

# Audit Findings Report

London Councils

Year Ended 31 March 2023

PKF

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# Executive Summary

This report summarises the findings from the audit for the year ended 31 March 2023, which is now complete.

It includes the findings arising from our audit of your financial statements. We should like to take this opportunity to thank you and your staff for the assistance and co-operation we have received during the course of our work.

For the purposes of this report, the Group is defined as constituting the following entities:

- Joint Committee;
- Grants Committee;
- Transport & Environment Committee; and
- London Councils Limited.

This report has been prepared for the sole use of the Committee members and must not be shown to third parties without our prior consent. No responsibilities are accepted by the Firm towards any party acting or refraining from action as a result of this report.

## Financial statements

You are responsible for the preparation of the financial statements on a going concern basis unless this basis is inappropriate. You are also responsible for ensuring that the financial statements give a true and fair view and have been prepared in accordance with the applicable accounting standards and legislation.

## Matters from our audit

In accordance with International Standards on Auditing (UK) ("ISAs"), we are required to draw your attention to certain issues arising from our audit which we believe you should have in mind when considering whether to approve the final draft financial statements. The matters are set out in Sections [1](#) and [2](#) of this report.

Our work during the audit included an examination of some of the transactions and procedures to assist us in forming an opinion on the financial statements for the year ended 31 March 2023. Our work may not necessarily disclose all errors or irregularities and should not be relied upon to do so. However, if any irregularity did come to our attention during our audit tests, we would, of course, inform you immediately. We have included in this report only matters that have come to our attention as a result of our normal audit procedures and consequently our comments should not be regarded as a comprehensive record of all weaknesses that may exist or of all improvements that might be made.

## Audit procedures

We refer to our engagement letter which sets out the terms of our audit appointment including the scope of the audit and the respective responsibilities of ourselves as auditors and yourselves as Committee members. There are no changes to the terms in that letter of which you should be aware.

Our audit procedures, which are designed to enable us to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, were carried out in accordance with ISAs (UK). Our work continues to combine substantive procedures involving direct verification of balances and transactions, including obtaining confirmations from third parties where we considered this to be necessary, together with a review of your information systems and relevant controls.



Our overall approach to the audit was set out in our audit planning report. There were no changes to our audit approach nor are there any additional matters to bring to your attention.

## Independence

We refer to our audit planning report which we set out the results of our review of our independence and objectivity as auditors in the light of the Financial Reporting Council's (FRC) Revised Ethical Standard.

As explained within [Section 1](#) of this report, we confirm that the Firm, each covered person, its partners, its senior managers, its staff and all other individuals involved in the audit (either within the Firm, the PKF network or organisations external to the Firm) remain independent of the Group.

## Status of audit

The following matters are not yet fully resolved in the financial statements:

- Final review and approval by you of the financial statements;
- Subsequent events review to the date of signing of the financial statements; and
- Receipt of signed management representation letter.

## Letters of management representation

We have provided you with draft letters setting out the representations that we require before finalising our audit opinion on each entity. You will see that most of the representations are general and deal with such matters as confirming the Committee members' responsibilities for preparing financial statements showing a true and fair view.

There are a number of representations that we require before finalising our audit opinions. Under ISAs, we are permitted to rely on representations from the Committee members where audit evidence, other than that obtained by enquiry, is not reasonably expected to be available. The Committee members should carefully review each of the representations within the draft letter, in the light of their own knowledge, before it is approved by the Board. If any Committee members believes that additional information should be included, or further explanation is required, please let us know.



PKF Littlejohn LLP



# Findings From Our Audit

# 1. Findings From Our Audit

## Opinion on the financial statements

As at the date of this report, we expect to issue an unqualified audit opinion on the consolidated financial statements and the financial statements of each Committee.

As referenced in our audit planning report, we have also included content which explains the extent to which our audit was considered capable of detecting irregularities including fraud.

Please note that if additional relevant audit information is identified in the course of your consideration of the draft financial statements and representation letter, it may cause us to revise our audit opinion.

We would also like to draw your attention to the link given to the FRC's website in the draft audit report. We have elected not to include the description of the auditor's responsibilities in the body of our audit report as permitted by ISA (UK) 700. Full details on our responsibilities are available via the link and are also reflected in the engagement letter.

## Misstatements in the financial statements

There were no unadjusted misstatements identified during our audits as detailed within [Section 2](#) of this report. There was one adjusted misstatement relating to the derecognition of the pension asset. There are no other material misclassification/disclosures errors or non-material, non-trivial errors. We have reviewed the financial statements and have formed the view that they materially comply with the relevant financial reporting framework.

Our review found no material disclosure omissions in the financial statements.

## Audit risks and findings

As communicated in our audit planning report, our assessment of the significant risks and other assessed risks for the year ended 31 March 2023, together with the findings resulting from our audit work, was as follows:

**Table 1a: Significant risks and findings**

Significant Risk	Finding
<b>Management override</b> Under ISA (UK) 240 <i>"The Auditor's responsibilities relating to fraud in an audit of financial statements"</i> , there is a presumed significant fraud risk of management override of controls.	We performed the following procedures: <ul style="list-style-type: none"> <li>Obtained an understanding of the fraud risks relevant to the entity.</li> <li>Identified risks of fraud as part of our risk assessment procedures.</li> <li>Inquired of management about: their assessment of fraud risk; their process for identifying and responding to fraud risks; their communication to those charged with governance; and their communication to employees about its views on business practices and ethical behaviour.</li> <li>Obtained an understanding of how those charged with governance exercise oversight of management's processes over fraud.</li> <li>Inquired of those charged with governance of the risks of fraud in the entity, including those specific to the entity's business sector.</li> <li>Obtained an understanding, and evaluate the effectiveness of the design and implementation, of the controls that address fraud risks.</li> <li>Determined the appropriate response to address the identified risks of fraud.</li> </ul>

Significant Risk	Finding
	<p>In addition to the above, and in specific response to the significant fraud risk of management override of controls, our work in this area included:</p> <ul style="list-style-type: none"> <li>• Testing the appropriateness of manual or automated journals processed during the period, including those made at the end of the period and post-closing entries, to determine whether these were appropriate.</li> <li>• Reviewing estimates, judgements, and assumptions within the financial statements for evidence of management bias, and agree to appropriate supporting documentation. In this context we view the key estimates as being: <ul style="list-style-type: none"> <li>• The calculation and adequacy of the dilapidation provision;</li> <li>• Apportionment of shared service costs in line with the use of resources (all entities);</li> <li>• The disclosures and accounting of the defined benefit pension schemes including consideration of assumptions used by the actuaries in the calculation of the asset under IAS 19; and</li> <li>• Assessment of the useful economic life of assets.</li> </ul> </li> <li>• Evaluating whether there is a clear business rationale to support any significant transactions outside the normal course of the business of the entity, or transactions which otherwise appear to be unusual.</li> </ul> <p><b>Conclusion:</b> No issues were noted from our work in these areas.</p>
<p><b>Revenue recognition</b></p> <p>Under ISA (UK) 240, there is a presumption that revenue recognition is a significant fraud risk.</p> <p>For the Committees, the significant risk around fraud in revenue recognition is around the completeness and cut-off of the contributions.</p>	<p>Our work in this area included:</p> <ul style="list-style-type: none"> <li>• Documenting our understanding of the information system and related controls relevant to each material income stream.</li> <li>• Evaluating the appropriateness of the information system and the effectiveness of the design and implementation of the related controls.</li> <li>• Substantive transactional testing of income recognised in the financial statements, including deferred and accrued income balances recognised at year-end; and</li> <li>• A review of post year-end receipts to ensure completeness of income recorded in the accounting period.</li> </ul> <p><b>Conclusion:</b> No issues were noted from our work in these areas. We have obtained sufficient assurance that revenue is not materially misstated in the financial statements of the Committees for the year ended 31 March 2023.</p>
<p><b>Opening balances</b></p> <p>Opening balances have been inappropriately brought forward and/or contain errors or misstatements which may materially affect the current period's financial statements.</p>	<p>Work was performed on the opening balances to ensure that the comparatives agree with the amounts and other disclosures presented in the preceding period and are free from errors in the context of the financial statements of the current period.</p> <p><b>Conclusion:</b> No issues were noted from our work in these areas.</p>

**Table 1b: Other assessed risks and findings**

Assessed Risk	Finding
<p><b>Defined benefit pension schemes</b></p> <p>London Councils is an admitted body to one defined benefit pension scheme, which is administered in accordance with the Local Government Pension Scheme Regulations 2013.</p> <p>The pension fund net liability reported in the Joint Committee balance sheet at 31 March 2022 was £31,189,000.</p> <p>The last full triennial review of the scheme was undertaken as at 31 March 2019. An actuarial update valuation will be performed as at 31 March 2023 for inclusion in the financial statements at that date. The balance of the pension has become a surplus of £4,725,000.</p> <p>The disclosures and accounting of the defined benefit pension schemes, in accordance with Financial Reporting Standard 102 Section 28 'Employment Benefits', is an area of risk that requires special consideration.</p>	<p>Our work in this area included:</p> <ul style="list-style-type: none"> <li>Obtaining the actuarial report for the scheme as at 31 March 2023 and agreeing to the disclosures included within the financial statements to ensure these are sufficient and appropriate in line with IAS 19;</li> <li>Reviewing the double entry accounting for the scheme to ensure that these have been accounted for correctly within the financial statements, including the processing of the actuarial gain or loss in the year;</li> <li>Assessing the reasonableness of the assumptions used by the actuaries in their calculation of the gross liabilities of the schemes as at 31 March 2023, for example through comparison to publicly available information;</li> <li>Undertaking procedures to verify the accuracy and completeness of the data inputs used by the actuary in their calculation of the scheme gross liability at 31 March 2023; and</li> <li>Agreement of the fair value of the pension fund investment assets to supporting documentation where available, including the report of the Fund Manager as at 31 March 2023.</li> </ul> <p>We reviewed the criteria within IAS19 that sets out when an asset can be recognised on the balance sheet to ensure the treatment is in line with the financial reporting framework. As the criteria could not be met, the asset has been capped at £nil.</p> <p><b>Conclusion:</b> <i>We are satisfied that there are no material misstatements arising from the accounting for the defined benefit pension scheme..</i></p>
<p><b>Going concern</b></p> <p>When preparing financial statements, those charged with governance should satisfy themselves as to whether the going concern basis is appropriate.</p> <p>ISA (UK) 570 "Going concern" specifically requires the auditor to conclude on: whether a material uncertainty related to going concern exists; the appropriateness of the Committee members' use of the going concern assumption in the preparation of the financial statements; and the appropriateness of any relevant disclosures in the financial statements.</p>	<p>It is a requirement of the UK GAAP that, in determining that the going concern basis is appropriate, the Committee members must consider a period of at least 12 months from the date of approval of the financial statements.</p> <p>We evaluated this assessment and considered its appropriateness in light of our understanding of the Group and the work we are required to perform under ISA (UK) 570.</p> <p><b>Conclusion:</b> <i>Based on our audit work to date, there do not appear to be any indications that the going concern basis of preparation is not appropriate for any of the entities.</i></p>
<p><b>Related party transactions</b></p> <p>International Standard on Auditing (UK) 550 "Related Parties" requires us as auditors to conclude whether:</p> <ul style="list-style-type: none"> <li>there is sufficient audit evidence in respect of related party transactions and arrangements;</li> <li>all related parties have been identified to ensure that all material related party transactions and arrangements have been disclosed in the financial statements;</li> <li>sufficient appropriate audit evidence has been obtained such that the risk of a material misstatement is reduced to an acceptably low level in respect of related parties; and</li> </ul>	<p>We reviewed the systems of control around related party relationships and transactions which includes maintenance of a record of Interests for the Committee members and Senior Management.</p> <p>We considered if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of applicable accounting standards.</p> <p>We inspected bank confirmations, bank statements and minutes of meetings of the Members for indications of the existence of related party relationships or transactions that management has not previously identified.</p> <p><b>Conclusion:</b> <i>No issues were noted from our work in these areas.</i></p>



Assessed Risk	Finding
<ul style="list-style-type: none"> <li>there is a fair presentation of related party transactions and arrangements in the financial statements which is not misleading.</li> </ul>	

## Independence

The audit planning report issued provided details of the consideration of our integrity, objectivity, and independence as auditors in accordance with the requirements of the Financial Reporting Council's (FRC) Revised Ethical Standard.

We confirm that, since that report was issued, there are no additional facts or matters to make you aware of nor have there been any changes to the assessment and conclusions reached in that report. Consequently, the Firm, each covered person, its partners, its senior managers, its staff, and all other individuals involved in the audit (either within the Firm, the PKF network, or organisations external to the Firm) remain independent of the Group.

## Significant matters discussed with management

We did not identify any significant matters discussed with management which we believe should be brought to your attention.

## Significant difficulties encountered

We did not encounter any significant difficulties during the audit.

## Significant deficiencies in internal control

It is the responsibility of the Committee members to design, implement and maintain the system of internal control in order to provide reasonable assurance about the achievement of the Group's objectives regarding the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. Our responsibility as your auditor is to obtain an understanding of, and evaluate the relevant components within, the system of internal control in order to design audit procedures that are appropriate for our audit, but not for the purpose of expressing an opinion on the effectiveness of the Group's system of internal control.

Our work during the audit included an examination of some of the Committees' transactions, procedures and control to assist us in forming an opinion on the financial statements for the year. This work was not directed primarily towards discovering weaknesses or towards the detection of fraud. We have only considered matters that have come to our attention as a result of our normal audit procedures, and consequently our comments should not be regarded as a comprehensive record of all weaknesses that may exist or of all improvements that might be made.

The following table (Table 2a) sets out what, in our opinion, are certain deficiencies in your system of internal control and our recommendations for improving the position. Where applicable, comments received from management are included.

**Table 2a: Deficiencies in internal control**

Details of the assessment of deficiencies:

- **Significant deficiency** – a deficiency or combination of deficiencies in internal control that is of sufficient importance to merit the attention of those charged with governance
- **Deficiency** – a control is designed, implemented, or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or a control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing

Issue and risk	Assessment	Recommendation	Management response
<p><b>Employment contracts</b></p> <p>We identified several instances where employment contracts had been signed by London Councils as the employer, but not the employees, including some new starters in the year.</p> <p>There is a risk that the lack of signed and completed employment documentation could lead to difficulties in resolving matters of staff and pay disputes.</p>	Deficiency	We recommend that all employment contracts should be signed by both parties and copies maintained on individual personnel files.	<p>We will raise the matter with the City of London's HR team that provide the service through a service level agreement for HR support services. We need to gain a clear understanding of any mitigating controls that exist and if these controls are insufficient, we will establish new processes to ensure that contracts are signed on a timely basis.</p> <p>We have recently procured a new Recruitment Applicant Tracking System – Tribepad – that is undergoing implementation with the aim to go live during October 2023. The system functionality facilitates digital contract offers to chosen job applicants and acceptance/ rejection confirmations as part of the hiring and onboarding process. This new system will ensure that employment documentation is signed by both parties to the contract.</p>
<p><b>Bank payment</b></p> <p>Due to the nature of the banking arrangement with the City of London, we were unable to vouch the PAYE BACS payment to the bank statement for proof of payment.</p> <p>Also due to the payment allocation journal across several nominal codes, we could not verify the nominal ledger postings for the payment.</p> <p>There is a risk that incorrect payments could be recharged to London Councils or PAYE liabilities not cleared.</p>	Deficiency	We recommend that evidence of PAYE payment run is obtained from the City of London and that this record is maintained for future references.	We will request evidence to support the monthly payment of PAYE liabilities from the City of London's payroll and cashier's teams and retain this for audit purposes. The risk that incorrect payments of PAYE are recharged to London Councils is mitigated by the monthly payroll reconciliations carried out by London Councils' finance team.

## Matters of governance interest

We did not identify any significant matter relating to the governance of the Group which we feel should be drawn to your attention in the context of the approval of the financial statements.

## Accounting policies

We have considered the accounting policies adopted by the Group for its financial statements. Inter alia we have considered the requirements of applicable accounting standards and the practices of other entities in your sector.

We are satisfied that the financial statements give a true and fair view on the basis of the accounting policies adopted.

## Fraud

Management has confirmed to us that it is not aware of any incidence of fraud or suspected fraud during the year. We have not identified any reason to doubt that confirmation.

Our audit report includes an explanation on the extent to which our audit was considered capable of detecting irregularities, including fraud. We refer to the procedures we carried out when addressing the risks of material misstatement arising from fraud.

## Compliance with laws and regulations

Management has confirmed that it is not aware of any breaches of laws and regulations. We did not identify any instances of non-compliance during the course of our audit work.

Our audit report includes a statement on the extent to which our audit was considered capable of detecting irregularities, including fraud. We refer to the procedures we carried out when addressing the risks of material misstatement arising from non-compliance with laws and regulations.

## Audit and non-audit costs

The audit costs for the year ended 31 March 2023 are in line with expectations.

No non-audit work has been carried out in the year. Details of the audit fee for the year ended 31 March 2023 is shown in Table 3 below:

**Table 3: Audit and non-audit costs**

Audit and non-audit services	Current year
Audit of Group	53,253





# Audit Adjustments



## 2. Audit Adjustments

The auditing standards require that we report to you all misstatements which we identified as a result of the audit process and which were not adjusted, unless those matters are clearly trivial in size or nature. We bring them to your attention to aid you in fulfilling your governance responsibilities.

We did not identify any non-trivial misstatements during our audits, other than pension adjustment to the cap the asset at £Nil.

### Impact of adjustments

There were no unadjusted misstatements. The only adjusted misstatement in respect of the capping the pension asset of £4,725k at £Nil has been included below. In summary the impact of the adjustments is:

Statement of Comprehensive Income and Expenditure Statement	Movement in result London Councils
Surplus per trial balance	£33,772,000
Management adjustments posted to remove pension asset	£(4,725,000)
Auditor-proposed adjustments posted	-
<b>Final surplus per financial statements</b>	<b>£29,047,000</b>