

# Audit Plan for London Borough of Hammersmith and Fulham and Hammersmith and Fulham Pension Fund

**Year ending 31 March 2022**

23 November 2022



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

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# Key matters

## Factors

### Council developments

As for all London Boroughs, the financial position in for the 2022/23 year remains challenging, although positively the Council did deliver an surplus outturn result of £6.7m for 2021/22. There are ongoing growth pressures in demand led services, such as housing and social care, increasing pressures from homelessness, changing economic conditions and a continuing greater reliance on income generated locally. The fall out and recovery from the pandemic has resulted in additional spending pressures and an ongoing hit to the Council's income streams, and the cost of living crisis continues to see inflation rising to unplanned levels. The future of funding remains highly uncertain as the sector awaits an updated Fiscal Statement in November 17<sup>th</sup> (with grant funding allocations in December) which could herald a new wave of austerity. The balance of funding in the budget between direct NHS support and social care support is still highly uncertain. In the MTFs the Council is forecasting a large revenue budget gap over the years through to 2025/26, which will require either identification of savings/cost efficiencies, or the use of reserves which would need to be replenished.

The Council has pledged to reach net zero emissions by 2030 as part of declaring a climate and ecological emergency in July 2019. The apparent impact of climate change in more extreme (and costly) weather events and increasing concern generally, is driving an increased demand for Authorities and businesses to accelerate net zero plans and to flesh these plans out with what investment and changes to operations may be required to make such targets a reality. This is also increasingly becoming an area of concern for Audit Committees in terms of how they oversee this risk.

We note that there has been a high turnover in Executive Officers at the Council during the 2021/22 and 2022/23 financial years. Turnover at this level will always raise potential risks of loss of corporate memory and knowledge, which could impact on key processes such as end of year financial statements and budget setting. Our discussions with and work through the 2020/21 audit and Value for Money work has given us comfort that the Council has taken appropriate measures to ensure these officers are either replaced with appropriate permanent appointments or interim appointments, and that management support in their teams is sufficient.

### Infrastructure Assets

The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. In addition, the Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. The Council has material infrastructure assets, at a gross and net value basis, there is therefore a potential risk of material misstatement related to the infrastructure balance. For the 2021/22 audit we have carried out audit inquiries to understand the control environment around the recognition and derecognition of infrastructure assets. In common with most other authorities there is not a clear mechanism by which existing infrastructure assets which still have a net book value on the balance sheet being depreciated are derecognised when the asset is replaced. As there is not a system by which the Council could accurately identify which infrastructure asset has been replaced (the Council instead relying on the useful economic lives being an accurate lifetime for the assets so they would be depreciated in full at approximately their replacement cycle) it is not possible to quantify what the misstatement could be. This is a national issue effecting all local government audits. CIPFA are in the process of implementing a statutory override in this area of the accounts. This is expected to be introduced by the end of December 2022, and once this is in place we will be able to sign the 2020/21 audit opinion. This issue should therefore be resolved and closed before we complete the 2021/22 audit fieldwork and as such we are satisfied this does not present a risk for the 2021/22 audit.

## Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, is still to be finalised and will be discussed and confirmed with the Chief Finance Officer.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- Recommendations have been agreed in respect of matters identified through previous audit work, on both the financial statements and arrangements to secure VFM, the planning report. We are still completing our risk assessment work as we issue this Audit Plan, and we will be following up with your finance team on progress made on these recommendations.
- We will continue to provide you with sector updates via our Audit Committee updates.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control – refer to page 7.
- We identified an other audit risk relating to transfer of services for administration of member data from Surrey County Council to the Local Pensions Partnership Administration. This confers a risk for the completeness and accuracy of member data – refer to page 9.
- We will consider the Council's planned response to the climate emergency and potential impacts on financial reporting in the current year.

# Introduction and headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audits of the London Borough of Hammersmith and Fulham ('the Council') and Hammersmith and Fulham Pension Fund ('the Pension Fund') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council and the Pension Fund. We draw your attention to both of these documents.

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council and Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Pensions committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Pensions Committee of their responsibilities. It is the responsibility of the Council and Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council and Pension Fund are fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council and Pension Fund's business and is risk based.

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as follows:

### Council

- The risk that the valuation of land and buildings in the accounts is materially misstated.
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated.
- The risk of management override of controls.

### Pension Fund

- The risk of management override of controls.
- The risk that the valuation of level 3 investments in the accounts is materially misstated

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

### Council

We have determined materiality to be £10.2m (PY £9.3m), which equates to 1.5% of the Council's gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.510m (PY £0.465m).

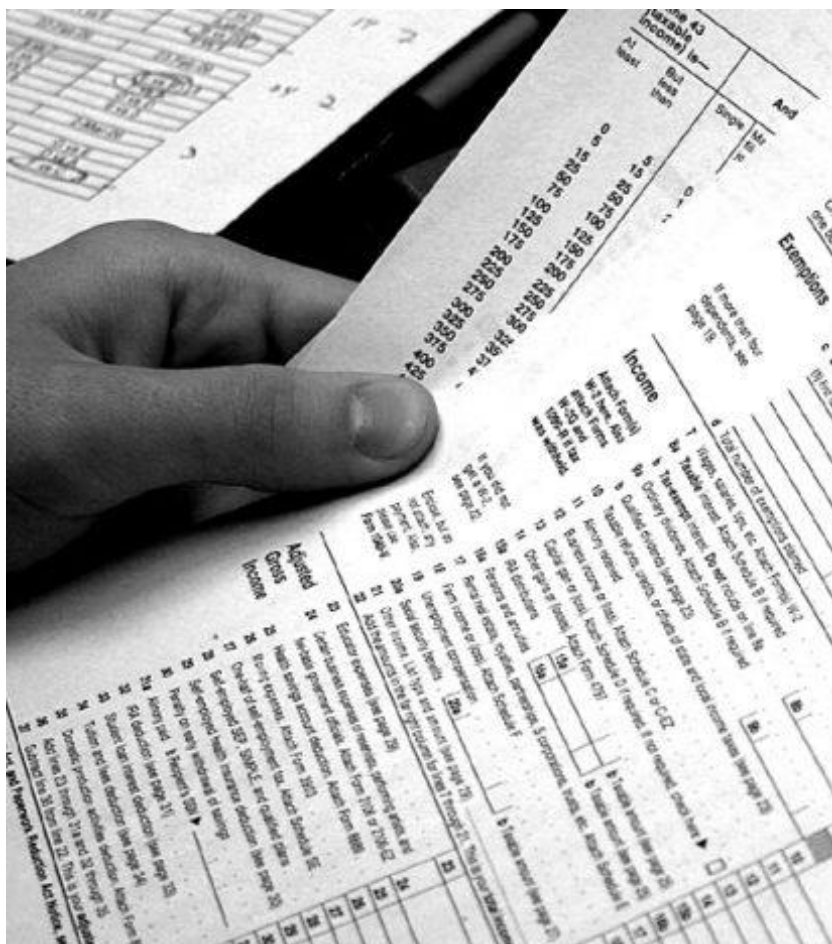
### Pension Fund

We have determined materiality to be £12.5m (PY £11.5m), which equates to 0.95% of the Pension Fund's net assets as at 31 March 2021. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.625m (PY £0.575m).

## Value for Money arrangements

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

# Introduction and headlines cont.



## Audit logistics

Our planning and final audit phases will take place between November 2022 and February 2023. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our expected fee for the Council audit will be £212,742 (PY: £TBC our final fee is still to be determined as the 2020/21 audit is still ongoing) for the Council, and £38,000 (PY: £33,000) for the Pension Fund. These fees are subject to the Council and Pension Fund delivering a good set of financial statements and working papers. See pages 17 and 18 for additional breakdown of the fees.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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..



# Significant risks identified

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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 fraudulent revenue recognition (rebutted)	Council and Pension Fund	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the Council and Pension Fund revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>- there is little incentive to manipulate revenue recognition;</li> <li>- opportunities to manipulate revenue recognition are very limited;</li> <li>- the culture and ethical frameworks of local authorities, including London Borough of Hammersmith and Fulham, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore, we do not consider this to be a significant risk at for the London Borough of Hammersmith and Fulham or Hammersmith and Fulham Pension Fund.</p>	Significant risk rebutted.
Risk of fraud related to expenditure recognition under Practice Note 10 (rebutted)	Council and Pension Fund	<p>We have also considered the risk of material misstatement due to the fraudulent recognition of expenditure. We have considered each material expenditure area, and the control environment for accounting recognition. We have considered the risk factors in Practice Note 10 as they apply to the Council and Pension Fund expenditure streams.</p> <p>We were satisfied that this does not present a significant risk of material misstatement in the 2021/22 accounts as:</p> <ul style="list-style-type: none"> <li>- The control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is considered to be strong;</li> <li>- We have not found significant issues, errors or fraud in expenditure recognition in the prior years audits;</li> <li>- Our view is that, similarly to revenues, there is little incentive to manipulate expenditure recognition.</li> </ul> <p>Therefore, we do not consider this to be a significant risk at for the London Borough of Hammersmith and Fulham or Hammersmith and Fulham Pension Fund.</p>	Significant risk rebutted.

# Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Council and Pension Fund	<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. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, 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>We will:</p> <ul style="list-style-type: none"> <li>Evaluate the design effectiveness of management controls over journal entries;</li> <li>Analyse the journal entry listing and determine the criteria for selecting high risk unusual journals;</li> <li>Test unusual journal entries recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and</li> <li>Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>
Valuation of land and buildings	Council	<p>The Council revalues its Land and Buildings, Council Dwellings, Surplus Assets and Investment Property on an annual basis to ensure that the carrying value is not materially different from the current value (for Land and Buildings and Council Dwellings) or fair value (for Surplus Assets and Investment Properties) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.8 billion Land and Buildings, £81m Investment Property) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management has engaged the services of a valuer to estimate the current value as at 31 March 2022.</p> <p>We therefore identified valuation of Land and Buildings, Council Dwellings, Surplus Assets and Investment Properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> <p>This significant risk is particularly focused on the valuers' key assumptions and inputs to the valuations as these are the greatest sources of estimation uncertainty/sensitivity.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>Evaluate the competence, capabilities and objectivity of the valuation expert;</li> <li>Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met;</li> <li>Engage our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation;</li> <li>Use our auditor's expert valuer to challenge and evaluate the appropriateness of obsolescence factors (for assets valued under the existing use value methodology);</li> <li>Use our auditor's expert valuer to challenge and evaluate the appropriateness of rental yields as a management's expert valuer's key assumption within their estimate of investment property valuation;</li> <li>Test revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements;</li> <li>Assess the value of a sample of assets in relation to market rates for comparable properties; and</li> <li>Test a sample of beacon properties in respect of Council Dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group.</li> </ul>

# Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability - assumptions applied by the professional actuary in their calculation	Council	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (approximately £553 million in the Authority's balance sheet at the 31 March 2021) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. We have pinpointed this significant risk to the assumptions applied by the professional actuary in their calculation of the net liability.</p> <p>We have concluded that there is not a significant risk of material misstatement due to the source data used by the actuary in their calculation (we would reconsider this if it becomes apparent at the year-end that there significant special events relating to the source data (such as bulk transfers, redundancies or other significant movements of staff) which would need to be given special consideration during the audit. Despite not being considered a significant risk we still carry out testing and consideration of the source data to obtain sufficient and appropriate audit evidence that there is no material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>Assess the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud, Goodwin and Guaranteed Minimum Pension cases;</li> <li>Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>Test 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;</li> <li>Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.</li> </ul>
Valuation of Level 3 Investments	Pension Fund	<p>The Fund values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£131 million) and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2022.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Evaluate management's processes for valuing Level 3 investments;</li> <li>Review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met;</li> <li>Independently request year-end confirmations from investment managers and the custodian;</li> <li>For a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2022 with reference to known movements in the intervening period;</li> <li>In the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert; and</li> <li>Where available review investment manager service auditor report on design and operating effectiveness of internal controls.</li> </ul>



# Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Minimum Revenue Provision	Council	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>MRP is required to be charged with respect to borrowing obtained as part of acquiring assets to be held in the General Fund (GF). No MRP charge is made in respect of borrowing for the acquisition of assets held in the Housing Revenue Account (HRA). According to regulations, this is on the basis that HRA assets should be self-financing, with local authorities being required to make an annual charge from the HRA to their Major Repairs Reserve in place of MRP, to maintain functionality of housing assets.</p> <p>MRP represents one of the few elements of capital financing in local authority financial statements which is a true charge to useable reserves, and therefore over time has the potential to have a significant impact on the Council's longer term financial sustainability.</p> <p>As a result of findings across the sector as a whole whereby MRP has been miscalculated or not calculated in accordance with the statutory guidance, we have identified this as a risk requiring specific audit attention.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Gain an understanding of the Council's current policy for calculating the MRP charge for the year and evaluate whether this is in accordance with the statutory guidance;</li> <li>Evaluate whether the MRP policy has been appropriately understood and approved by the Council's members;</li> <li>Substantively test the inputs into the MRP calculation back to supporting evidence and the financial statements;</li> <li>Evaluate key ratios in relation to borrowing, CFR and MRP and benchmark the Council's position against that of its closest peers, documenting and corroborating the reasons for any anomalies.</li> </ul>
Breach of the HRA ringfence	Council	<p>As stated above the Housing Revenue Account (HRA) should be self financing. The HRA is strictly ringfenced to ensure that expenditure on maintaining dwellings and managing tenancies is balanced by rents charged to tenants and that rents cannot be subsidised by council tax or vice versa.</p> <p>As a result of findings across the sector as a whole whereby there were transactions which breached the HRA ringfence either intentionally or otherwise, we have identified this as a risk requiring specific audit attention.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Specifically identify and test any unusual journals which impact the HRA and General Fund in unexpected transactions;</li> <li>Tailor into our existing work programmes across expenditure, income and balance sheet substantive testing, additional procedures to confirm that the impact of the transaction on the General Fund or HRA is corroborated by the evidence and substance of the underlying transaction.</li> </ul>
Completeness and accuracy of member data	Pension Fund	<p>The administration of member data has transferred from Surrey County Council to the Local Pensions Partnership Administration. There is a risk that the completeness and accuracy of member data could be impacted in the transfer of data, or where changes in the systems and processes around member data administration have transferred to a new service provider.</p> <p>There could therefore be a risk around the completeness and accuracy of member data on the system and then as summarized in the financial statements. There could also be a risk around completeness and accuracy of benefit payments.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Gain an understanding of how the Altair data transfer was undertaken and how the Pension Fund obtained their own assurances over the completeness and accuracy of the transfer.</li> <li>Test the completeness/accuracy of data transfer through closing/opening balance reconciliation, and through detailed substantive testing as appropriate.</li> </ul>

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

# Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. We identified 1 recommendation in our 2020/21 audit in relation to the Council's estimation process for valuation of land and buildings. This recommendation will be followed up in completion of our risk assessment procedures.

## Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity'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 entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity'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?



# Accounting estimates and related disclosures

## Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments

## The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



### Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainty is unresolved.**

### Planning enquiries

As part of our planning risk assessment procedures we have sent inquiries to management that will be presented at the Audit Committee as part of our Informing the Audit Risk Assessment report.

### Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540\\_Revised-December-2018\\_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.



# Materiality

## The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

### Council

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £10.2m (PY £9.3m) for the Council, which equates to 1.5% of gross expenditure for the year.

### Pension Fund

We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £12.5m (PY £11.5m) for the Pension Fund, which equates to approximately 0.95% of the Pension Fund's prior year net assets.

We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £0.1 for senior officer remuneration disclosures in the Council's financial statements and Key Management Personnel disclosures in the Pension Fund.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Pensions Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.510m (PY £0.465m). In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.625m (PY £0.575m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Pensions Committee to assist it in fulfilling its governance responsibilities.

## Council gross expenditure

£686m



■ Prior year gross...  
■ Materiality

## Materiality

£10.2m

Council financial statements materiality (PY: £9.3m)

£0.510m

Council misstatements reported to the Audit and Pensions Committee (PY: £0.465m)

## Pension Fund net assets

£1,325m



■ Prior year gross...  
■ Materiality

## Materiality

£12.5m

Pension Fund financial statements materiality (PY: £11.5m)

£0.625m

Pension Fund misstatements reported to the Audit and Pensions Committee (PY: £0.575m)

# Value for Money arrangements

## Approach to Value for Money work for 2021/22

The National Audit Office (NAO) issued updated guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



### Improving economy, efficiency and effectiveness

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



### Financial Sustainability

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



### Governance

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

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.



# Audit logistics and team



## Paul Dossett, Key Audit Partner

Paul is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Audit and Pensions Committee, the Chief Executive and the Director of Finance. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Paul will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit work. Paul will sign the Council and Pension Fund audit opinions.



## Andy Conlan, Audit Senior Manager

Andy is responsible for overall audit management, quality assurance of audit work and output, and liaison with the Audit and Pensions Committee, Director of Finance and finance team. He will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable. He will be responsible for the delivery of our work on the Council's arrangements in place to secure value for money.

## Rob Williams, Council Audit Incharge

Robert is responsible for management and delivery of the Council audit fieldwork. He will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management.

## Ella Connick, Pension Fund Audit Incharge

Ella is responsible for management and delivery of the pension fund audit fieldwork. She will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management.

## Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of items for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

# Audit fees

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on pages 10-12 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2021/22, as set out below, is detailed overleaf:

	Propose Fee 2020/21	Actual Fee 2020/21 Note 1	Proposed fee 2021/22
London Borough of Hammersmith and Fulham Council Audit	£195,242	£TBC	£212,742
Hammersmith and Fulham Pension Fund Audit	£33,000	£TBC	£38,000
Total audit fees (excluding VAT)	£228,242	£TBC	£250,742

Note 1 – 2020/21 fee variances have been discussed with your Chief Finance Officer, and an interim fee variance of £20,000 for the Council audit was agreed. We have had to complete significant additional audit work particularly around closing our testing of debtors and creditors areas of the audit where we had particular difficulties in working with some of the Councils analyses and populations, and where some older legacy balances were difficult to obtain sufficient and appropriate audit evidence. We also had to complete additional work around the national issue around infrastructure assets (see our Audit Findings Report 2020/21 for full information on this). Note that all fee variances are subject to review and approval by PSAA.

## Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of financial statements, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

## Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

# Audit fees – detailed analysis

	Council	Pension Fund
Scale fee published by PSAA (Note inflationary uplift made by PSAA in 2021/22)	£132,242	£16,170
<b>Ongoing increases to scale fee first identified in 2019/20 and 2020/21</b>		
Raising the bar/regulatory factors, including additional focus on PPE and Pensions	£26,000	£8,830
Additional work on Value for Money (VfM) under new NAO Code	£26,000	£0
Impact of new auditing standards – ISA 540 (Auditing accounting estimates)	£10,000	£6,000
Impact of new auditing standards – ISA 240 (Fraud) and ISA 700 (Forming an opinion)	£7,000	£2,000
<b>New issues for 2021/22</b>		
FRC response – additional review and involvement of an External Quality Control Reviewer (EQCR)	1,500	-
Remote Working – ongoing impact of working remotely which demonstrably causes public audits to take longer (Note fee to be confirmed based on the extent of remote working and impact)	10,000	5,000
<b>Increase to scale</b>	<b>£80,500</b>	<b>£21,830</b>
<b>Total audit fees (excluding VAT)</b>	<b>£212,742</b>	<b>£38,000</b>



# Independence and non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 (Revised 2019) 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and Pension Fund.

## Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

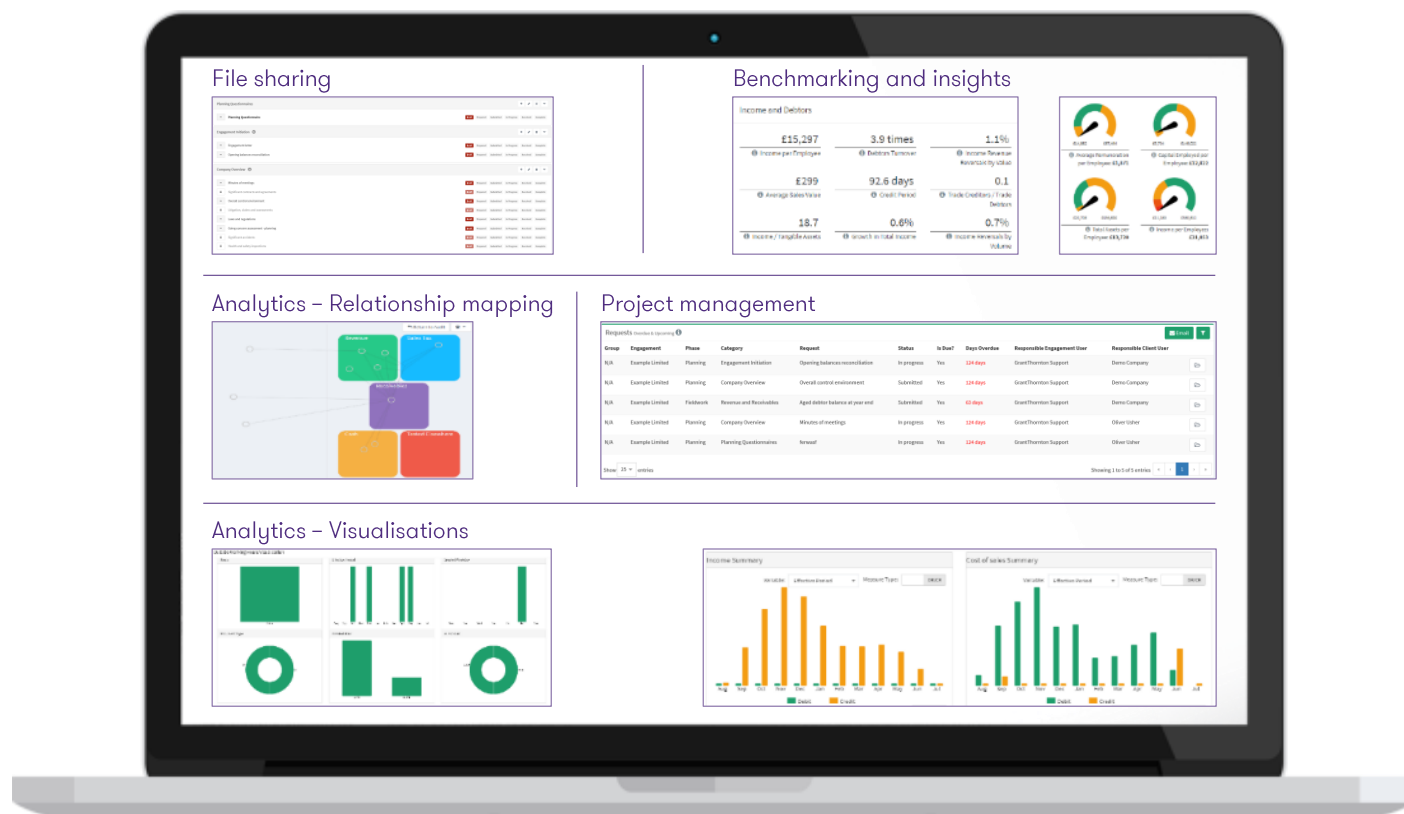
None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefit Subsidy Claim	25,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £25,000 in comparison to the total fee for the Council audit of £212,742 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Agreed upon Procedures relating to the Pooling of Housing Capital Receipts	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £212,742 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Agreed upon Procedures relating to the Teachers' Pensions end of year certificate	7,700	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,700 in comparison to the total fee for the audit of £212,742 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Xxx	37,700		

# Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

# Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:



## Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data



## File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work



## Project management

- Facilitates oversight of requests
- Access to a live request list at all times



## Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

## How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

### Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

### More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

# Appendix A

## Audit Market Developments

### Financial Reporting Council Report On The Quality Of Local Audit

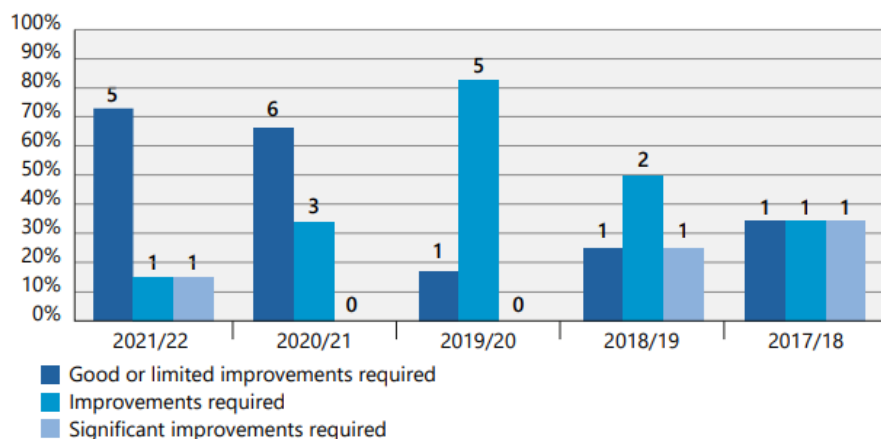
In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a 'major' local audit and the FRC's report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:

**Our assessment of the quality of financial statement audits reviewed**



The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either 'good' or 'generally acceptable', but one file 'required improvement'.

The ICAEW identified one of our files requiring 'Improvement' – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years' review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams' work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found [here](#).



Financial Reporting Council



# Audit Market Developments (continued)

## Local Government External Audit Procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and Value for Money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found [here](#)







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