £1.8m of debt interest savings, as a result of pursuing an efficient borrowing strategy and reprofiling of capital budgets. A number of minor underspends have been experienced for the majority of service areas, including Children's (£1.7m), including where lower than budgeted costs for the Children's social care transformation programme were seen, and Adult's (£1.4m), driven by the use of one off resources. The impact of Covid-19 on the revenue outturn for 2019/20 was minimal, due to the pandemic only arising within the final few weeks of the period. An overspend of £1.3m for loss of income and exceptional expenditure in late March 2020 because of Covid-19 was offset by almost £1.3m of government grant funding to mitigate the financial impact of the pandemic on the 2019/20 General Fund outturn position. However, as explored below, the impact on the 2020/21 budget is significant both in respect of increased expenditure and loss of income, and may also have a significant impact on the Council's ability to realise planned savings and efficiency programmes and deliver service transformation within planned timeframes. **Original 2021 Budget and Medium-Term Financial Planning** In our Audit Plan we reported that management had identified a funding gap of £10.6 million in the Council's medium term financial plan for the three year period from 2020/21 – 2022/23, which would need to be met from a combination of reduced costs and increased income. The £10.6m gap assumed the delivery of savings of £23.6m over the medium term, £9.7m of which related to 2019/20. The Council already had in place a range of efficiency programmes and service reviews across different directorates and was in the process of bringing these together into an outcomes-based budgeting and service transformation programme which aligned transformation and change, and associated efficiency plans, to the Council's strategic priorities. The savings programme is discussed in more detail against our second significant risk. Your 2020/21 budget proposed an increase in basic Islington council tax of 1.99% in 2020/21 and, subject to review as part of future budget setting cycles, assumed increases of 1.99% in 2021/22 and 2022/23.

Value for Money – Medium Term Financial Planning

Significant risk	Findings and Conclusions
Medium Term Financial Planning Continued	The Medium-Term Financial Strategy (MTFS) recognised that Central Government funding levels for the Council, along with all inner-London authorities, is likely to decrease because of the Fair Funding Review. You emphasized further uncertainties in the budget-setting exercise which have made it difficult to estimate the budget gap in 2021/22 and 2022/23 with accuracy, for example: • The longer-term central government Spending Review and planned reforms to the local government finance system around business rates retention and the fairer funding review have been delayed until 2021/22; • changes to the expected delivery and phasing of agreed savings; • In-year performance of the London Business Rates Pool and impact on the Council's total business rates income; and • Brexit related developments You have been seen to proactively engaging with discussions with the Government around proposals for potential additional funding, such as through the Society for London Treasurers to facilitate a greater level of control over uncertainties which currently exist. You have been collaborating with neighbouring North London Boroughs to allow for joint thinking and approaches for budgeting for forward looking assumptions for Covid-19, such as in treating NDR collection rates. Further general assumptions were made around pay and price inflation, realisation of savings, Council Tax increases and known spending pressures. In addition, you noted that the estimated net increase in central government funding is grossly insufficient to address the inflationary and demographic cost pressures that you face over the next three years On our review of your Medium-Term financial strategy and budget, we conclude that you have set out, in a reasonable way for Council and the public, estimates of the additional costs and reductions in income for the budgetary challenge through to 2023/24. You have identified the estimated gap using suitable assumptions and estimates which are in line with our expectations and similar Councils. **Response to Covid-19** In the period since the year-end of the financial year, you moved from the initial emergency response phase to focus on recovery planning which is running in parallel with on-going responses to the pandemic, such as supporting vulnerable people, and managing the capacity challenges of delivering business as usual alongside covid-19 response. Following on from lockdown, you put arrangements in place to ensure that risks and uncertainties caused are given due consideration in short and medium-term financial planning scenarios, and that the impact is effectively recorded and monitored to the best of your ability. You have done this through maintenance of a financial tracker to monitor additional costs and lost income in relation to Covid-19. The tracker forecasts the anticipated financial impact of the Covid-19 variables to each month-end and to the end of the financial year. The estimates are then RAG rated for confidence of the accuracy of those estimates, with assumptions regularly refined. For example, it is assumed that collection losses for council tax collection rate for the year will decrease by 3% (from 98% to 95%); this is a high-level assumption that will be refined as more collection analysis emerges. Tracking costs in this way has allowed you to report monthly to members on a position regarding the projected overspend 'without' Covid-19, as well as the real projected overspend with it. On review of the tracker, we consider the approach to be comprehensive, and reasonable. As at Month 4, the Council's 2020/21 forecast overspend before the Covid-19 grant is £40.3m. After Covid-19 funding, and in real terms, the forecast budget deficit at Month 4 is £23m.

Value for Money – Medium Term Financial Planning

Significant risk	Findings and Conclusions
Medium Term Financial Planning continued	**Impact of Covid-19: General Fund** As expected, and as is unsurprising for an inner London Borough, parking has been one of the areas that has had the biggest hit following the pandemic. As at Month 4, there has been an £11.3m loss of income in relation to parking across Pay & Display, penalty charge notices and permits. Other cost pressures resulting in projected overspends faced by the Council include the loss of management fee rental income from leisure centres of £4.3m, the purchase of personal protective equipment (PPE) for Adult Social Care workers of £4m, and upgrading IT infrastructure for increased home working and additional support for £2.2m. Central Government has partially recognised such challenges faced by local authorities and in March and April 2020 allocated two tranches of central funding which totalled £3.2 billion nationwide. The Council's share of this income amounted to £8.9 million. A further package of support was announced in July 2020. The Government has also announced proposals to fund 75% of 95% of lost budgeted fees and charges income for local authorities, which can unavoidably not be recovered in 2020/21 and are not already offset by other support. The guidance provided by MHCLG makes clear however that this does not include investment income or commercial rents, and only covers income directly related to the provision of services. Management's best estimate is that around £10 - £13 million of the Council's lost income could be eligible to be reclaimed from the Government through this scheme, which would further offset the forecast overspend for the year. Combined with the 2019/20 general fund underspend taken to reserves (£7.8m), and the above mentioned income expected to be recovered under the income support scheme (say £11.5 m), the projected overspend for 2020/21 would be reduced in real terms to circa £4m, which is far more manageable. It is noted that the Council holds a £5.4m corporate contingency reserve, earmarked for unknown pressures, which in itself would be sufficient to cover this deficit. **Impact of Covid-19: Collection Fund** For the collection fund, your current forecasts also estimate council tax losses of £5.7m and business rates losses of £7.4m for 2020/21, that will also impact future year budgets. The actual budgetary impact will depend on the wider economic outlook, including the extent to which arrears can be recovered and any ongoing decrease in the tax base. You note that the estimates you have derived will be updated for actual collection rates (which are currently 0.4% down - a rate which is lower than might have been expected). Any deficits from council tax and business rates arising in 2020/21 would normally be transferred from the collection fund in the following year (2021/22). However, the government has recently proposed that these deficits will now be spread equally over 3 years (2021/22 to 2023/24). This remains uncertain but phasing over 3 years will help the Council in the short term, reducing the collection fund impact on 2020/21 by circa £8.7m. You intend to factor this into your budget setting assumption for the coming year. **Impact of Covid-19: Capital** Per your Medium Term Financial Strategy, the capital programme is intended to deliver £479m of capital investment over the next three years and includes the continuation of ongoing major programmes, which includes the Council's ambitious new build programme (£252m as at the end of the last financial year). You anticipate that the Covid-19 crisis (and particularly the lockdown period) will to lead to significant slippage of the 2020/21 capital programme into future financial years. Indeed, as at the end of month 4, £21.9m (11.7%) of expenditure had been incurred against the 2020/21 capital budget of £188m.

Value for Money – Medium Term Financial Planning

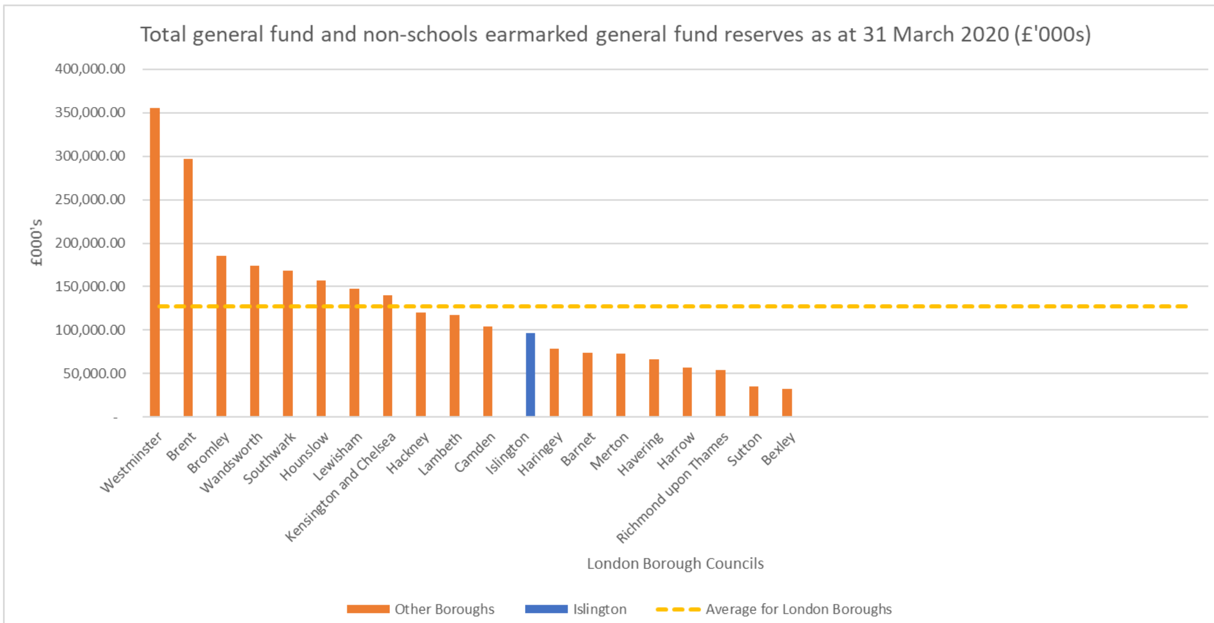
Significant risk	Findings and Conclusions
Medium Term Financial Planning continued	The capital slippage for 2019-20 itself, which amounted to £24.0 million in the General Fund and £20.4 million in the Housing Revenue Account (HRA) when compared to original budgets, relates largely to spend which has now been rephased to 2020/21 or future years, meaning that intended outcomes for residents are still intended to be realised but within a revised timeframe. You are aware that there is potential that further delays to projects could arise because of the Covid-19 pandemic and associated availability of labour and materials.

Sustainability of reserves

It is critical that management continue to look beyond the current crisis and maintain sufficient reserves relative to likely future pressures as systemic change and transformation become embedded and begin to realise substantive recurrent savings, to mitigate risks posed by external factors outside of member and officer control.

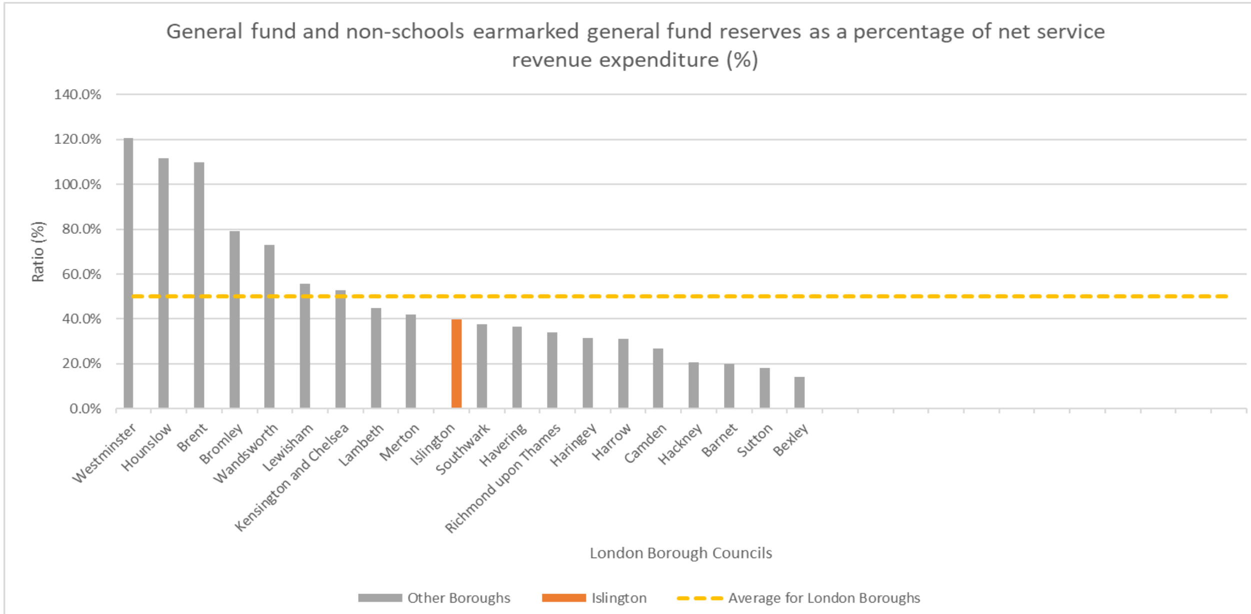
As at 31 March 2020, the Council held useable reserves both in terms of value and in terms of ratio to net revenue expenditure which were slightly below an average level for London Boroughs, as illustrated by graphs 1 and 2 below.

Graph 1: Total general fund and non-schools earmarked general fund reserves as at 31 March 2020



Value for Money – Medium Term Financial Planning

Significant risk	Findings and Conclusions
Medium Term Financial Planning continued	**Graph 2 - General fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure (%)**



You have plans in place to utilise a significant proportion of existing reserves over the medium term in accordance with the purposes for which the reserves were designed and funds were originally set aside. For example, a transformation reserve for up-front investment for the delivery of transformational revenue savings over the medium term is held, where this investment cannot be funded from within existing departmental budgets. You also hold a housing benefit reserve, committed to funding the transitional costs of implementing Universal Credit. Your estimated level of General Fund balances over the Medium-Term planning period is consistent with your existing policy to set a minimum target level at 5.0% of the net budget requirement.

You recognise that ideally the level of General Fund reserves and balances would be higher going forward given the degree of risk around the medium-term budget assumptions, now worsened by the Covid-19 pandemic. Your underspend on the General Fund budget of £7.8m at the end of the current 2019/20 financial year has been transferred to reserves in order to provide additional resilience for significant budget risks caused by the pandemic. As mentioned elsewhere, contingency budgets should be enough to cover forecast overspends for 2020/21 not covered by the Governments income support scheme.

Value for Money – Medium Term Financial Planning

Significant risk	Findings and Conclusions
Medium Term Financial Planning continued	**<u>Conclusion</u>** The financial outlook for the Council remains challenging. During 2019/20 and in the period since the year-end, officers have put in place robust arrangements to ensure that risks and uncertainties are given due consideration in short and medium-term financial planning and the impact is effectively modelled to the best of their ability, drawing on external support where knowledge gaps or wider unknowns are identified. The outturn position for 2019/20 is broadly indicative that management's understanding of the key drivers for income and expenditure relating to core services and ability to understand impact of decisions taken is strong, and plans have been put in place for improvement to processes where significant variances were identified. The methodology through which management have identified pressures resulting from Covid-19, and the reporting structure to members, is considered effective. As a result of Government Funding and initiatives, prior year underspends and prudent financial planning including setting aside contingencies in the budget-setting process, the Council has sufficient resources in place to meet the expected shortfalls in income and increases in expenditure for 2020/21 arising from the Covid-19 pandemic and is not facing the kinds of challenging decisions in the immediate term around service cuts. However, in the medium term, the picture remains far more uncertain as the longer-lasting impact of the pandemic on the economy, in the context of wider financial risks beyond the control of officers or members, remain significant unknowns. Management are conscious of the need to remain responsive to emerging circumstances, whilst keeping sight of longer-term strategic goals which underpin future investment decisions from use of reserves.

Value for Money – Cultural Change and Transformation

Significant risk	Findings and Conclusions
Change and transformation programmes and governance You are embarking on some significant transformation programmes, including transformation of ICT under Islington Digital Services. Your plans are ambitious and complex and require robust arrangements. You are seeking to transform the way the organisation is working in terms of new technology, new structures, new ways of working and shifting focus to meet the needs of the diverse population which the organisation serves, whilst maintaining financial balance.	**Overview** Your savings programme currently includes an identified £25m savings that are anticipated to materialise over the three years to 2022/23 and you identified the delivery of these savings as a key uncertainty going forwards in closing the budget gap over the medium term. In the current environment it is more important than ever that the Council seeks to build sustainable services for the future which can weather the storm of the challenges to come and continue to deliver high quality outcomes for residents of the Borough. **Transformation Schemes** In our audit plan we reported that the Council carried out an exercise to RAG rate the existing savings programme. As of February 2020, you had total assumed savings of £23.6m, before the Covid-19 pandemic took hold. 78% of your savings were 'Green' rated, 5% were 'Amber' rated and 17% were 'Red' rated. £9.7m of the total savings were planned to materialise in 2020/21. You maintains a savings tracker to monitor the savings anticipated under existing schemes and to aid in any reprofiling decisions. This schedule is regularly updated and presented to the Executive committee. As at Month 4 2020/21, £7.3m of savings are now green rated (29%), £12.8m are amber rated (51%), £3.5m are red-rated (14%), representing a deterioration in the position at the start of the year. This is hardly surprising; almost universally, delays have been experienced because of lockdown measures from Covid-19 and many of the schemes are behind their original schedule. Your savings targets for 2020/21 total £8.7m of the total £25m transformation programme, and to date £1.6m of these have been fully achieved. This represents a reprofiling of savings to later years, giving the Council a less ambitious but more pragmatic target for 2020/21, given what can realistically be achieved amongst current uncertainty. You acknowledge that you need to work on identifying additional savings and new transformation programmes. Lengthy meetings and consultations are being held by managements with Directorates at a service level, including with Adult Social Care and Children's Services to push for drive savings from the bottom upwards and for the identification of outcomes that are realistic with existing resources. **Islington Digital Services** You have had historical issues regarding the age of IT infrastructure and software. Your IT transformation project was split into two phases; the first being the need to ensure that all staff had access to the right hardware. When Covid – 19 pandemic lockdown came into force, the IT department had to switch attention to ensuring that people can keep working remotely, which has involved the roll-out of update software including Microsoft Teams and Office 365. The next phase for delivery will be harder and intends to improve efficiency and discourage the use of different systems for the same task, and the interlinking of existing of systems. The response to Covid - 19 has seen major upgrades in the IT infrastructure at the Council; this is a success story to date but it is recognised that there remains a lot of work to do going forwards.

Value for Money – Cultural Change and Transformation

Significant risk	Findings and Conclusions
Change and transformation programmes and governance continued	**Climate Change Initiatives** Central to changing the way in which the Council operates, you declared a Climate Emergency in June 2019, and have developed a Zero Net Carbon Strategy which aims for a net zero carbon in the Borough by 2030. The Council's operations represent 4 - 8% of the Borough's emissions, so you have significant influence over this. However, you recognise that significant and on-going funding, including capital grant funding, is required for you to deliver your ambition for Islington. For example, the cost of retrofitting the council's housing stock to become both energy efficient and zero carbon in terms of energy will be expensive, especially given the Covid-19 pandemic, but you are putting in place funding strategies to meet this goal. You have started initial stakeholder and resident consultations and have given residents opportunities for feedback on the strategy, and have progressed existing projects such as the Bunhill 2 energy centre, which will use warm air from the London Underground to supply heat to the Bunhill heat network, the first project of its kind in the world. To progress the plan in its early stages you have been collaborating with other boroughs, 25 of which have also declared climate emergencies. London Councils have set up a Climate Emergency Working Group of officers that meets regularly to discuss strategy and opportunities to work together. Recent research has shown higher death rates from Covid-19 in areas where there is poorer air quality than in areas with better air quality, and so by encouraging walking and cycling through the measures outlined above, the council will be supporting the health resilience of those working and living in Islington which should reduce future budgetary pressures. You are proposing to invest £1m on 'Liveable Neighbourhoods' to improve the local environment for everyone. The initiative is aimed to stop through traffic, to make it easier to walk and cycle, and will include measures such as road closures and cycle routes. The Mildmay and Highbury East area has been selected as the first Liveable Neighbourhood in Islington as part of a much wider borough vision to introduce Liveable Neighbourhoods in every residential area of the borough in the coming years. The proposals for Liveable Neighbourhoods will be closely designed with local communities to improved public spaces. **Conclusion** Along with all organisations across the public and private sectors, you are considering how to take forward the benefits from the period of largely remote working which has been necessitated by the Covid-19 pandemic. This includes considerations such as flexible working, effective use of office space and the ways in which services are delivered, for example how remote communications with clients to support delivery of Children's Services, which has been necessitated by the Covid-19 pandemic, can be adapted and used going forward. You remain in a period of significant change with many plans in place for the future. Designing resilient, future-fit service delivery models will be more crucial than ever given the economic uncertainties which the Council now faces over the medium term and the pressures being faced by local businesses and residents. Change and transformation programmes have been adversely impacted by covid-19 but you recognise the importance of continuing to identify and reprofile savings plans. It will also be essential that the anticipated benefits and desired outcomes from transformation and cultural change are clearly articulated and measurable, to enable you to demonstrate success against the plans and identify, and take corrective action, at an early stage should the risks to success become prohibitive. The Council's executive leadership are conscious of this and have to date maintained resources set aside to invest in change and transformation, despite the current crisis.

Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D

Independence and ethics

Audit-related 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 charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Agreed upon procedures relating to pooling of housing capital receipts (Council)	3,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,000 in comparison to the total fee for the audit 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. To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports.
Agreed upon procedures relating to the Teachers' Pensions End of Year Certificate (Council)	5,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit 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. To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports.
Certification of Housing Benefit Subsidy Claim (Council)	28,226	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £28,226 in comparison to the total fee for the audit 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. To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports.

Independence and ethics

	Fees £	Threats identified	Safeguards
Non-audit related			
CFO Insights Subscription (Council)	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 work is £10,000 in comparison to the total fee for the audit 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. The CFO insights service provides the Council with access to various data sources, which they decide how to use and make their own decisions about the delivery of services, therefore we do not believe there is an impact on the value for money conclusion.

Action plan

We have identified a number 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 2020/21 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	Applicable to	Recommendations
Medium	**IFRS 16 Leases** The implementation of IFRS 16 has been delayed to 1 April 2021. The Council's IFRS 16 disclosure in 2020/21 will need to include the estimated impact on the financial statements as at 31 March 2021. We will review the estimated impact on the assets, liabilities, income, expenditure and reserves within the financial statements as at 31 March 2021 as part of the 2020/21 audit.	Council	As part of your on-going IFRS 16 preparations for implementing the standard, you should: • document the Council's arrangements for ensuring the completeness of leases, and • consider the risk of impairment on lease asset values as at 1 April 2021 due to Covid - 19 and the level of uncertainty around the asset values.
Medium	**Historical trial balance (TB) code** Our review of the consistency between the draft accounts and the TB identified a number of redundant pension fund codes which are no longer in use. There are about 87 redundant codes still on the TB. Risk of mis-classification between TB codes.	Council	All redundant pension fund codes should be deleted to minimise risk of mis-classification and transactions not being reported in the accounts.
Medium	**Journals** Our testing of journals identified three manual journals posted by system administrators with super user rights. We reported a similar issue in our 2018/19 Findings report. To ensure separation of duties, we would typically expect such journals to be posted by the finance team and system administrations not undertake finance operational tasks.	Council	Undertake a review of systems access to your financial systems and ensure super user access is restricted to appropriate persons

Controls

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

Follow up of prior year recommendations

We identified the following issues in the audit of the Council and Pension Fund's 2018/19 financial statements, which resulted in 3 recommendations being reported in our 2018/19 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x (partial)	**IT general controls** We undertook a review of your IT general controls and made 2 high and 4 medium priority recommendations around the following areas: • The number of Domain Admins and Enterprise Admins for Active Directory is not appropriately limited and reviewed • Proactive review of Logical Access • Lack of Information Security Policies and Procedures review and approval • IT security training for employees • Password complexity enforcement • Independent audit report on vendor's security systems.	The IT Application Services Manager provided an update in July 2020. Whilst actions has been taken on each recommendation, none have been fully implemented at the time of writing this report. **Auditor response** Action partially complete, progress to be followed up during 2020/21.
✓	**Payroll** 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.	The payroll manager confirmed confirm that Backpay Arrears Report, not part of the 40% threshold report, is now checked in its entirety. **Auditor response** Action complete
x	**Journals** Our testing of journals to date 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.	**Auditor response** Journal testing during 2019/20 identified further examples of manual journals posted by system administrators with super user rights. Recommendation not yet addressed, refer page 36.

Assessment

✓ Action completed

X Not yet addressed

Audit adjustments – Council and Pension fund

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

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 2020.

Detail	CIES £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
Cashflow statement and related notes (Council) Management advised us of a £152.6m material classification error within the cashflow and related notes. Proceeds of £152.6m arising from the disposal of short term investments were incorrectly classified. This does not impact the CIES or balance sheet.	£Nil	£Nil	£Nil
Overall impact	**£Nil**	**£Nil**	**£Nil**

Impact of prior year unadjusted misstatements

No unadjusted misstatements relating to the Council or Pension Fund were identified during the 2018/19 audit that impact on the 2019/20 financial statements.

Audit adjustments – Council and Pension fund

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 amendment	Applicable to	Detail	Adjustment agreed?
Cashflow statement and related notes (note 31)	Council	Management advised us of a £152.6m material classification error within the cashflow and related notes. Proceeds of £152.6m arising from the disposal of short term investments were incorrectly classified. There is no impact on the reported Cash and cash equivalents as at 31 March 2020. Management will update the cashflow statement and related notes for the correct figure.	✓
Major Sources of Estimation Uncertainty	Council	The material valuation uncertainty in respect of the land and buildings, council dwellings and investment property valuation represents a significant estimation uncertainty. The material valuation uncertainty in relation to the net defined benefit liability also requires disclosure. Management have updated the uncertainty disclosures in Note 5 to the financial statements. These disclosures will be referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion.	✓
Major Sources of Estimation Uncertainty	Pension fund	Additional detail was added to the disclosure note to enhance the disclosure around material valuation uncertainties relating to valuation of private equity, infrastructure and pooled property investments arising from the impact of the Covid - 19 pandemic on market activity, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case, to more fully reflect the nature and cause of the uncertainties reported by management's property valuation specialist in their valuation report. Management have updated the uncertainty disclosures in Note 5 to the financial statements. This disclosure will be referred to in our pension fund auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the pension fund audit opinion.	✓

A number of other minor presentational amendments including adjustment of prior period comparatives to match the audited 2018/19 financial statements were made during the audit.

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	£181,497	TBC
Pension Fund Audit	£25,000	TBC
Total audit fees (excluding VAT)	**£206,497**	**TBC**

The fees reconcile to the financial statements audit fee disclosures in Note 11 and Pension Fund Note 12c.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services:		
• Housing benefit subsidy claim	20,000	TBC
• Pooling housing capital receipts grant	3,000	TBC
• Teachers' pensions end of year certificate	5,000	TBC
Non-Audit Services:		
• CFO Insights subscription	10,000	10,000
Total non- audit fees (excluding VAT)	**£38,000**	**TBC**

Audit opinion – Council

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

FULL TEXT OF THE DRAFT OPINION TO BE ADDED

Audit opinion – Pension Fund

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

FULL TEXT OF THE DRAFT PENSION FUND OPINION TO BE ADDED

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