

Leaders Committee

Annual Audit Report 2020/21

Item no: 8

Report by: David Sanni **Job title:** Acting Director, Corporate Resources
Date: 8 February 2022
Contact Officer: David Sanni
Telephone: 020 7934 9704 **Email:** david.sanni@londoncouncils.gov.uk

Summary This report presents the annual audit report issued by Grant Thornton, London Councils' external auditor, following the completion of its audit of London Councils accounts for the year ended 31 March 2021.

Recommendations The Leaders' Committee is asked to note the contents of the Annual Audit Report for 2020/21 which can be found at Appendix A.

Annual Audit Report 2020/21

Background

1. Grant Thornton, London Councils' external auditor, has issued its annual audit report following the completion of its audit of London Councils 2020/21 financial accounts. The auditor issued unqualified opinions on all three committee accounts and the report reflects the outcome of its work. There was a delay to the completion of the audit due to the remote auditing approach adopted during the period when businesses were gradually returning to normal operations following the removal of restrictions introduced to prevent the spread of the COVID-19 pandemic. The pre-audited accounts were considered by London Councils' Audit Committee on 16 September 2021 and were approved subject to the satisfactory conclusion of the outstanding audit work. The audited accounts were presented to London Councils' Executive on 18 January 2022.
2. The audit report and accounts have been posted on London Councils' Website (www.londoncouncils.gov.uk under the "About us" sub-category) and a link to the documents sent to all members of the Leaders' Committee, the Transport and Environment Committee, the Grants Committee and borough Chief Executives.

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

Appendix A – Grant Thornton Audit Findings Report 2020/21

Background Papers

Annual Audit Report 2020/21 – Report to London Councils Audit Committee 16 September 2021; and

Final accounts working files 2020/21

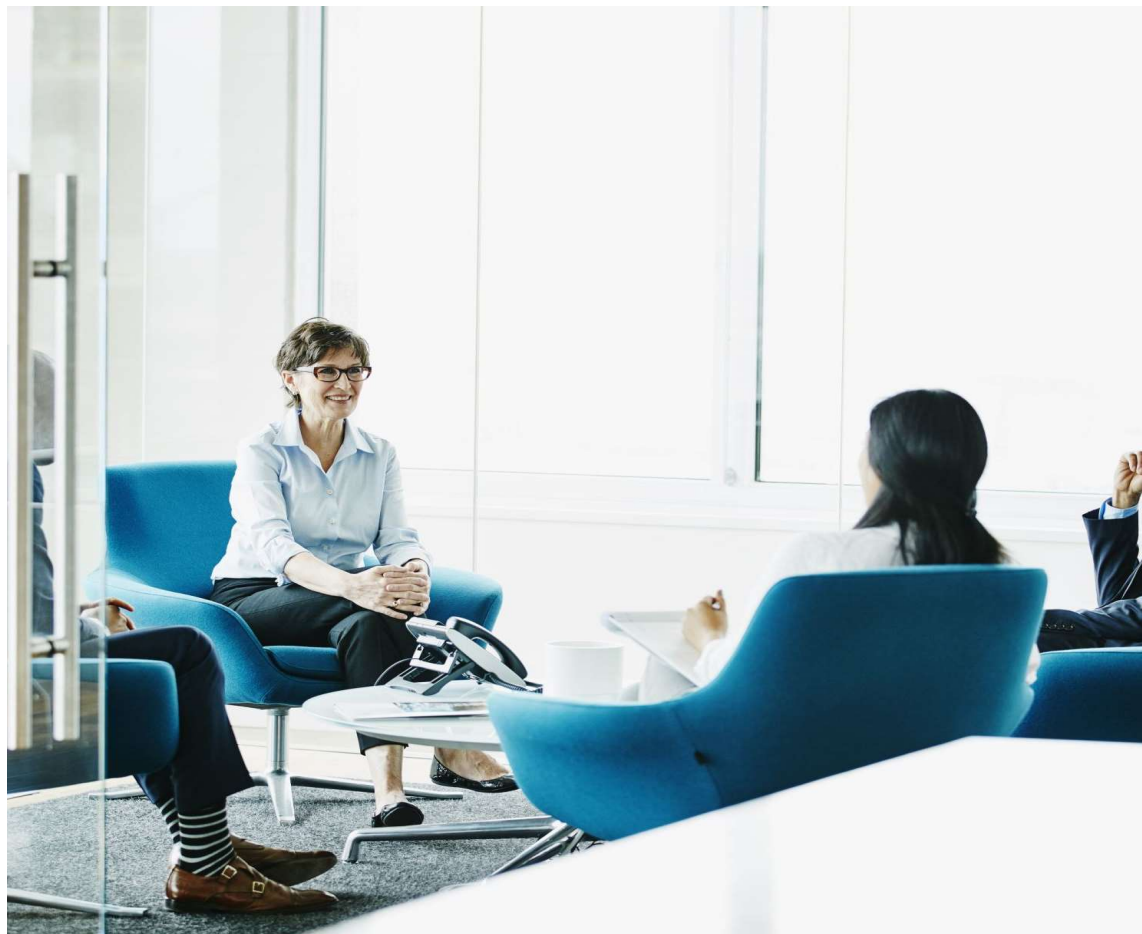
The Audit Findings for London Councils

Year ended 31 March 2021

London Councils includes:

- Joint committee (consolidated)
- Grants Committee
- Transport and Environment Committee
- London Councils Limited.

8 December 2021



Contents



Your key Grant Thornton team members are:

Ciaran McLaughlin

Engagement Lead

T +44 (0)207 728 2936

E Ciaran.T.McLaughlin@uk.gt.com

Ibukun Oluwasegun

Engagement Manager

T +44 (0)20 7728 3116

E Ibukun.O.Oluwasegun@uk.gt.com

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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 London Councils 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.

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 will be discussed with management and the Audit Committee.

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1. 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 will be discussed with management and the Audit Committee.

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 London Councils and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components within the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response.
- 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 issued an unqualified audit opinion for the group as at 31 March 2021.

1. 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 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.

We detail in the table above our determination of materiality for all entities within London Councils.

Entity	Benchmark	Materiality	Performance materiality	Triviality
Joint Committee [Consolidated]	Gross expenditure	£1,460,000	£1,095,000	£73,000
Joint Committee	Gross expenditure	£250,000	£187,500	£12,500
Grants Committee	Gross expenditure	£180,000	£135,000	£9,000
Transport and Environment Committee	Gross expenditure	£1,026,000	£769,500	£51,300
London Councils Ltd	Gross expenditure	£46,000	£34,500	£2,300



1. 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	Risk relates to	Commentary
The revenue cycle includes fraudulent transactions	Joint Committee (including consolidation)	As reported in our Audit Plan, under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.
Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	Grants Committee	This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.
	Transport and Environment Committee	Having considered the risk factors set out in ISA240 and the nature of your revenue streams which includes income from Borough subscriptions, Freedom passes, Taxi card services, direct services income, Borough commission, European Social Fund grant funding, tenants licence holders income, grant funding from central government, we have determined that the risk of fraud arising from revenue recognition can be rebutted because:
	London Councils Ltd	<ul style="list-style-type: none"> opportunities to manipulate revenue recognition are very limited; the culture and ethical frameworks of London Councils mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for London Councils.</p>

1. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
<p>Management over-ride of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, 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>Joint Committee (including consolidation)</p> <p>Grants Committee</p> <p>Transport and Environment Committee</p> <p>London Councils Ltd</p>	<p>We performed the following work:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals analysed the journals listing and determine the criteria for selecting high risk unusual journals tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Conclusion</p> <p>Our audit work is complete and we have not identified any evidence of management override of controls.</p>
<p>Pension scheme (valuation)</p> <p>London Councils a scheduled body of the London Pension Fund Authority (LPFA) Pension Scheme.</p> <p>The level of the pension scheme deficit is susceptible to fluctuations given market movements and/or changes to the assumptions used to calculate the value of the assets and liabilities within the scheme. The potential impact of GMP and McCloud will also be considered.</p>	<p>Joint Committee (including consolidation)</p> <p>Grants Committee</p> <p>Transport and Environment Committee</p> <p>London Councils Ltd</p>	<p>We performed the following work:</p> <ul style="list-style-type: none"> updated our understanding of the processes and controls put in place by management to ensure that the Joint Committee's pension fund net liability is not materially misstated and evaluate the design of the associated controls; assessed the competence, capabilities and objectivity of the actuary who carried out the Joint Committee's pension fund valuation; tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; undertook 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>Conclusion</p> <p>Our audit work is complete and we have not identified any issue in respect of this risk.</p>

1. Financial Statements - Other risks

Other risks identified in our Audit Plan	Commentary
<p>Creditors are understated (completeness)</p> <p>The level and size of transactions for the Joint Committees increases the risk of errors in recording liabilities accurately and on a timely basis.</p>	<p>We performed the following work:</p> <ul style="list-style-type: none"> documented our understanding of the control processes in place and performed walk through testing to gain assurance that in-year controls were operating in accordance with our documented understanding. Obtained the listings required for testing to identify unrecorded liabilities including a review of post year end bank payments. <p>Conclusion</p> <p>Our audit work is complete and we have not identified any issue in respect of this risk.</p>
<p>Certification of AR 27 Return</p> <p>London Councils, as an employer's association, has an obligation under the Trade Union and Labour Relations (Consolidation) Act 1992 to submit an annual return (AR27) to the Certification Officer.</p> <p>The information included in the return is based on the audited financial accounts. The Act imposes a duty on London Councils to appoint an auditor to audit the accounts included in the return.</p>	<p>We will:</p> <ul style="list-style-type: none"> discuss and agree the work to be carried out with management and consider any fee implications should additional audit procedures be required

1. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Valuation of defined benefit net pension fund liabilities– £42.496m	<p>London Councils total net pension liability at 31 March 2021 is £42.496m (PY £24.148m) comprising of the LPFA pension fund which includes unfunded defined benefit pension scheme obligations. London Councils uses Barnett Waddingham to provide actuarial valuations of the 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. There has been a £16.590m net actuarial loss during 2020/21.</p>	<p>In reviewing this estimate, we;</p> <ul style="list-style-type: none"> Carried out an assessment of management's expert Carried out an assessment of actuary's approach taken Used PwC as auditors expert to assess actuary and assumptions made by actuary. The table below compares the Actuary assumptions with PwC's range. <table> <tr> <th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr> <tr> <td>Discount rate</td><td>2%</td><td>1.95% - 2.05%</td><td>●</td></tr> <tr> <td>Pension increase rate</td><td>2.85%</td><td>2.80% - 2.85%</td><td>●</td></tr> <tr> <td>Salary growth</td><td>3.85%</td><td>3.80% - 3.85%</td><td>●</td></tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td><td>45: 23.5 65: 22.7</td><td>45: 21.9 - 24.4 65: 20.5 – 23.1</td><td>●</td></tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td><td>45: 26.0 65: 24.5</td><td>45: 24.8 – 26.4 65: 23.3 – 25.0</td><td>●</td></tr> </table> <ul style="list-style-type: none"> Reviewed the completeness and accuracy of the underlying information used to determine the estimate Assessed the impact of any changes to valuation method Assessed the adequacy of the disclosure of estimate in the financial statements 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2%	1.95% - 2.05%	●	Pension increase rate	2.85%	2.80% - 2.85%	●	Salary growth	3.85%	3.80% - 3.85%	●	Life expectancy – Males currently aged 45 / 65	45: 23.5 65: 22.7	45: 21.9 - 24.4 65: 20.5 – 23.1	●	Life expectancy – Females currently aged 45 / 65	45: 26.0 65: 24.5	45: 24.8 – 26.4 65: 23.3 – 25.0	●	●
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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

1. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Dilapidation, External and Internal decoration provisions in the Limited Company- £0.74m	<p>Both provisions are based on legal obligations included within property leases. Management base this estimate on the most recent historic experience which in this case was the dilapidation cost incurred at the end of a lease at Angel Square, Islington in July 2015.</p> <p>An inflation rate is applied to calculate the estimated dilapidation costs when the obligations arise in the future. This future cost is discounted to arrive at the present value of the obligation. The provision is built up over the life of the lease.</p> <p>Due to decoration obligation not occurring in the 10th year of the agreement, the unused amount was reversed in 2020/21. This meant that the provision decreased from £0.937m in 2019/20 to £0.740m in 2020/21.</p>	<p>In reviewing this estimate, we:</p> <ul style="list-style-type: none"> Evaluated the appropriateness of the underlying information used to determine the estimate Considered the impact of any changes to estimation method Assessed the reasonableness of decrease in estimate Reviewed the adequacy of the disclosure of estimate in the financial statements 	●
European Social Fund Grants in the Grants Committee- £0.027m	<p>European Social Fund (ESF) grants is an EU match funded grant scheme to improve training and skills in the long term unemployed. The funding agreements set out the grant that can be claimed on eligible expenditure. The grant funding for provider costs is calculated by applying the 50% funding rate to the value of approved claims submitted by organisations during the year.</p> <p>As the programme concluded on 30 June 2019, there has been a significant decrease in income. The ESF income has reduced from £0.624m in 2019/20, to £0.027m in 2020/21.</p>	<p>In reviewing this estimate, we:</p> <ul style="list-style-type: none"> Assessed whether the Grants Committee is acting as the principal or agent which would determine whether the committee recognises the grant at all Reviewed completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income Reviewed the adequacy of the disclosure of estimate in the financial statements 	●

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

1. 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 management. We have not been made aware of any 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 has been received from management for all entities within London Councils.

1. 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 data-bbox="871 464 2051 603">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.</p> <p data-bbox="871 619 2011 671">Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul data-bbox="871 687 2074 927" 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. <p data-bbox="871 970 2038 1109">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 London Councils meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul data-bbox="871 1125 2011 1268" style="list-style-type: none"> • the nature of London Councils and the environment in which it operates • London Councils financial reporting framework • London Councils' system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. <p data-bbox="871 1284 2051 1307">On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul data-bbox="871 1323 2051 1418" 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.

1. 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 and Narrative Report, 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 to date. We plan to issue an unmodified opinion in this respect.</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. <p>We have nothing to report on these matters.</p>



2. 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 wish to draw to your attention to the fact that the Engagement Lead Ciaran McLaughlin is also the lead auditor for the audit of London Pension Fund Authority which London Councils pension fund is an admitted body.

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 B

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/transparency-report-2020)

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 group. No non-audit services were identified which were charged from the beginning of the financial year to date.

Appendices

A. 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 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Derecognition of finance lease			
Dr Accumulated depreciation		89	
Cr Asset		[89]	
Overall impact	Nil	Nil	Nil

Disclosure changes

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

Detail	Auditor comments
Ensure Councillors list in the Narrative report is up to date	Narrative report has been updated
Update the useful life for leasehold improvements to ensure the appropriate useful life is used.	Note 1 – Accounting policy on useful life has been updated
Ensure all post balance sheet events are disclosed within the accounts.	Note 5 - Events After the Balance sheet date has been updated

A. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
None identified to date				
Overall impact	Nil	Nil	Nil	

B. Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Audit fees	Proposed fee	Final fee
Financial Statements Audit – Joint Committees	£39,200	39,200
Additional costs arising from regulatory requirements and changes to International Standards on Auditing and impact of COVID-19	£7,800	£7,800
Cost of AR 27 Certification	-	TBC
Total audit fees (excluding VAT)	£47,000	TBC

Auditor's remuneration reconciles with Note 28 External Audit Costs disclosed within London Councils Joint Committee consolidated statement of accounts.

- There are no non-audit services provided.
- None of the above services were provided on a contingent fee basis.
- For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to London Councils Joint Committee. There were no non-audit services which were identified.



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