

# Informing the audit risk assessment for London Borough of Islington and London Borough of Islington Pension Fund 2022/23



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 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 your business or any 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.

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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between London Borough of Islington's and London Borough of Islington Pension Fund's external auditors and London Borough of Islington's and London Borough of Islington Pension Fund's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

## Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's and Fund's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from London Borough of Islington and London Borough of Islington Pension Fund's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

## General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?</p>	<p>We have been in the unusual position of preparing the 22/23 financial statements without having published the final audited 21/22 financial statements. Opening balances in the 22/23 financial statements are consistent with the latest revised 21/22 financial statements, and if they change as a result of subsequent audit work on the 21/22 accounts, we will make a note to update the 22/23 statements as well.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by London Borough of Islington and London Borough of Islington Pension Fund?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>Yes, we have considered the appropriateness and have no reason to change or adopt new accounting policies compared to those disclosed in the revised 21/22 accounts.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>No</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>No</p>

## General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	No
6. Are you aware of any guarantee contracts? If so, please provide further details	The council has given a guarantee to make additional financing available to its trading subsidiary, ICo Limited.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No  Contingent liabilities are disclosed in Note 33 of the accounts.

## General Enquiries of Management

Question	Management response
<p>8. Other than in house solicitors, can you provide details of those solicitors utilised by London Borough of Islington and London Borough of Islington Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p>	<p>Sharpe Pritchard – Leisure Management contract, Care UK contract, site of Former Charter s38/278 agreement, Bunhill 2 contract with Colloide, Adult Social Care contracts and to cover internal legal casework for a short period</p> <p>DAC Beachcroft – assisting with the administration of a Support Payment Scheme for survivors of historic child abuse</p> <p>Insurance Legal Panel solicitors (including DAC Beachcroft, Browne Jacobson and BLM) – historic child abuse and other civil litigation cases (open litigation, contingent liability from prior years)</p> <p>Kennedys – Highbury Leisure Centre fire claim (open litigation)</p> <p>Pinsent Masons – redevelopment of the underground space at Finsbury Square</p> <p>Bevan Brittan – expiry of PFI 2 street properties contract</p> <p>Town Legal – Barnsbury s106 agreement</p> <p>Batchelors – Claim for damages against Council officers (open litigation)</p> <p>Trowers &amp; Hamlin – 99 City Road s106 agreement</p> <p>Gowlings – Telecoms lease renewals</p> <p>Watson Farley &amp; Williams – Harvist Estate project</p>



## General Enquiries of Management

Question	Management response
9. Have any of London Borough of Islington and London Borough of Islington Pension Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Please see Estimations section where details are provided of advisors consulted to inform estimations
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	Yes. All considerations regarding IFRS 9 are disclosed in the financial instruments notes (Notes 22 and 23 of the 22/23 accounts).

# Fraud

## Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As London Borough of Islington's and London Borough of Islington Pension Fund's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from London Borough of Islington's and London Borough of Islington Pension Fund's management.

## Fraud risk assessment

Question	Management response
<p>1. Has London Borough of Islington and London Borough of Islington Pension Fund assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's and the Fund's risk management processes link to financial reporting?</p>	<p>Delivery of the 2022/23 Internal Audit plan did not yield material findings in relation to fraud. External Audit has been sighted on all reports to Audit Committee.</p> <p>The council's Principal Risk Report (PRR) considers the council's principal risks and mitigating actions, including the risk of fraud. The PRR is reviewed, updated and approved at Departmental Management Teams and the Corporate Management Board before being presented to Audit &amp; Risk Committee (most recently in July 2023). Fraud was assessed as moderate risk, indicating the inherent risk of fraud at a local authority.</p> <p>The council has a robust anti-fraud and corruption strategy. Suspected/alleged fraud is investigated by qualified investigators employed by the council.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Delivery of the 2022/23 audit plan did not yield material findings in relation to fraud. The council continues to operate without purchase orders, which is a key control in an accounts payable process.</p> <p>The latest National Fraud Initiative provided data relating to potentially fraudulent payments for further consideration/investigation. It has not identified any material fraud.</p>

## Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within London Borough of Islington and London Borough of Islington Pension Fund as a whole, or within specific departments since 1 April 2022? If so, please provide details</p>	<p>A total of 42 investigations have taken place by Internal Audit Investigations (IAI) - Corporate Investigations - in 2022/23. The Annual Fraud Report (AFR) for 2022/23 will be presented to Audit Committee in September 2023.</p> <p>The AFR highlights that of the 42 referrals received, 37 referrals have been closed following the conclusion of investigatory work. Of the 37 referrals closed, 5 referrals were substantiated; 28 were unsubstantiated; 2 were unable to be concluded due to lack of evidence and 2 were referred to the Department for Work and Pensions (DWP).</p> <p>There are two investigations still in progress in relation to alleged fraud perpetrated against the council's Pension Fund. These occurred in 2020-21 and 2021-22 respectively, and have been previously reported to the Audit Committee.</p> <p>A spousal pension claim was referred to IAI and after consideration of the documents (provided in support of the claim), advice was provided to the Council's pensions team to take forward.</p> <p>A spousal pension claim was referred for consideration by IAI. A review was conducted of the information provided and advice was provided to the Council's pensions team.</p> <p>A pension was referred to IAI regarding a deceased LBI employee after it was detected they also had pension contributions elsewhere. This was investigated and clarified with HR and advice was provided to the Council's pensions team.</p> <p>A spousal pension claim was referred to IAI for advice regarding a marriage certificate that had been provided. The information and document were reviewed and advice was provided to the Pensions team.</p>

## Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within London Borough of Islington and London Borough of Islington Pension Fund as a whole, or within specific departments since 1 April 2022? If so, please provide details - <b>continued</b></p>	<p>An investigation took place regarding a suspected mandate fraud payment. We were unable to establish where the monies had been paid to and the police did not accept the referral for investigation. As such, payment was not re-issued to the supplier.</p> <p>An investigation took place regarding an LBI employee with regards to additional employment. The investigation has been jointly conducted with another London Borough and the case is being considered for potential legal proceedings.</p> <p>A referral was received regarding a burglary/theft at one of Islington's libraries. The matter was dealt with by the Met Police and advice was provided to the service to enhance controls.</p> <p>An investigation took place regarding a LBI employee who failed to disclose additional employment. The member of staff was interviewed under caution and led to a full investigation report shared with HR to consider whether any disciplinary action applied.</p> <p>As at 18 August 2023, investigations are underway for 21 referrals.</p> <p><u>Housing Investigations</u></p> <p>The Housing Investigations team undertook 1 prosecution, recovered 48 properties and cancelled 6 right to buy applications (saving the council £675,300 in discounts that would have been applied to the sale values) in 22-23.</p> <p><u>Parking Investigations</u></p> <p>The Parking Investigation team investigated 102 cases in the 22-23 financial year.</p>

## Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>High priority recommendations arising from Internal Audit reviews that had attracted a No or Limited assurance rating were reported to Audit &amp; Risk Committee in the September 2022 and January 2023 updates on delivery of the audit plan.</p> <p>Specific fraud risks have been shared with the Audit &amp; Risk Committee and External Audit in the 2021/22 Annual Fraud Report and biannual whistleblowing report 2021/22 (both presented to the Sept 2022 Audit Committee). The Annual Fraud Report for 2022/23 is tabled for Audit &amp; Risk Committee in September 2023.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within London Borough of Islington and London Borough of Islington Pension Fund where fraud is more likely to occur?</p>	<p>Internal and External audit reports to Audit &amp; Risk Committee in 2022/23 did not highlight material findings in relation to fraud.</p> <p>The council's Principal Risk Report identifies serious fraudulent activity as a principal risk and details action to mitigate the risk of fraud.</p> <p>The council continues to operate without purchase orders, which is a key control in an accounts payable process.</p>

## Fraud risk assessment

Question	Management response
6. What processes do London Borough of Islington and London Borough of Islington Pension Fund have in place to identify and respond to risks of fraud?	<p>The council has a robust anti-fraud strategy and whistleblowing policy in place. Investigations are referred and investigated pursuant to these processes. Investigation outcomes are reported to the Corporate Management Board and Audit &amp; Risk Committee.</p> <p>The council's Principal Risk Report identifies serious fraudulent activity as a principal risk and details action to mitigate the risk of fraud. We do not specifically aim to cover the risks to the Pension Fund in the council's Principal Risk Report. The Pension Fund has a separate risk register.</p>

# Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for London Borough of Islington and London Borough of Islington Pension Fund, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>The control and governance environment is assessed through delivery of the annual Internal Audit plan, and the wider context of governance arrangements as included in the Council's Annual Governance Statement. The Head of Internal Audit provides an annual opinion on the council's overall control environment within the Annual Governance Statement.</p> <p>The annual opinion categories are No Assurance, Limited Assurance, Moderate Assurance and Substantial Assurance. The annual opinion given for 2016/17 to 2021/22 was Moderate Assurance. The same conclusion has been reached for 2022/23, indicating that the Council's systems for control, risk and governance were adequate with some improvement required.</p> <p>The council does not operate incentive schemes which would drive undue pressure to manipulate financial results. Equally the council's internal audit plan and whistleblowing procedures have demonstrated that they are effective at identifying procedural improprieties which cause incorrect reporting of financial results.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>Key areas where there is a risk of misreporting are identified within the significant accounting estimates section of the Audit Plan. These are: Valuation of land and building; Depreciation; Provisions and accruals; Provision for business rates appeals; Credit loss and impairment allowances; Valuation of defined benefit net pension fund liabilities; Fair value estimates; and Valuation of level 2 and 3 investments.</p>



## Fraud risk assessment

Question	Management response
<p>9. How does London Borough of Islington and London Borough of Islington Pension Fund communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>An anti-fraud strategy and whistleblowing policy is in place to encourage fraud reporting and directing staff how and where to report cases of suspected fraud and wrongdoing.</p> <p>Human Resources policies and procedures, and our code of conduct communicate and encourage ethical behaviours. Contractor behaviours are also monitored via our contract management procedures.</p> <p>Please see response to Q3 for details of any reported frauds.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>In respect of financial fraud, any post with the capacity to transact contains an inherent risk of fraud. In respect of corruption, leadership posts may be considered higher risk.</p> <p>Financial fraud risks are managed via control design in relation to accounting processes.</p> <p>Risks of corruption are managed via control design in relation to accounting processes, Human Resources policies and procedures and the council's code of conduct.</p>

## Fraud risk assessment

Question	Management response
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Delivery of the annual Internal Audit plan did not raise concerns surrounding related party transactions.</p> <p>Where risks have been identified as part of individual internal audits and fraud investigations, control recommendations are made and subject to follow up reporting to ensure that they have been implemented.</p> <p>The council seeks information in relation to declarations of interests of both senior officers and members.</p> <p>An additional line of defense is the audit of the related parties' arrangements within the council.</p>

## Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The overarching risk of serious fraudulent activity is considered within the Principal Risk Report to Audit Committee.</p> <p>Once an individual investigation is completed, a report is produced containing control recommendations where appropriate. Fraud issues/outcomes of investigations are reported to Audit &amp; Risk Committee annually in the Annual Fraud Report.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Where whistleblowing complaints have been made External Audit has been privy to those complaints and progress in implementing recommendations as part of the bi-annual whistleblowing monitoring reports that are shared with Audit Committee.</p> <p>The council has a robust whistleblowing policy which was revised with amendments approved by Audit Committee in June 2022. All allegations are managed in line with the policy. Complaints are investigated by qualified investigators employed by the council. Where appropriate, external investigators are engaged.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No</p>

# Law and regulations

## Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that London Borough of Islington's and London Borough of Islington Pension Fund's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

# Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does London Borough of Islington and London Borough of Islington Pension Fund have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's and the Fund's regulatory environment that may have a significant impact on the Council's and the Fund's financial statements?</p>	<p>The council's Legal Services provides proactive updates, training and advice to Chief Officers and Members on new legislation and case law developments and changes to existing legislation and regulations. All reports to the Corporate Management Board and decision-making reports to the Council, its Committees and the Executive include appropriate legal implications. A representative of Legal Services attends all Council, Executive, Planning and Licensing meetings and other meetings when requested.</p> <p>We are not aware of any changes to the council's or the Fund's regulatory environment that would have a significant impact on the financial statements.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Assurance is provided through the Annual Governance Statement and the regular reports to Audit Committee on internal audit investigations and whistleblowing. All reports to Audit Committee are subject to legal review and include legal implications.</p> <p>The Audit Committee has appointed a Pensions Sub-Committee which meets approximately every three months. The committee receives reports on the performance of the pension fund, including assessments of the key risks of individual funds and detailed updates from individual fund managers</p>

## Impact of laws and regulations

Question	Management response
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2022 with an on-going impact on the 2022/23 financial statements? If so, please provide details</p>	<p>Disclosed as contingent liabilities in the draft 2022/23 Statement of Accounts (some of which will relate to suspected non-compliance prior to 1 April 2022):</p> <ul style="list-style-type: none"> <li>- There are 24 outstanding employment tribunal claims and 34 Special Educational Needs claims where the council is the respondent. The estimated maximum potential liability for these outstanding cases is £441k (employment cases) and £300k (education cases).</li> <li>- There are three outstanding human rights cases arising out of the council's duties towards children and 13 cases involving adults. The level of potential liability for seven of these cases is £202k, and the liability for the remaining cases has yet to be ascertained.</li> <li>- The council has potential liability for damages and costs in one other formal commercial dispute which is estimated at £350k.</li> <li>- In addition, the council is involved in a number of historic child abuse and other adult/children cases which are being dealt with by its insurers.</li> <li>- The council has a potential liability pending possible adjudication proceedings in relation to a Design and Build contract. At the balance sheet date, the value was unknown.</li> </ul>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>Please see contingent liabilities note in draft Statement of Accounts.</p>

## Impact of laws and regulations

Question	Management response
5. What arrangements does London Borough of Islington and London Borough of Islington Pension Fund have in place to identify, evaluate and account for litigation or claims?	Litigation and claims are referred to and evaluated by the council's Legal Services team, or its external insurers if the claim is covered by insurance. Where considered appropriate due to complexity or value, external lawyers and /or Counsel are appointed.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	We are not aware of any such reports.

# Related Parties

## Matters in relation to Related Parties

London Borough of Islington and London Borough of Islington Pension Fund are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by London Borough of Islington and London Borough of Islington Pension Fund;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council and the Fund;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council and the Fund, or of any body that is a related party of the Council and the Fund.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Council and the Fund must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.



## Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in London Borough of Islington's and London Borough of Islington Pension Fund's 2021/22 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"><li>• the nature of the relationship between these related parties and London Borough of Islington and London Borough of Islington Pension Fund</li><li>• whether London Borough of Islington and London Borough of Islington Pension Fund has entered into or plans to enter into any transactions with these related parties</li><li>• the type and purpose of these transactions</li></ul>	<p>No significant change from previous year.</p>

## Related Parties

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

# Going Concern

## Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, 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 body'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.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

## Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by London Borough of Islington and London Borough of Islington Pension Fund will no longer continue?</p>	<p>The council has a well-established corporate governance framework and is subject to external legislative/regulatory controls around statutory services that would enable any such events/conditions to be identified. This would also be identified through the annual budget setting and budget monitoring process.</p>
<p>2. Are management aware of any factors which may mean for London Borough of Islington and London Borough of Islington Pension Fund that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>No</p>
<p>3. With regard to the statutory services currently provided by London Borough of Islington and London Borough of Islington Pension Fund, does London Borough of Islington and London Borough of Islington Pension Fund expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for London Borough of Islington and London Borough of Islington Pension Fund to cease to exist?</p>	<p>Yes, the council and Pension Fund expects to continue to deliver all statutory services currently provided for the foreseeable future.</p>

## Going Concern

Question	Management response
4. Are management satisfied that the financial reporting framework permits London Borough of Islington and London Borough of Islington Pension Fund to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	Yes

# Accounting estimates

## Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>Asset Valuations            PFI/Leases            Pensions Fund Liabilities and Investments            Bad Debt Provisions            Insurance Provision            NNDR Appeals Provision            Accruals</p>
<p>2. How does the Council's and the Fund's risk management process identify and address risks relating to accounting estimates?</p>	<p>With a focus on materiality, this is achieved through a combination of trend analysis, specialist external advice and other relevant factors/information.</p>
<p>3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>Management seeks to identify best practice recommended by CIPFA and/or industry standard</p>

## Accounting Estimates - General Enquiries of Management

Question	Management response
4. How do management review the outcomes of previous accounting estimates?	Management reviews actual results compared to previous estimates, and the reasons for any variations. In the event of significant variations, these would be communicated through formal monitoring processes and considered when making future estimates
5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?	No



## Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>Decisions are made based on the complexity of the required estimate, the level of specialist skill and knowledge available within the council and the availability and added value of obtaining specialist external advice.</p>
<p>7. How does the Council and the Fund determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>Management undertake an annual review of estimates as part of the Statement of Accounts process, including the review of outcomes compared to prior year estimates and any audit feedback. This is used to inform any further controls.</p> <p>This includes being clear in the initial brief to management experts, challenging assumptions and reasonableness and ensuring that advice is fully understood by officers before being used as estimates</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Accounting estimates are prepared and reviewed by named officers as part of the closing of accounts process.</p>

## Accounting Estimates - General Enquiries of Management

Question	Management response
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	<p>Oversight and governance over accounting estimates includes:</p> <ul style="list-style-type: none"> <li>A robust closing of accounts process (including guidance/timetable) that is reviewed and updated annually</li> <li>Peer review of estimates</li> <li>Cut-off testing in relation to accruals</li> <li>Escalation of any significant changes to estimation methods/models to senior management for consideration (none this year)</li> <li>Completion of External Audit general enquiries of management prior to finalising the draft Statement of Accounts as a means of further assurance, including identification of any significant changes from the previous year</li> </ul>

## Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	This comes from the annual review of estimates as part of the Statement of Accounts process, including the review of outcomes compared to prior year estimates and any audit feedback.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Audit Committee can take assurance from a three-line defence around accounting estimates. Significant estimates would be quality assured prior to inclusion within the draft Statement of Accounts. This includes the design of a robust process to undertake estimations (first line of defence) and subsequent quality assurance (second line of defence). The design of the external audit around material areas of estimation provides a third line of defence prior to approval of the final Statement of Accounts.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Current Value - Existing Use Value or, for specialised assets, Depreciated Replacement Cost (DRC) based upon a modern equivalent asset	Methodology per RICS. Review of estimates by internal valuers.	Yes	Assumption that the properties continue to be used for the provision of services. Challenge whether the inputs used by the valuer are appropriate. Ensuring DRC method is used appropriately.	No
Council dwelling valuations	Current Value – existing use value (social housing)	Methodology per RICS. Review of comparables used for the beacon valuations and inputs used to provide land/building split.	Yes	Assumption that the properties continue to be used for social housing and remain within the council's housing stock. Uncertainty due to the value of the portfolio being extrapolated from several beacon properties.	No
Investment property valuations	Fair Value in accordance with IAS 40	Methodology per RICS. Review of estimates by internal valuers.	Yes	Assumption that the properties continue to be held solely for income generation or capital appreciation, and that rent charged is a market rent. Market uncertainty likely to impact upon the estimates.	No
Depreciation	Straight line allocation of the depreciable amount of the asset's useful life	Reasonableness of estimate compared to previous years.	Yes	Estimates impacted by value of the asset and the assumed useful life. Where reducing balance may be more accurate than straight line, the estimate would not be materially different.	No

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	Actuarially assessed	Actuarially assessed	Yes	Actuarially assessed. Management can challenge assumptions.	No
Level 2 investments	Prepared by fund managers in accordance with International Private Equity and Venture Capital Guidelines	Independent custodian validates fund manager valuations	Yes	Independent custodian validates fund manager valuations	No
Level 3 investments	Prepared by fund managers in accordance with International Private Equity and Venture Capital Guidelines	Independent custodian validates fund manager valuations	Yes	Independent custodian validates fund manager valuations	No
Fair value estimates	Prepared using fair value estimates provided by independent treasury advisor (Arlingclose)	Independent treasury advisor provides fair value estimates for debt and investments	Yes	Assessed by independent advisor and reviewed by management.	No

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Credit Loss/Bad Debt Provisions	Uncollectability of outstanding debtors based on previous trends and economic outlook	Reasonableness of the estimates compared to previous years	No	Challenge assumptions around future trends. Management consider a range of outcomes and opt for the most prudent option.	No
Insurance Provision	Actuarially assessed	Actuarially assessed	Yes	Actuarially assessed	No
NNDR Appeals	Ratings advisor (Analyse Local)	Assessed by ratings advisor	Yes	Assessed by ratings advisor	No
Accruals	Actual invoice or best estimate available (e.g. unbilled Q4 estimate based on average of Q1-3 invoices). Materiality taken into account in determining whether to accrue.	Reasonableness of the estimates compared to previous years/periods.	No	Challenge assumptions that input into the calculations (e.g. where possible, seek assurance on reasonableness of assumptions from service provider). All accruals peer reviewed to assess for reasonableness, compliance with CIPFA Code and strength of supporting evidence.	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
PFI/ Finance lease liabilities	IAS 17, IFRIC 12	Review of outputs from PFI/finance lease models to ensure that reasonable compared to previous years and the expected liability at that stage of the asset life cycle	No	Limited variability in PFI/finance lease model inputs apart from the inflation figures	No



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