

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

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

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

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

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

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

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

Laws and Regulations – Islington Council and Islington Council Pension Fund

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

	The Pensions Sub-Committee meets approximately every three months. The committee regularly receives reports on the performance of the pension fund, including assessments of the key risks of individual funds and receives detailed updates from individual fund managers. The committee also regularly reviews the investment strategy and the business plan. The committee received a paper on the impact of the Covid pandemic in September this year.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?	The council is subject to many laws and regulations. We are not aware of any instances of non-compliance or suspected non-compliance since 1 April 2020 other than: 1 Those that may have been set out in the Annual Governance Statement (AGS). 2 As specified in successful claims brought against the council and dealt with by our legal department or insurers. 3 As may be specified in proven complaints received by the council and dealt with through the council's complaints procedure.
4. Is there any actual or potential litigation or claims that would affect the financial statements?	Please see contingent liabilities set out in Islington Council's statement of accounts.
5. What arrangements does Islington Council and Islington Council Pension Fund have in place to identify, evaluate, and account for litigation or claims?	Litigation and claims are referred to Islington Council's Legal Services Department (or its external insurers if the claim is covered by insurance). They are evaluated and dealt with by Legal Services and, where considered appropriate due to their complexity or value, external lawyers and /or counsel are appointed.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	The Council has not received any formal reports from regulatory bodies regarding non-compliance. The Council is presently in an ongoing business risk review in relation to VAT with HMRC. This will be ongoing in to 21/22.

Related Parties – Islington Council and Islington Council Pension Fund

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

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

Accounting Estimates – Islington Council and Islington Council Pension Fund

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

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