

The Audit Findings for Islington Council and Islington Council Pension Fund

Year ended 31 March 2022

August 2023



Contents



Your key Grant Thornton team members are:

Paul Dossett

Key Audit Partner

E paul.dossett@uk.gt.com

Ade Oyerinde

Senior Manager

E ade.ooyerinde@uk.gt.com

Sabrina Hisham

Assistant Manager

E sabrina.hisham@uk.gt.com

Section	Page
1. Headlines	3
2. Financial statements	5
3. Value for money arrangements	27
4. Independence and ethics	29
Appendices	
A. Action plan	32
B. Follow up of prior year recommendations	34
C. Audit adjustments	44
D. Fees	50
E. Audit Opinion	53
F. Audit letter in respect of delayed VFM work	58

This Audit Findings 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. Its contents have been discussed with management and Audit Committee and Audit Committee (Advisory).

Paul Dossett
For Grant Thornton UK LLP
August 2023

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Islington Council ('the Council'), Islington Council Pension fund ('the Fund') and the preparation of the Council and Fund's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements including the Pension fund give a true and fair view of the financial position of the Council and Pension Fund's income and expenditure for the year;
- 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 was completed on remotely during October to December and March to April. Sector wide issues in respect of accounting for infrastructure assets and IAS19 pension valuation assumptions impacted the completion of financial statement audits for most upper tier authorities.

Our findings are summarised on pages 4 to 25. Following the Triennial Valuation of the Pension Fund as at 31 March 2022 which was finalised in March 2023 additional information became available that required the Council to obtain revised IAS19 report from the actuary and to update the Pension Liability balance in the financial statements. The overall impact was a decrease in net pension liability of £9.4m.

We identified further adjustments and disclosure misstatements to the financial statements. Appendix C shows all adjustments identified and details if these have been adjusted for. We have also raised 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 substantially complete subject to the outstanding matters set out on page 5.

We have concluded that the other information to be published with the financial statements – the narrative report and annual governance statement – is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinions for both the Council and the Pension Fund will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have completed our VFM work, which is summarised on page 27, and our detailed commentary is set out in the separate Interim Auditor's Annual Report, which was presented at the May 2023 Audit Committee and Audit Committee (Advisory) meeting. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our review did not identify any significant weaknesses in your arrangements and we agreed with management three improvement recommendations.

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 intend to delay the certification for the closure of the 2021/22 audit of Islington Council until after the conclusion of the following:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report'.
- the work necessary to issue of an auditor's report on the pension fund annual report.
- the work necessary on objection from a local government elector from prior year.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit. We have encountered some delays in obtaining information from your valuation expert to complete our testing on Property, Plant and Equipment valuations.

The national issues on both infrastructure assets and IAS19 valuation assumptions have also delayed the conclusion of our work on PPE disclosures and pension valuation. The latter requires the Council to restate its accounts in respect of Pension Disclosures.

Additionally audit procedures were also necessary to complete and conclude our testing of journals, debtors and pension fund investments, derivatives and classification testing. Similarly, additionally audit procedures and time was required in concluding our work on investments, provisions and sample testing uncleaned transaction listings with material debits and credit balances.

2. Financial Statements

Overview of the scope of our audit

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

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 controls environment, including its 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

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinions on the Council and Pension. These outstanding items include:

- conclusion of valuation expert queries on PPE assets and pension fund unfunded liabilities, clear outstanding query on manual journal and debtors, complete pension fund classification, derivatives and investment testing
- review of subsequent events;
- completion of Senior Manager, Engagement Leader, Review Partner, Audit quality of Pension Fund hot review quality reviews and satisfactory resolution of any residual queries;
- receipt of management representation letters for the Council and Pension Fund; and
- receipt and review of the revised final set of financial statements

Acknowledgements

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

2. 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.

We have revised the performance materiality due to the actual gross expenditure changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

Materiality levels remain the same as reported in our audit plan for the Pension fund.

We detail in the table below our determination of materiality for Islington Council.

	Council Amount (£000)	Pension Fund Amount (£000)
Materiality for the financial statements	17,100	16,600
Performance materiality	11,900	11,600
Trivial matters	855	830



2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Applicable to:	Commentary
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.</p> <p>The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Council and Pension Fund</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Council</p> <p>Our risk assessment identified a total of 104 journals for testing for the Council. Our review is in progress. Our journal review has taken substantially longer to complete as part of our process includes documenting our understanding and appropriateness of each journal which often necessitated a Teams meeting with the preparer or approver of the journal. The number of different journal posters within our sample has taken additional time to complete. Our testing is substantially complete subject to a final query on manual journals.</p> <p>Additionally, we carried out a review of journals posted by ‘superusers’ as part of our risk factors. IT system superusers have a greater level of access rights than finance staff with ability amend standing data including the ability to forward or back post journals. Our expectation was they would not be involved in day to day processing of journals.</p> <p>Our review of journals posted by superusers identified over 22,000 such journals which is unusual. We challenged management to understand why and assess if this group of journals created a greater risk of management override of controls. We understand these journals were income transactions which go through Civica, the Income Management system. The relevant income relates to various income streams, including housing rents and council tax. Transactions are initially posted into suspense if the transaction does not match the rule set against the income account. At the end of each day, clearing takes place by superusers and sometime by finance staff, after which a reconciliation document is produced by a system administrator who has processed the batch, which reconciles Cedar records to Civica. Each reconciliation is reviewed and signed off by a different superuser. Our review of a sample of these transactions confirm there is an appropriate separation of duties between the preparer and approver and in our view did not represent a great risk of management override due to the compensating controls in place.</p> <p>The use of superusers in day to day finance activities creates a greater risk of management override. However, manual intervention of this magnitude by superusers is inefficient and does not represent value for money. We recommend management review the whole process to minimise the volume of income transactions initially posted to a temporary suspense. We further recommend clearance of the daily suspense be limited to finance teams only. The detailed work we have carried out in this area is mandatory under auditing standards.</p> <p>Pension fund</p> <p>Our risk assessment identified a total of 53 journals for testing for the Pension fund. We have not identified any material issues from our work.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Applicable to:	Commentary
<p>Improper revenue recognition</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>Council and Pension Fund</p>	<p>We reported in our joint Audit Plan that under ISA (UK) 240 there is a rebuttable presumed risk of material misstatement due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA 240, and the nature of the revenue streams of the Council and Pension Fund, we have determined that it is likely that the presumed risk of material misstatement due to the improper recognition of revenue can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of public sector bodies, including London Borough of Islington, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for the Council or the Pension Fund.</p> <p>Our assessment remain unchanged.</p>
<p>Valuation of land and buildings including Council dwellings</p> <p>The Council revalues its land and buildings and Council Dwellings on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£4.5 billion) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management has engaged the services of a valuer to estimate the current value as at 31 March 2021.</p> <p>We therefore identified valuation of land and buildings, specifically council dwellings, other land and buildings and surplus assets, as a significant risk of material misstatement, and a key audit matter.</p>	<p>Council</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met; • challenge the information and assumptions used by the valuer to assess the completeness and consistency with our understanding, which included to date. engaging our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations; • assess the value of a sample of assets in relation to market rates for comparable properties; • test a sample of beacon properties in respect of council dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group; • test, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end. <p>Our work is substantially complete. We identified a small number of errors in data sent to the valuer in relation to floor areas used and the assumptions applied to your valuation of land and buildings. At the end of August, we were awaiting final responses to our queries from your valuer to conclude our work. We will report to those charged with governance the results at the conclusion of our work. We have not identified any material issues from our work on Council dwellings valuation to date.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Applicable to:	Commentary
<p>Valuation of pension fund net liability</p> <p>The pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£960million in the Council's balance sheet at 31 March 2021) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	Council	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liabilities; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from the actuary; and • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. <p>Our work was substantially complete, however a national issue arose in April which delayed the conclusion of this work. By way of background, Regulation 62 of the Local Government Pension Scheme (LGPS) Regulations requires pension fund administering authorities to obtain an actuarial valuation of the fund's assets and liabilities every three years. Triennial funding valuation reports as at 31 March 2022 were required to be obtained by 31 March 2023. Furthermore, IAS 10 'Events after the Reporting Period' requires management to determine how the impact of material developments after the year-end should be reflected in the financial statements as an adjusting event (one which 'provides evidence of conditions that existed at the end of the reporting period') or a non-adjusting event.</p> <p>In response to the national issue, Management requested and received updated IAS 19 report as at 31 March 2022 in May. Your assessment is the change in net pension liability was not material however you propose adjusting the accounts for these changes. That work is currently in progress. The NAO have commissioned PWC to carry out a national review of actuaries revised assumptions.</p> <p>We recommend you also review if there are changes in key assumption including salary increase and mortality assumptions. Additional disclosures to the accounts will be required to support the changes.</p> <p>We will review the updated accounts and disclosures, update our procedures above and report our conclusion to those charged with governance.</p> <p>Update:</p> <p>IAS19 pensions liability has been revised due to additional information becoming available from the 31 March 2022 actuarial triennial valuation. This has led to a decrease in the pensions liability by £9,047k. Further details are set out on page 17.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Applicable to:	Commentary
<p>Valuation of the Private Finance Initiative (PFI) The Council has six schemes to be accounted for as PFI arrangements. These include two Housing PFI schemes, two Schools schemes, or a Street Lighting scheme and a Care Homes scheme. The total liability relating to these schemes on the balance sheet was £95.7m as at the 31 March 2021.</p> <p>As these PFI transactions are significant, complex and involve a degree of subjectivity in the measurement of financial information, we have categorised them as a significant risk of material misstatement.</p>	Council	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • review your PFI models and assumptions contained therein. • compare your PFI models to previous year to identify any changes. • review and test the output produced by your PFI models to generate the financial balances within the financial statements. • ensure the PFI disclosures are consistent with the Internal accountancy Standard IFRIC12. We will check additional disclosures that you include within the financial statements to the PFI models. <p>Our review is complete. No significant issue arising from our review to report to those charged with governance</p>
<p>Valuation of Level 3 Investments The Fund values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£110 million) and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2022.</p>	Pension fund	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • evaluate management's processes for valuing Level 3 investments; • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met; • independently request year-end confirmations from investment managers and the custodian; • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2022 with reference to known movements in the intervening period; • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert; and • where available review investment manager service auditor report on design and operating effectiveness of internal controls. <p>Our testing is in progress. As at end of August, we were awaiting from your fund managers and custodian a sample of capital statements, contract notes to complete derivatives testing and classification testing.</p> <p>As part of gaining assurance over Level 3 investments, we review the audited statements of individual pension fund investments. We note in four of these investments with a total of £4m, the auditor's opinion therein included an 'emphasis of matters' (EoM) stating the audited accounts were not prepared on a going concern basis. We challenged management on how they gain assurance appropriateness of these individual pension fund investments. We requested management provide copies of the unaudited quarterly capital statements to March 2023 for each of the four pension fund investments with an EoM in the opinions.</p> <p>We will report to those charged with governance the results at the conclusion of our work.</p>

Other risks identified

Risk	Applicable to:	Reason for risk identification	Key aspects of our proposed response to the risk
Completeness of non-pay operating expenditure and associated short-term creditors	Council	<p>Non-pay expenditure on goods and services represents a significant percentage of the Council's gross operating expenditure. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non-pay expenditure and associated short-term creditors as a risk requiring particular audit attention.</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness, including the use of de minimis level set; gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; and obtain and test a listing of non-pay payments made in April and May 2022 to ensure that they have been charged to the appropriate year. <p>We have not identified any material issues from our work.</p>
Value of Infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PPE note	Council	<p>Infrastructure assets includes roads, highways, streetlighting and coastal assets. Each year the Council spends circa £6.4m on Infrastructure capital additions. As at 31 March 2021, the net book value of infrastructure assets was £129.3m which is over 8 times materiality.</p> <p>In accordance with the LG Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address:</p> <ol style="list-style-type: none"> The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets. The risk that the presentation of the PPE note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced. <p>For the avoidance of any doubt, these two risks have not been assessed as a significant risk at this stage, but we have assessed that there is some risk of material misstatement that requires an audit response.</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> reconcile the Fixed Asset Register to the Financial statements using our own point estimate, consider the reasonableness of depreciation charge to Infrastructure assets obtain assurance that the UEL applied to Infrastructure assets is reasonable document our understanding of management's process for derecognising Infrastructure assets on replacement and obtain assurances that the disclosure in the PPE note is not materially misstated <p>The Department for Levelling Up, Housing and Communities issued an update in December 2022 to the Local Authority Capital Finance and Accounting Regulations to remove the requirement to consider component derecognition for infrastructure assets i.e. the statutory override. The Council has opted to adopt the statutory override and amended the infrastructure disclosures.</p> <p>Our review is complete. No other significant issue arising from our review to report to those charged with governance.</p>

Other risks identified continued

Risk	Applicable to:	Reason for risk identification	Key aspects of our proposed response to the risk
Fraud in Expenditure Recognition	Council and Pension Fund	<p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially an entity is required to meet financial targets. Having considered the risk factors relevant to Surrey County Council and Surrey Pension fund and the nature of the expenditure at the Council and Fund, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed on page 7 relating to revenue recognition apply.</p> <p>We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests below and our testing in relation to the significant risk of Management Override of Controls as set out on page 7.</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • obtain an understanding of the design effectiveness of controls relating to operating expenditure. • perform testing over post year end transactions to assess completeness of expenditure recognition. • test a sample of operating expenses to gain assurance in respect of the accuracy of expenditure recorded during the financial year. <p>We have not identified any material issues from our work.</p>
Contributions	Pension Fund	<p>Contributions from employers and employees' represents a significant percentage of the Fund's revenue.</p> <p>We therefore identified the completeness and accuracy of the transfer of contributions as a risk of material misstatement.</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • evaluate the Fund's accounting policy for recognition of contributions for appropriateness; • gain an understanding of the Fund's system for accounting for contribution income and evaluate the design effectiveness of the associated controls; • agree changes in Admitted/Scheduled bodies to supporting documentation and agree total contributions for each employer to employer contributions reports; • test a sample of contributions to source data to gain assurance over their accuracy and occurrence; and • test relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in member body payrolls and the number of contributing employees to ensure that any unusual trends are satisfactorily explained. <p>Our review identified one error in the employee contribution rate which was incorrectly recorded at 6.50% rather than 5.80%. The extrapolation error was trivial. No other significant issue to bring to Committee's attention.</p>

Other risks identified continued

Risk	Applicable to:	Reason for risk identification	Key aspects of our proposed response to the risk
Pension Benefits Payable	Pension Fund	<p>Pension benefits payable represents a significant percentage of the Fund's expenditure.</p> <p>We therefore identified the completeness, accuracy and occurrence of the transfer of pension benefits payable as a risk of material misstatement.</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • evaluate the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness; • gain an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls; • test a sample of lump sums and associated individual pensions in payment by reference to member files; and • test relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained. <p>We note for some sample items, we were not able to agree the figures used in the calculation form to the payslips as the payroll data is pre-2006 and is no longer held by the Council has since changed payroll systems. Thus we were not able to verify the inputs used for the pension calculation first hand. We undertook alternative procedures to gain assurance.</p>
Valuation of Level 2 Investments	Pension Fund	<p>While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.</p> <p>We therefore identified the valuation of the Fund's Level 2 investments as a risk of material misstatement.</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • gain an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls; • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; • review the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and seek explanations for variances; • independently request year-end confirmations from investment managers and custodian; and • review investment manager service auditor report on design effectiveness of internal controls. <p>Our work is substantially complete subject to the findings on page 10 on classification testing.</p>
Actuarial Present Value of Promised Retirement Benefits	Pension Fund	<p>The Fund discloses the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represents a significant estimate in the financial statements.</p> <p>The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£2.6 billion) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a risk of material misstatement.</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Fund's valuation; • assess the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability; • test the consistency of disclosures with the actuarial report from the actuary; and • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. <p>Refer to page 9 of this report which summarises our findings.</p>

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>Investments</p> <ul style="list-style-type: none"> Our testing of £95.5m of Investments held as at 31 March 2022 note that a total of £33m were with borough council counterparties that had issued S114 notices in the last couple of years <p><i>(S114 notice indicates expenditure of the authority incurred in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure)</i></p>	<p>We challenged management over accuracy of the valuation of these investments. We note:</p> <ul style="list-style-type: none"> The Council’s lending arrangements to counterparties include taking independent advice from Arlingclose Ltd Two investments totalling £18m had been repaid during 2022/23 and were not renewed with the counterparty. Based on independent advice, the two counterparty are suspended from the list of parties it can lend funds to. The balance of £15m was rolled over during 2022/23 in two tranches (£10m before the S114 notice was issue and £5m after the notice was issued). 	<p>We gained assurance over accuracy of the valuation of these investments held with counterparties.</p>
<p>Working papers and cleansing of data</p> <ul style="list-style-type: none"> Some income, expenditure balance sheet took longer to audit due to the significant number of contra entries and small value of items within the population resulting in larger than expected samples for testing Where both credit and debit items within an item of balance for testing are material, we are required to test both debit and credit items separately, doubling sample sizes in many cases. The impact results in additional time and cost to the audit. 	<p>For example, in our testing of ‘Fees and Charges income’ with a balance of £218m from which we sampled:</p> <ul style="list-style-type: none"> The population listing included credit balances of £380m and debits of £162m. Contra entries which net to nil amounted to £101m across 12,500 individual lines. Additionally, within the residual balance for testing (net of contra entries), there was over 41,000 individual lines of income with a value of £100 or less with a combined total of £740k. More that 85% of these lines were income and debit transactions of £30 or less each. 	<p>Recommend management continue to review and cleanse individual population listings for sample testing.</p>
<p>Prior period adjustment ST creditors</p> <ul style="list-style-type: none"> You advised us of a material prior year classification error between ‘public sector’ and ‘non public sector’ receipt in advance creditor. 	<p>The note was restated with narrative explanation. There was no change to total prior year ST creditors.</p> <p>We carried the following:</p> <ul style="list-style-type: none"> reviewed and agreed the restatement to supporting analysis a consultation with our firm’s internal Quality team., and ensured the narrative explanation was consistent with the Code. 	<p>We gained assurance over the restated prior year classification between ‘public sector’ and ‘non public sector’ receipt in advance creditor.</p>

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>Investment Properties</p> <p>Our testing of Investment properties (IP) held as at 31 March 2022 note the following:</p> <ul style="list-style-type: none">• One sample from our testing where the annual lease value used in valuation did not include other lease income within the block• One sample where the retrospective rent review had not been considered in the IP valuation	<p>We assess the impact and concluded the omissions would not result in IP being materially misstated.</p>	<p>We gained assurance over accuracy of the valuation of these investment properties held with counterparties.</p> <p>Recommend IP reviews include all lease income within a block or properties and undertake timely rent reviews prior to IP year end valuations.</p>
<p>Review of post year end income (classification)</p> <p>Our review of post year end income in April and May 2022 identified three income invoices ranging £20k to £86k relating to 2021/22 that were not properly accrued for.</p>	<p>We undertook additional procedures to assure ourselves that the risk of income being materially misstated was low.</p>	<p>We gained assurance that income was not materially misstated.</p> <p>Recommend you strengthen your closedown arrangements to ensure income above pre agreed closedown thresholds are accrued for at year end.</p>

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management’s approach	Audit Comments	Assessment
<p>Land and Building valuations: Other Land and Buildings £1,199m Investment Properties £39m</p>	<p>Other land and buildings which were revalued during the year comprise £1,015m 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 (£182m) are not specialised in nature and were required to be valued at existing use value (EUV) at year end. The residual of assets not revalued in year was not material at £1.3m.</p> <p>The Council engaged Wilks Head Eve to complete the valuation of properties as at 31 March 2022. Approximately 100% of Other land and buildings, Council dwellings and Investment properties were revalued during the year.</p>	<ul style="list-style-type: none"> We have assessed management’s expert, Wilks Head Eve, to be competent capable and objective. The valuer has correctly prepared the valuation using DRC on a modern equivalent asset basis for specialised properties, and EUV for non-specialised properties. 99.8% of properties have been valued as at 31 March 2022. We engaged our own valuation specialist, Gerald Eve, to provide a commentary on the instruction process for Wilks Head Eve, the valuation methodology and approach, and the resulting assumptions and any other relevant points. We have carried out testing of the completeness and accuracy of the underlying information provided to the valuer used to determine the estimate and have no issues to report. We have agreed the valuation reports provided by management’s expert to the fixed asset register and to the financial statements. <p>Our review is substantially complete. Our expert valuer raised follow up queries which we have followed up with your valuer. We await clearance of these issues between valuers to complete our work.</p>	<p>Light purple</p>

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations: Council Dwellings £3,547m	The Council owns 25,323 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 £3.6 billion, a net increase of £194m from 2020/21.	<ul style="list-style-type: none"> From the work performed, 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 (EUUV-SH). <p>Our assessment is complete and there are no issues to report.</p>	Light purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £926m	<p>The Council's total net pension liability at 31 March 2022 is £926m (PY £973m) comprising the London Borough of Islington Pension Fund and the London Pension Funds Authority obligations. The Council uses Mercer and Barnett Waddingham respectively to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed as at 31 March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p> <p>The net funded liabilities balance in the draft accounts for the London Borough of Islington Pension Fund is £881m (PY £926m) and net funded liabilities balance for the London Pension Fund Authority in the draft accounts is £45k (PY £47k).</p>	<ul style="list-style-type: none"> We have assessed the actuary, Mercer and Barnett Waddingham to be competent, capable and objective. We have used PwC as our auditor's expert to assess the actuary and assumptions made by the actuary – see table below for Mercers comparison of actuarial assumptions: <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.8%</td> <td>2.7 – 2.8%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>3.4% (3.5%)</td> <td>3.0 – 3.5%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>4.8% (4.9%)</td> <td>1.25% - 1.50% above CPI</td> <td>●</td> </tr> <tr> <td>Life expectancy – Male Pensioners / Non-pensioners</td> <td>21.7 / 22.9</td> <td>20.7 – 23.3 / 22.2 – 24.8</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females Pensioners / Non-pensioners</td> <td>24.0 / 25.7</td> <td>23.8 – 25.5 / 25.7 – 27.5</td> <td>●</td> </tr> </tbody> </table> <p>As set out on page 9, in response to the national issue, Management requested and received updated IAS 19 report as at 31 March 2022 in May. Your assessment is the change in net pension liability was not material however you propose adjusting the accounts for these changes. The assumptions above may also have changed and will be updated on receipt of the amended accounts and updated IAS19 report.</p> <p>The NAO have commissioned PWC to carry out a national review of actuaries revised assumptions. We will use PwC as our auditor's expert to assess the methods and updated IAS19 report.</p> <p>We reviewed your revised assumptions and disclosures and note minor rate changes particularly for pension rate and salary growth. We challenged management on the appropriateness of the revised rates. We reviewed management's representation and concluded the revised rates were reasonable. As a result of the additional information becoming available from the 31 March 2022 actuarial triennial valuation, the pensions liability decreased by £9,047k.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.8%	2.7 – 2.8%	●	Pension increase rate	3.4% (3.5%)	3.0 – 3.5%	●	Salary growth	4.8% (4.9%)	1.25% - 1.50% above CPI	●	Life expectancy – Male Pensioners / Non-pensioners	21.7 / 22.9	20.7 – 23.3 / 22.2 – 24.8	●	Life expectancy – Females Pensioners / Non-pensioners	24.0 / 25.7	23.8 – 25.5 / 25.7 – 27.5	●	<p><i>Light blue</i></p> <p>Figures are based on revised IAS19 disclosure (original estimate in brackets)</p>
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.8%	2.7 – 2.8%	●																								
Pension increase rate	3.4% (3.5%)	3.0 – 3.5%	●																								
Salary growth	4.8% (4.9%)	1.25% - 1.50% above CPI	●																								
Life expectancy – Male Pensioners / Non-pensioners	21.7 / 22.9	20.7 – 23.3 / 22.2 – 24.8	●																								
Life expectancy – Females Pensioners / Non-pensioners	24.0 / 25.7	23.8 – 25.5 / 25.7 – 27.5	●																								

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation - £567m	<p>The government financial support packages to the Council as a result of the pandemic continues to reduce (£14.5m PY£37m). These included additional funding to support the cost of services or offset other income losses, and also grant packages to be paid out to support local businesses.</p> <p>The Council continues to consider the nature and terms of each of the various Covid-19 measures in order to determine the appropriate accounting treatment, including whether there was income or expenditure to be recognised in the Comprehensive Income and Expenditure Statement (CIES) for the year.</p> <p>In doing so, management has considered the requirements of section 2.3 of the Code of Practice on Local Authority Accounting which relates to accounting for government grants, as well as section 2.6 which describes how the accounting treatment for transactions within an authority's financial statements shall have regard to the general principle of whether the authority is acting as a principal or agent, in accordance with IFRS 15.</p> <p>The three main considerations made by management in forming their assessment were:</p> <ul style="list-style-type: none"> • Where funding is to be transferred to third parties, whether the Council was acting as a principal or agent, and therefore whether income should be credited to the CIES or whether the associated cash should be recognised as a creditor or debtor on the Balance Sheet • Whether there were any conditions outstanding or unused at year-end, and therefore whether the grant should be recognised as income or a receipt in advance or creditor • Whether the grant was awarded to support expenditure on specific services or was in the form of an un-ringfenced government grant – and therefore whether associated income should be credited to the net cost of services or taxation and non-specific grant income within the CIES. 	<ul style="list-style-type: none"> • We are satisfied that management has effectively evaluated whether the Council is acting as the principal or agent for each relevant support scheme, which has determined whether any income is recognised. • We have evaluated the completeness and accuracy of the underlying information used to determine whether there were conditions outstanding (as distinct from restrictions) at the year-end that would determine whether the grant should be recognised as a receipt in advance or income, and concluded that this was appropriate. • We have considered management's assessment, for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES. We are satisfied that the presentation in the CIES is appropriate. • Management's disclosure of the Council's accounting treatment for grant income in both the financial statements and Narrative Report is sufficient. 	Light purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £3.2m	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>Since 2017/18, the Council has adopted the asset life (annuity) method (based on a prudent assessment of average asset life) for both 'supported' and 'unsupported' borrowing. In calculating the asset life (annuity) MRP, the average interest rates published by the Public Loans Board in the relevant financial year for new annuity loans is used.</p> <p>The year end MRP charge was £3,222k, a net increase of 759k from 2020/21.</p>	<ul style="list-style-type: none"> The MRP charge for the year has been calculated in accordance with the methodologies permitted in the statutory guidance The Council's policy on MRP in relation to borrowing taken out for the acquisition of non-housing General Fund assets complies with statutory guidance The Council's policy on MRP was discussed and agreed with those charged with governance and approved by full Council as part of the Treasury Strategy in February 2021. There have been no changes to the Council's MRP policy since 2020/21 The level of increase in the MRP charge is reasonable in the context of additional borrowing incurred during the year. 	Light blue

Assessment

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

2. Financial Statements – key judgements and estimates – Pension Fund

Significant judgement or estimate	Summary of management’s approach	Audit Comments	Assessment
Level 3 Private Equity Investments – £136m	<p>The Pension Fund has investments in private equity funds that in total are valued on the net assets statement as at 31 March 2022 at £136m.</p> <p>These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management relies on information provided by the General Partners to the private equity funds, who prepare valuations in accordance with the International Private Equity and Venture Capital Valuation Guidelines, and produce accounts to 31 December 2021 which are audited.</p>	<ul style="list-style-type: none"> We have assessed 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 2021 We have assessed the consistency of the estimate against peers and industry practice We have reviewed the reasonableness of the increase in the estimate We have assessed the adequacy of disclosure of estimate in the financial statements <p>We note that the Pension fund have Level 3 investments of £27.8m described as Private debt which is material. The disclosure narrative accompanying the hierarchy of Valuation of Financial Instruments at Fair Value should disclose nature of the debt, how it is valued and when it was valued in accordance with the Code. Management agreed to amend the disclosure.</p> <p>We also note four of the individual pension fund investment audited accounts with a total of £4m included an EoM. Refer to page 10 for further details. Additionally, we note timing differences of £5.1m between the valuation of investments and the publication of the draft accounts sometimes means that the values in the draft Accounts do not reflect the most recent valuation.</p>	Grey
Level 2 Investments – £670m	<p>The Pension Fund has investments in pooled equity that in total are valued on the balance sheet as at 31 March 2022 at £167.5m. Other Level 2 investments include Pooled funds of £369m and Bonds of £133.7m.</p> <p>The investments are not 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,</p>	<ul style="list-style-type: none"> We have assessed the appropriateness of the underlying information used to determine the estimate We have assessed the consistency of the estimate against peers and industry practice We have reviewed the reasonableness of the increase in the estimate We have assessed the adequacy of disclosure of estimate in the financial statements <p>Our work is substantially complete subject to the findings above and on page 10 on classification testing.</p>	Grey

Assessment

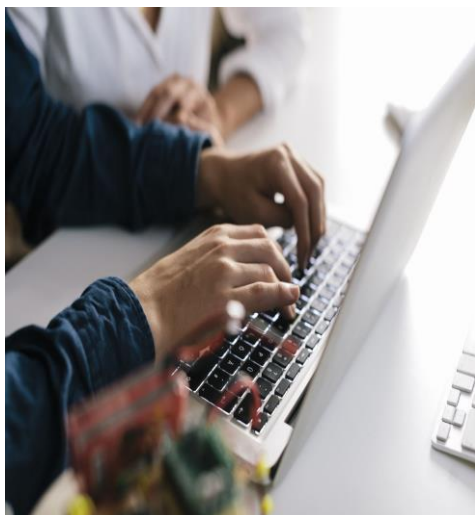
- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider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

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the chair of the Audit Committee and Audit Committee (Advisory). We have not been made aware of any significant incidents in the period and no other 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 letter of representation will be requested from the Council and Pension Fund which is included in the Audit Committee and Audit Committee (Advisory) papers.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	<p>We requested from management permission to send confirmation requests to the Council and Pension Fund's banking and investment counterparties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.</p> <p>We wrote to those solicitors who worked with the Council and Pension Fund during the year, to confirm the completeness of provisions and contingent liabilities. All responses requested have been received.</p>
Accounting practices	<p>We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review identified some disclosures that were not consistent with the Code, these findings are detailed in Appendix C. No material omissions were identified in the financial statements.</p>
Audit evidence and explanations/significant difficulties	<p>All information and explanations requested from management were provided though we await the outstanding matters detailed on page 3 to conclude the audit.</p> <p>The financial statements were published on the 30 September 2022 and commenced the audit in October. We experienced some delays in receiving key papers and timely responses to our audit queries from both the finance team and also from other teams outside of finance. This has contributed to delays in completion of the audit within the 3 months from the start date of the audit.</p> <p>The national issues on both infrastructure assets and IAS19 valuation assumptions have also delayed the conclusion of our work on PPE disclosures and pension valuation. Additionally audit procedures were necessary to complete and conclude our testing of journals, debtors and pension fund investments, derivatives and classification testing. Similarly, additionally audit procedures and time was required in concluding our work on investments and sample testing uncleaned transaction listings with material debits and credit balances. We made a recommendation in Appendix A to improve the quality of the working papers provided for audit and the efficiency of the audit process.</p> <p>Achieving the 30 September 2022 target for publishing audited financial statements remains a significant challenge for all local authorities. Achieving this for an organisation of your size and complexity, with a lean finance team, is particularly difficult. Management and officers have worked hard to mitigate these factors as far as possible, including identifying and utilising additional resource within the Council.</p>

2. Financial Statements - other communication requirements



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).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none">• the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none">• the nature of the Council including the Pension fund and the environment in which it operates• the Council's financial reporting framework• the Council's system of internal control for identifying events or conditions relevant to going concern• management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none">• a material uncertainty related to going concern has not been identified• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>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.</p> <p>No inconsistencies have been identified.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none">• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,• if we have applied any of our statutory powers or duties.• where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses. <p>We have nothing to report on these matters.</p>



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	<p>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.</p> <p>Note that detailed testing will not be required as the Council does not exceed the set thresholds.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2021/22 audit of Islington Council in the audit report, as detailed in Appendix E, due to the following:</p> <ul style="list-style-type: none">• our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report'.• the work necessary to issue of an auditor's report on the pension fund annual report.• the work necessary to respond to an objection from a local government elector in 2020/21.

3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Interim Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weakness in your arrangements and we agreed with management three improvement recommendations. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

4. 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.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk)

5. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following audit related and non-audit services were identified. We have detailed below the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	7,500	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 £7,500 in comparison to the proposed fee for the audit of £290,237 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, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Teachers Pension Return	7,500	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 £7,500 in comparison to the proposed fee for the audit of £290,237 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, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	28,000	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 £28,000 in comparison to the proposed fee for the audit of £290,237 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, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

There are no non-audit related services in 2021/22

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee and Audit Committee (Advisory). None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 5 recommendations for the Council and Pension fund 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 2022/23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	<p>Journals</p> <p>Our review of journals posted by superusers identified over 22,000 such journals which is unusual. We challenged management to understand why and assess if these group of journals created a greater risk of management override of controls. We understand these journals were income transactions which go through Civica, the Income Management system. Transactions are initially posted into suspense if the transaction doesn't match the rule set against the income account. At the end of each day, clearing takes place superusers and sometime by finance staff, after which a reconciliation document is produced by a system administrator who has processed the batch, which reconciles Cedar records to Civica. Each reconciliation is reviewed and signed off by a different superuser.</p>	<p>The use of superusers in day to day finance activities creates a greater risk of management override. However, manual intervention of this magnitude by superusers is inefficient and does not represent value for money.</p> <p>We recommend management review the whole process to minimise the volume of income transactions initially posted to a temporary suspense and clearance of the daily suspense be limited to finance teams only.</p> <p>Management response</p>
Medium	<p>Pension Fund Level 3 investments</p> <p>From our review of the sample of investment audited accounts, we identified 4 investments totalling £4m where the auditor's report on the investments was unqualified but reported an 'emphasis of matter' on going concern.</p> <p>Risk of Fund investment valuations may be materially overstated</p>	<p>We recommend management put in place additional procedures that include regular reviews of Fund investments audited accounts and auditor's report for modification or qualification of opinion and where Funds are in liquidation. These procedures should specify the actions to be taken where issues are identified and who is responsible for carrying out the actions.</p> <p>Management response</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	<p>Working papers and cleansing of data</p> <p>Some income, expenditure balance sheet took longer to audit due to the significant number of contra entries and small value of items within the population resulting in larger than expected samples for testing</p> <p>Where both credit and debit items within an item of balance for testing are material, we are required to test both debit and credit items separately, doubling sample sizes in many cases.</p> <p>Risk audit takes additional time to complete and increased cost to the audit.</p>	<p>In order to improve the quality of the working papers provided for audit and the efficiency of the audit process, we recommend management continue to review and cleanse individual population listings for sample testing.</p> <p>Management response</p>
Low	<p>Investment Properties</p> <p>Our testing of Investment properties (IP) held as at 31 March 2022 note the following:</p> <ul style="list-style-type: none"> • One sample from our testing where the annual lease value used in valuation did not include other lease income within the block • One sample where the retrospective rent review had not been considered in the IP valuation <p>Risk that missed or inaccurate lease income could materially misstate the value of IP</p>	<p>Recommend IP reviews include all lease income within a block or properties and undertake timely rent reviews prior to IP year end valuations.</p>
Low	<p>Review of post year end income (classification)</p> <p>Our review of post year end income in April and May 2022 identified three income invoices ranging £20k to £86k relating to 2021/22 that were not properly accrued for.</p> <p>Risk that low value income are not accrued for and may cumulatively be significant or material</p>	<p>Recommend you strengthen your closedown arrangements to ensure income above pre agreed closedown thresholds are accrued for at year end</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Islington Council's 2020/21 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Closed	<p>Use of M10 Actuary report, rather than the most up to date version</p> <p>Management used the month 10 actuary report when producing the Pension liability note. This meant that the updated actuaries report showed an understatement of the net liability of £13,419k.</p> <p>Using M10 actuary reports for such a significant estimate creates the risk of material movements in the balance. It also creates the risk management are not fully informed of the latest position on the pension fund when making decisions in relation to the management of the Pension liability.</p> <p>Recommendation</p> <p>Management should ensure the latest actuary report is used when producing the pension note and liability within the accounts.</p>	<p>Auditor assessment</p> <p>This recommendation has been closed as developments in 2021/22 have superseded the recommendation. Refer to page 9.</p>
Closed	<p>Uncleansed Transaction Listings provided for Audit</p> <p>Within our working paper requirements agreed with management, contains the requirement for cleansed transaction listings. This is key for our audit as without cleansed listings in which reversing entries are removed we have to select significantly larger sample sizes. This has an impact on the amount of auditor and management time spent in testing and responding to these requests and it also caused delays in us sending out samples for the audit. We estimate this issue has increased our sample sizes by up to 50% in some parts of the audit.</p> <p>This issue has the potential to create additional costs to the Council due to increased audit time, as well as creating additional pressure on the Council's finance team.</p> <p>Recommendation</p> <p>Management should ensure transaction listings are reviewed and cleansed prior to the audit starting</p>	<p>Auditor assessment</p> <p>Similar issues arose during 2021/22 audit (refer page 14) and we have repeated the recommendation in Appendix A above</p>

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>PFI- use of latest RPI Index in PFI Model</p> <p>When calculating the estimate for the PFI liability for the year, the Council use a PFI model which has key data inputs. One of these inputs is the RPI value for which the Council has used historic data that is a from the 31 March 2020.</p> <p>The Council note that if there were a material difference between it and the value at the year end they would update the accounts and do this as the information does not become available until the end of April for the year end. We note that within the current accounts the difference in the RPI was so negligible it did not impact the 31 March 2021 year end balance.</p> <p>Recommendation</p> <p>Management should consistently apply the most up to date figures for key inputs within PFI models.</p>	<p>Management update</p> <p>For 2021/22 we used the latest available RPI rate, which was Feb 2022.</p> <p>Auditor assessment</p> <p>This recommendation has been closed</p>
X	<p>De Minimis Accrual Level</p> <p>The Council for both capital has a de minimis level of £10k for revenue accruals and £50k for capital accruals. The audit team notes that this is a high de minimis level to set. In addition the decisions in relation to applying this is left to management discretion, which creates the risk of inconsistencies in the treatment between departments and financial years.</p> <p>Recommendation</p> <ul style="list-style-type: none"> Management's discretion should be removed when determining if an accrual should be raised- we do not deem this appropriate as this could be used to manipulate the financial position of a particular service area. The policy and de minimis level should be consistent and not be subject to discretion. An appropriate threshold should be set, with sufficient audit evidence to verify why this threshold has been chosen and in addition how this threshold will not lead to material differences within the accounts 	<p>Management update</p> <p>The Council has reviewed the materiality limit and has deemed it appropriate. Accruals under the de minimis will only be accepted where this is a legal or funding requirement to do so (for example Central Government Grant Spending where the council acts as an agent). For 2022/23 Closing, an accruals panel has been set up to independently review all accrual postings prior to upload - This will ensure adequate controls are in place to prevent erroneous postings.</p> <p>Auditor assessment</p> <p>We will follow up in 2022/23</p>
✓	<p>Disclosures</p> <p>Our work identified a number of disclosure errors within the draft accounts (refer Appendix C). In addition to this we found a number of minor disclosure adjustments across a large number of the notes to the accounts.</p> <p>Recommendation</p> <p>Further strengthen the quality review arrangements of the draft financial statements to improve quality of reporting and minimise the disclosure errors.</p>	<p>Management update</p> <p>The Council has reviewed the closing of accounts timetable to ensure sufficient QA for each note and the overall Statement of Accounts document</p> <p>Auditor assessment</p> <p>We made a few improvement recommendations to the accounts and pension fund. Refer to Appendix C.</p>

Assessment

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Contingent Liabilities and Provisions</p> <p>Within the Contingent liabilities and provisions note the Council’s working papers do not clearly set out the justification and accounting treatment and basis of each item. This lead to the audit team having to discuss with legal the treatment of the items, who advise the finance team on these items. This creates the risk that without the finance team formally reviewing each item that items could be incorrectly treated within the accounts.</p> <p>Recommendation</p> <p>Management should ensure all provisions and contingent liabilities treatment and the basis for the treatment are clearly set out and reviewed on a regular basis.</p>	<p>Management update</p> <p>The Contingent Liabilities and Provisions notes will be enhanced to incorporate this recommendation. The notes will include reconciliation forms of each item to prevent discussions on accounting treatment.</p> <p>Auditor assessment</p>
✓	<p>Related Parties</p> <p>Our review of the Council’s Related Parties note identified the Council had not clearly established if each related party disclosed met the requirements of 3.9.27 of the Code. From our review of the register of interest we noted it does not obtain sufficient detail, for management to make this judgement. Therefore there is a risk that the related parties note is overstated with interests disclosed that do not meet the Code requirements.</p> <p>Recommendation</p> <p>Management should review the register of interests form and the process for producing the related parties note, to ensure each disclosure meets the requirements set out in 3.9.27 of the CIPFA Code. In addition, the note should provide evidence of managements judgement of this.</p>	<p>Management update</p> <p>The Related Parties note and working paper will be enhanced to incorporate this recommendation.</p> <p>Auditor assessment</p> <p>No issues arising from 2021/22</p>

Assessment

- ✓ Action completed
- X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
<p>✓ (partly)</p> <p>Assessment</p> <p>✓ Action completed</p> <p>X Not yet addressed</p>	<p>Inadequate oversight around generic users across in scope applications and database</p> <p>Our Specialist IT team undertook a review of the Council’s IT system and identified one high priority control finding. This related to there not being controls in place to monitor the usage of and continued need to retain active generic accounts within Civica Pay, Cedar and Resource Link SQL database.</p> <p>We identified the following :</p> <ol style="list-style-type: none"> 1. Civica Pay: generic id (civica.admin) remained active yet it was uncertain whether this account was still required 2. Resource Link SQL: database: the default system administration account (SA) and payroll processing (Ibibacsip) remained active with no monitoring of the activity undertaken. 3. Cedar: generic user IDs(SUPPORT2 ,SUPPORT3 and TSO61) remained active yet the account was no longer used. 4. Furthermore, no password reset controls were configured to enforce the periodic rotation of passwords. <p>Recommendations:</p> <ol style="list-style-type: none"> 1. Generic accounts should be removed with individuals assigned their own uniquely identifiable user accounts to ensure accountability for actions performed. 2. Alternately, management should implement suitable controls to limit access and monitor the usage of these accounts (i.e. through increased use of password vault tools / logging and periodic monitoring of the activities performed). Where monitoring is undertaken this should be formally documented and recorded. 3. For accounts assigned to IT support partners, the Council should confirm how they obtain assurance over appropriate IT controls being operated by these third-party service organisations. 4. Management should consider implementing Single Sign-On and Multifactor Authentication mechanisms for the in-scope applications. <p>This also relates to the Pension Fund as well as the Council</p>	<p>Management update</p> <p>Resource link - The SA and Ibibacsip accounts are service accounts and not generic accounts. These are not used by individuals to sign into the Resource Link database. The passwords are not publicised and are held in a password vault, which is accessible by the SQL DBA. The SA account is used to run background processes on the HR-RL-SQL-L-V1 database instance on which the Resource Link database resides.</p> <p>The Ibibacsip account does not access the Resource Link database and is used by the SMARTERPAY application. SQL Management Studio does not keep a record of historical logs, these are generated on the fly and display current logins. It may be possible to enable auditing tools on the database to capture this information, but this will have a detrimental effect on the performance of databases and associated applications will be moving to a cloud version of Resource Link. As part of this migration, Zellis will be responsible for the database administration.</p> <p>Civica Pay - Generic accounts have been removed a part of a previous audit for CIVICAWS\Admin.</p> <p>Cedar - Support2 and 3 have been disabled. User TSO61 is used by a QED Mapping and not an individual, this cannot be disabled as it would stop processing</p> <p>Auditor assessment</p> <ol style="list-style-type: none"> 1. This finding has been partially remediated. <p>For Civica pay</p> <p>We acknowledge that the generic account – civica admin was disabled on 28th Oct 2021. However, we noted that user account was active partly during the audit period and the activity logs for the usage of the account during audit period were captured but not proactively monitored for suspicious/unauthorised events. Additionally, we were unable to obtain evidence for periodic rotation of passwords since the account was disabled. Therefore, the observation is valid for current year.</p>

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓ (partly)	Inadequate oversight around generic users across in scope applications and database	<p>Auditor assessment</p> <p><u>For Resource link</u></p> <p>1. We acknowledge that system administrator ‘sa’ account is configured in the system as service account. However this account is an interactive user account delivered by Microsoft for performing system administrative functions within the SQL database. We noted that there no user activity logs captured and monitored for usage of this account. We further noted that payroll processing (lbibacsip) is a service account used by Resource Link database for interfacing with SMARTERPAY application.</p> <p><u>For Cedar</u></p> <p>We acknowledge that generic user accounts - Support 2 and Support 3 were disabled on 19th October 2021; however, we were unable to obtain the lastlogon date. We further noted that user activity logs for generic account ‘SUPPORT 2’ were not proactively monitored for any suspicious/unauthorised events during the audit period. Additionally, we noted that generic account ‘TSO61’ is configured as a service account.</p> <p>2. This finding has been not remediated. We acknowledge that there have been no changes around the leavers process within Civica Pay and Cedar. Additionally, we were informed by Management that a new workflow tool will be implemented during the course of the next financial year. Therefore, the observation remains the same for current year.</p> <p>3. This finding has been partially remediated. We acknowledge that for Civica Pay, Cedar, Alusta and Resource link, the user activity logs are now maintained, but are not monitored periodically.</p> <p>4. This finding has been partially remediated. We acknowledge that the minimum password length within Cedar has been set as 8 characters, this now aligns to the password policy. However, weaknesses in other password parameters identified last year have not been amended. We acknowledge that there have been no changes made to the password complexity within Civica pay and Resource Link.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>PPE Disposal- identified in 2019/20, this issue was found to still exist as part of our testing in 2020/21</p> <p>Our sample testing of Property Plant and Equipment disposals identified a number of Council dwellings (892k), land and building (£3.2m) and equipment (539k vehicles) that should have been written out of the balance sheet in earlier years but had only been written out this year following a review of the asset register.</p> <p>If assets remain on the balance sheet in excess of true disposal. Following this finding management undertook a further review of assets held. This review identified several assets that the Council did not have ownership off, as is disclosed, significant matters discussed with management. In addition to this we identified an asset had been written off due to historical records of the asset meaning the Council could not identify if it existed.</p> <p>Management should ensure they continue to carry out more regular existence review of assets held on the balance sheet to gain assurance that those assets are owned by the Council and in use. In addition, we note management should ensure records kept of assets capitalised enable them to clearly identify the asset.</p>	<p>Management update Management have strengthened its processes in relation to existence testing.</p> <p>Auditor assessment We did not identify a similar issue in 2021/22, action closed.</p>
✓	<p>Long and short term debtors- identified in 2019/20</p> <p>We note from our debtor sample testing instances of old debtor as well as old credit balance dating back more than six years old. Analysis of your aged debtor balance indicate these immaterial historical balances date back to 1999.</p> <p>These balances were correctly provided for.</p> <p>We identified that there were still a number of old debtors within parking debtors for which the same issue remained</p>	<p>Management update Appropriate action will be taken in relation to aged debts</p> <p>Auditor assessment We did not identify a similar issue in 2021/22, action closed.</p>
Closed	<p>Journals - identified in 2019/20</p> <p>Our testing of journals identified three manual journals posted by system administrators with super user rights.</p> <p>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.</p> <p>Journal testing during 2020/21 identified further examples of manual journals posted by system administrators with super user rights. Recommendation not yet addressed.</p>	<p>Management update Manual Journals are processed in conjunction with finance staff</p> <p>Auditor assessment We identified issues with superusers (refer to page 7) and made a recommendation in Appendix A. This recommendation is closed as another has superseded it.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Cash and bank (third party cash) - identified in 2019/20</p> <p>Our sample testing of third party cash identified one account where evidence of the closing bank statement that corroborates payments in year had not been retained. The bank account has since been closed.</p> <p>In our testing of third party bank accounts we identified one bank account that could not be agreed back to a historic bank statement that dated back to 2016. The balance of which was £1,009,425, although we gained comfort over this balance via alternative procedures this illustrates that this finding still impacted the current year audit.</p> <p>Due to this the recommendation that third party bank statements are retained still stands, as the issue continues to impact the current year's audit.</p>	<p>Management update</p> <p>Bank statements are now retained as recommended</p> <p>Auditor assessment</p> <p>We did not identify a similar issue in 2021/22, action closed</p>
✓	<p>PPE Asset Under construction (AUC)- issue identified in 2019/20 audit.</p> <p>Our sample testing identified £2m of AUC incorrectly recognised against assets completed in 2018/19 rather than 2019/20. The error had no impact on the reported class of asset.</p> <p>We identified that management should ensure the records for this asset are updated.</p> <p>Auditor evaluation</p> <p>In our testing of Reclassifications of Assets Under Construction in 2020/21 it was identified that in our sample of 5 an asset valued £2,252k should have been reclassified in the previous financial year. The impact of this was that depreciation was undercharged on the asset in the 2021 financial year. It also creates the risk that Assets under construction may be overstated and operational assets understated.</p> <p>From our work we are satisfied this error is not material but note as the Council increase their capital programme in future years this could present a greater risk of material misstatement. Management should ensure that as assets are brought into use that this is captured in a timely manner to ensure they are correctly recorded in the right financial year.</p>	<p>Management update</p> <p>Management have processes to ensure assets brought into use are captured in a timely manner and reported accordingly.</p> <p>Auditor assessment</p> <p>We did not identify a similar issue in 2021/22, action closed</p>

Assessment

- ✓ Action completed
- X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Scope of Custodian's Valuation and Management understanding the Custodian report fully</p> <p>From our audit work we identified the following issues:</p> <ul style="list-style-type: none">The custodian had not independently valued £1,378m of the investments instead relying on the Fund managers market pricing. This led to additional audit work as we were unable to place sufficient reliance on the custodian's work due to this.Management had restated the accounts based on the classifications for the Investments provided by the custodian. However when this was discussed with the custodian it became clear they had not considered the principles set out in IFRS9 when setting these classifications. <p>The above issues both highlight control weaknesses in relation to the communication with the custodian and in setting out the scope of the work. This has led to significantly more work by both the auditors and management to complete work on Investments, as well as material adjustments to the classifications within the financial instruments note. The above also creates a risk that the custodian does not provide management with an independent view of the Pension fund's investment and provide a third party perspective on fund managers performance.</p> <p>Recommendation</p> <ul style="list-style-type: none">Management should consider the scope of the work sent out to the custodian and ensure they instruct them to value all Investments independently of the Fund manager.Management should also consider in their instructions requesting the custodian to classify assets in line with IFRS 9's fair value hierarchy in their reports.Management working papers should detail their judgements and challenges around the hierarchy of Investments provided independently by their fund managers and custodian	<p>Management update</p> <p>Responded on Info via F116 on the 10/03/23 and via PF info G8 on the 29/03/2022.</p> <p>Auditor assessment</p> <p>Pension fund investments were not valued independently by the custodian and Fund Managers. Accordingly, we have had to undertake additional procedures to gain assurance over investment valuations which has taken longer to complete. Additionally, we note in four of these investments with a total of £4m, the auditor's opinion therein included an 'emphasis of matters' (EoM) stating the audited accounts were not prepared on a going concern basis - refer to page 10 for more details. Our review remains in progress at the time of writing.</p>

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>No Specific Internal Audit Review of Pension Fund since 2015</p> <p>Within our review of the Pension Fund’s control environment we identified that the Internal Audit team had not carried out any specific procedures on the Pension Fund since 2015. Although we understand a review is planned next year and that a cyclical approach is applied to the Pension Fund, this is a large gap in procedures taking place and creates the risk that issues within the control environment of the Pension Fund could be left undetected for several years.</p> <p>Recommendation</p> <p>Management should consider the regularity of the work carried out by Internal Audit on the Pension Fund</p>	<p>Auditor assessment</p> <p>We understand a review of the Pension Fund was completed in February and issued for Management comment in March 2023. At the time of writing, we are yet to receive the final report.</p>
✓	<p>Disclosures- issue identified in 2019/20</p> <p>Our work identified a number of minor trivial disclosure errors within the draft accounts. In addition to this we found a number of minor disclosure adjustments across a large number of the notes to the accounts.</p> <p>Recommendation</p> <p>Further strengthen the quality review arrangements of the draft financial statements to improve quality of reporting and minimise the disclosure errors.</p>	<p>Auditor assessment</p> <p>A quality review of the Pension Fund was undertaken by our Audit Quality team. Amendments to the disclosure have been agreed with management. At the time of writing, we are yet to receive the revised Fund statements with the agreed amendments. Action deemed closed.</p>
TBC	<p>Pension fund L1 , I2 and L3 investments- identified in 2019/20</p> <p>In assessing the classification between level 1 and 2 investments, you reclassified L1 pooled funds to L2. We note some number of funds within your pooled funds are actively traded and should be classified as L1.</p> <p>In our audit testing of this note we identified significant issues within the classification, that were more significant than in the prior year. This has led to a material change in the classification of level 1, level 2 and level 3 Investment in the financial instruments note. We have identified that management should improve the quality of their working papers in this area, clearly documenting their judgements of this note to avoid similar issues in future years.</p> <p>Due to the more significant issues identified in this financial year we have judged this deficiency to be a medium risk going forwards.</p>	<p>Auditor assessment</p> <p>Our testing of classification between levels 2 and 3 is in progress. We will update this assessment at the conclusion of the testing.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Journals- identified in 2019/20</p> <p>Our testing of journals identified three manual journals posted by system administrators with super user rights.</p> <p>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.</p> <p>Journal testing during 2019/20 identified further examples of manual journals posted by system administrators with super user rights. Recommendation not yet addressed.</p>	<p>Auditor assessment</p> <p>We did not identify a similar issue in 2021/22, action closed</p>

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail - Council	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000
Unwinding of Thames water provision over 7 years (year 1) <i>(HRA Reserves also updated)</i>	(1,731)	1,731.
Format error in Business rates provision calculation	1,552	(1,552)
Overstatement in expenditure and income within Adult Social Services within CIES	945 (945)	nil
IAS19 pensions liability has been revised due to additional information becoming available from the 31 March 2022 actuarial triennial valuation.	(9,406)	9,406
Overall impact	(9,585)	9,585

Misclassification and disclosure changes

The table overleaf provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

C. Audit Adjustments

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

Impact of unadjusted misstatements

The table below provides details of unadjustments identified during the year audit not made within the final set of 2021/22 financial statements, and details of how they impacted upon the 2021/22 financial statements.

Council	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<p>Investment properties – gain on change in market value</p> <p>Three yield rates used in Investment Property valuation were outside the expected rate of our auditor's expert. We further compared against third source of information [i.e. GT Real Estate Market Update report, and Knight Frank report].</p> <p>We performed an assessment as to the impact of these, and have determined a range of the potential misstatement, considering both the upper and lower limits of the range, of £1.6m and £6.1m, respectively</p>	1,600 to 6,100	1,600 to 6,100	(1,600) to (6,100)	Cumulative impact is not material
Overall impact	1,600 to 6,100	1,600 to 6,100	(1,600) to (6,100)	

C. Audit Adjustments – 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 unadjusted misstatements

The table below provides details of unadjustments identified during the year audit not made within the final set of 2021/22 financial statements, and details of how they impacted upon the 2021/22 Pension Fund statements.

Pension Fund	Fund account £000	Net Assets Statement £000	Impact on closing Net Assets £000	Reason for not adjusting
<p>Level 1 investments</p> <p>We identified 4 items during our testing where the variance percentage between the prices from third-party independent source and the prices used by the custodian was above 0.5% threshold.</p> <p>We challenged the source of the prices used by the custodian but they were not able to provide us the evidence. We are unable to gain assurance over the reasonableness of the valuation for the 4 investments. The projected misstatement from these items is £1,365k (understatement).</p>	1,365	1,365	1,365	Cumulative impact is not material
<p>Level 1, 2 and 3 Investments</p> <p>Timing differences between the valuation of investments and the publication of the draft accounts sometimes means that the values in the draft Accounts do not reflect the most recent valuation.</p> <p>The overall movement for all funds are £5,134k.</p>	5,134	5,134	5,134	Cumulative impact is not material
Overall impact	6,499	6,499	6,499	

C. Audit Adjustments – Pension Fund

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements, and details of how they impacted upon the 2021/22 financial statements.

Unadjusted prior year misstatements on Fund	Fund Account £'000	Net Assets Statement £' 000	Impact on Closing Net assets £'000	Reason for not adjusting
Level 3 Investments In our review of Level 3 Investments testing which in the updated Accounts for the Pension Fund have a value of £108,958k it was identified the valuation used by the Pension Fund was based on the roll forward of the December valuation method. At the date of auditing the balance the final valuations of these investments were available and we identified the balance had a difference of £1,940k, with the updated valuation being valued at £110,898k. As this difference is below materiality management have decided not to adjust this in the Financial statements	(1,940)	1,940	1,940	Cumulative impact is not material in prior or current year.
Overall impact	(1,940)	1,940	1,940	

C. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Applicable to	Auditor recommendations	Adjusted?
Narrative	Council	Total HRA earmarked reserves in the Narrative report was inconsistent with the MIRS HRA reserves. Should be the sum of HRA, Earmarked HRA Reserves and Major Repairs Reserve.	✓
CIES	Council	Following a management restructure in 2021/22, the prior year CIES Cost of Services has been restated. No impact on prior year Net Cost of Services	✓
Note 3 Critical judgements in applying accounting policies	Council	In our view, the Council's disclosures include items with no critical judgements made by management in applying accounting policies. For example, future levels of funding for local government and exclusion of academies, voluntary aided, voluntary controlled or free schools.	✓
Note 4 Assumptions made about the future and other major sources of estimation uncertainty	Council	The Council's disclosure includes items in our view that is unlikely to give rise to a significant risk of a material adjustment in the next financial year. For example, depreciation and amortisation, and bad debt provision.	✓
Note 6 Pooled budgets	Council	Disclosure error in Pooled budget analysis and total	✓
Note 8. Officers' Remuneration:	Council	Disclosure errors identified in salary bands and exit package disclosure	✓
Note 10 Fees payables to appointed auditor	Council	Narrative disclosure at the foot of the table of fees needs to delete 'subject to approval by PSAA' to 'approved by PSAA'	✓
Note 12: Expenditure and Income Analysed By Nature	Council	Disclosure error where an item of income was incorrectly included twice and other income was understated by an equal amount	✓
Note 22 - Financial Instrument	Council	Disclosure error within Financial Instrument Debtors Balance overstated by £1,657k.	✓
Note 24 ST Creditors	Council	You advised us of a material prior year classification error between 'public sector' and 'non-public sector' receipt in advance creditor. The note was restated with narrative explanation. There was no change to total prior year ST creditors.	✓
Note 26(d) Liquidity Risk	Council	Disclosure error in total funds held as at 31 March 2022.	✓
Note 29. Cash and Cash Equivalent	Council	Disclosure error in analysis of cash and cash equivalents. No impact on Total cash and cash equivalents held	✓

C. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Applicable to	Auditor recommendations	Adjusted?
Note 4 Critical judgements	Pension fund	Note 4 refers to the methodology used to recalculate the net pension liability rather than the judgement applied	
Note 12c Oversight and Governance cost	Pension fund	The audit fees for the current and prior year were understated	✓
Note 26a Price and currency risk	Pension fund	Nature and extent of risks analysis does not appear consistent with other disclosures	
Note 27 Financial Instruments	Pension fund	Whilst the total of net financial assets reconciles to note 14 and cash element of note 16, it is not clear how the amounts for the different categories of assets tie in with the analysis at note 14 and that reported at note 26a.	
Note 27a Reconciliation of fair value measurements within Level 3	Pension fund	The descriptors and amounts used for the level 3 FV movements differs from that used at note 27 where level 3 instruments are described as private equities and private debt.	
Note 27 Fair value	Pension fund	Fair value disclosure do not meet requirements of the Code. For example, quantitative information about the significant unobservable inputs - for level 3 are not disclosed	
Note 27a Reconciliation of fair value measurements within Level 3	Pension fund	Code requires that if changing one or more unobservable inputs could change FV significantly - then should state that fact and disclose the effect. Disclosure should make clear if there is a significant effect or there is not, and there is no disclosure of the financial effect.	

A number of other minor presentational amendments including adjustment of prior period comparatives to match the audited 2020/21 financial statements were made to the financial statements.

D. Fees

We set out below our fees for the audit and provision of non-audit services as set out in the Audit Plan.

Audit fees	2020/21 final fee	Proposed fee	Final fee (estimate)
Council Audit	£285,000	£252,429	£295,000
Pension Fund Audit	£54,000	£37,808	£54,000
Total audit fees (excluding VAT)	£339,000	£290,237	£349,000

Audit related and Non-audit fees for other services	Proposed fee	Final / Estimated* fee
Agreed upon procedures relating to pooling of housing capital receipts	£5,000	£7,500*
Agreed upon procedures relating to the Teachers' Pensions End of Year Certificate	£7,500	£7,500*
Certification of Housing Benefit Subsidy Claim	£28,000	£TBC
Total non-audit fees (excluding VAT)	£40,500	£TBC

Reconciliation of audit fees	Accounts (Note 10) £000	Grants (Note 10) £000	PFund (Note 12c) £000
Fees per draft statements	252	41	38
Reconciling item: Increased audit requirements per Audit Plan	-	-	
Fees per Audit Plan / Audit Findings Report (proposed)	252	41	38

The fees reconcile to the Councils financial statements. The number issues identified and of audit adjustments required significant additional audit time in completing the audit. The final fee will be discussed with Management at the conclusion of the audit. All fees are subject to PSAA approval.

D. Fees

Fee analysis Council

Scale fee published by PSAA	£162,179
Raising the bar/regulatory factors	£12,000
Enhanced audit procedures for Property, Plant and Equipment including additional work at accounts	£26,170
Enhanced audit procedures for Pensions	£3,500
Additional work on Value for Money (VfM) under new NAO Code	£26,000
Increased audit requirements of revised ISAs	£17,000
Prior period adjustments	£4,400
Additional journals testing	£10,000
Infrastructure	£6,000
Pension liability IAS19	£6,500
CIES, provisions, Investment properties, judgements, estimates, financial instrument, disclosures – additional testing and review	£12,700
Objection, WGA	£8,551
Total audit fees (excluding VAT)	£295,000

D. Fees

Fee analysis Pension Fund

Scale fee published by PSAA	£16,170
Raising the bar/regulatory factors	£5,000
Enhanced audit procedures for Level 3 investments	£3,830
Increased audit requirements of revised ISAs	£8,000
Derivatives	£6,500
Additional Level 3 Investments testing	£6,500
Benefit payable, Level 1 Investments, disclosures – additional testing and review	£4,000
Hot review, Pension Fund Annual Report review	£4,000
Total audit fees (excluding VAT)	£54,000

E. Audit opinion

Our audit opinion is included below.

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

Independent auditor's report to the members of London Borough of Islington

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of London Borough of Islington (the 'Authority') for the year ended 31 March 2022, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Income and Expenditure Account, the Statement on the Movement on the Housing Revenue Account Balance, the Collection Fund Income and Expenditure Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2022 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Corporate Director Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Corporate Director Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Corporate Director Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Corporate Director Resources with respect to going concern are described in the 'Responsibilities of the Authority, the Corporate Director Resources and Those Charged with Governance for the financial statements' section of this report.

E. Audit opinion

Other information

The Corporate Director Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts and Annual Governance Statement, other than the financial statements, and our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

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

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

Responsibilities of the Authority, the Corporate Director Resources and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Corporate Director Resources. The Corporate Director Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements and Annual Governance Statement, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Corporate Director Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Corporate Director Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee and Audit Committee (Advisory) is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

E. Audit opinion

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012 and the Local Government Act 2003.
- We enquired of senior officers and the chair of the Audit Committee and Audit Committee (Advisory), concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers and the chair of the Audit Committee and Audit Committee (Advisory), whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
 - unusual journal entries made during the year which met a range of criteria during the course of the audit, and
 - the appropriateness of assumptions applied by management in determining significant accounting estimates, such as the valuation of property plant and equipment and the valuation of the net defined benefit pensions liability.
- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Corporate Director Resources has in place to prevent and detect fraud;
 - journal entry testing, with a focus on testing entries meeting the risk criteria determined by the audit team;
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect of valuation of land and buildings, including council dwellings and investment properties, and the valuation of the net defined benefit pensions liability;
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item

E. Audit opinion

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of land and buildings, including council dwellings and investment properties, and the valuation of the net defined benefit pensions liability.
- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government sector
 - understanding of the legal and regulatory requirements specific to the Authority including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA/LASAAC and SOLACE
 - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

Responsibilities of the Authority

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

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

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

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

E. Audit opinion

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for London Borough of Islington for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report'
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

Use of our report

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

Paul Dossett, Key Audit Partner

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

London

Date:

F. Audit letter in respect of delayed VFM work

Chair of Audit Committee and Audit Committee (Advisory)

Islington Council

Town Hall,

Upper Street

London

N1 2UD

August 2023

Dear Cllr Nick Wayne, Chair of Audit Committee and Audit Committee (Advisory), as TCWG

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

We issued a draft report to management for comments in December 2022 and an interim report was presented to the Audit Committee and Audit Committee (Advisory) in May 2023. The report will be finalised at the conclusion of the financial statements audit.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Paul Dossett



[grantthornton.co.uk](https://www.grantthornton.co.uk)

© 2023 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.