

# The Audit Findings for the London Borough of Hammersmith and Fulham and Hammersmith and Fulham Pension Fund

**Year ended 31 March 2022**

September 2023



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## Your key Grant Thornton team members are:

### Paul Dossett

Key Audit Partner

T 020 7728 3180

E paul.dossett@uk.gt.com

### Andy Conlan

Senior Manager

T 020 7728 3379

E andy.n.conlan@uk.gt.com

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

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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# 1. Headlines

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

## Financial Statements

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

- the Council and Pension Fund's financial statements give a true and fair view of the financial position of the Council and Pension Fund's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit has been completed remotely, having commenced with planning and risk assessment in October 2022. Our findings are summarised on pages 5 to 23. We have not identified any adjustments to the financial statements that have resulted in adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C.

A number of other errors were also identified during the course of our audit for which management have not adjusted the financial statements on the grounds that these are not material.

We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

To date we have identified no adjustments to the Pension Fund's financial statements that have resulted in an adjustment to the Pension Fund's reported financial position.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion for the Council financial statements (Appendix E) or material changes to the financial statements, subject to the following outstanding matters;

### Council financial statements

- Completion of audit work on the updated net pension liability in the balance sheet and related disclosures subsequent to the triennial review in the Pension Fund which demonstrated that the valuation of the liability had changed materially. This included testing of a sample of the member data provided to the actuary, alongside testing of assumptions used in the valuation which have changed (**Note; this has arisen as an audit issue across all open 2021/22 Local Government accounts audit since triennial valuations were completed in March/April 2023**);
- Completion by audit team of testing of a small number of sampled journals;
- Completion by audit team of our work in provisions;
- Receipt of a small number of independent confirmations of investment balances from third party investment institutions;
- Completion of senior management review of the completed audit work which could potentially raise further audit queries;
- receipt of management representation letter; and
- review of the final set of financial statements to agree that all amendments agreed during the audit have been made.

### Pension Fund financial statements

- Completion of testing of our sample of member data;
- Completion of our work testing contributions and benefits paid;
- Completion of senior management review of the completed audit work which could potentially raise further audit queries;
- receipt of management representation letter; and
- review of the final set of financial statements to agree that all amendments agreed during the audit have been made.

# 1. Headlines

In our review of bank reconciliations to gain assurance over cash and cash equivalents we identified some issues related to the bank reconciliation processes. We have made a control recommendation to address this – refer to Appendix A.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion for the Council will be unmodified.

Our anticipated audit report opinion for the Pension Fund will be unmodified, including an emphasis of matter paragraph drawing attention to disclosures relating to the qualification of the financial statements of one of the Fund’s infrastructure investment managers as at 31 December 2020, and its potential impact on the Fund’s investment in the associated infrastructure fund.

## Value for Money (VFM) arrangements

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

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

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

Our VFM work is in progress currently, and we are close to completing our Auditor’s Annual report. We are currently meeting with management to discuss findings and recommendations, and we anticipate bringing this report to the Full Council meeting on 1 November 2023 and to Audit Committee at the November meeting. The Redmond Review recommended that auditors attend Full Council to provide their overall summary of work each year.

## Statutory duties

The Local Audit and Accountability Act 2014 (‘the Act’) also requires us to: We have not exercised any of our additional statutory powers or duties.

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We expect to certify the completion of the audit work on:

- the completion of our work on the Council’s VFM arrangements, which will be reported in our Annual Auditor’s report in November 2023; and
- the completion of the procedures required in ensuring the consistency of the financial statements with the pension fund annual report

## Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

# 2. Financial Statements

## Overview of the scope of our audit

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

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Council and Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Council and Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not altered our audit plan, as communicated to the Audit Committee on 23 November 2022.

## Conclusion

Our audit of the Council and Pension Fund's financial statements is substantially complete. Subject to outstanding items on page 3-4 being resolved, we anticipate issuing unqualified audit opinions in late September 2023, following finalisation of the financial statements and approval by the Audit Committee.

### Acknowledgements

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

## 2. Financial Statements



### Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan on 23 November 2022.

We detail in the table our determination of materiality for the Council and Pension Fund.

	Council Amount (£)	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	10,200,000	12,500,000	
Performance materiality	7,140,000	9,375,000	
Trivial matters	510,000	625,000	
Materiality for senior officers' remuneration and key management personnel disclosures	100,000	100,000	High level of stakeholder interest in these disclosures



## 2. Financial Statements - Significant risks

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

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

Risks identified in our Audit Plan	Risk relates to	Commentary
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### Fraud in revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

As reported in our Audit Plan, having considered the risk factors set out in ISA240 and the nature of the Council and Pension Fund revenue streams, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:

- There is little incentive to manipulate revenue recognition.
- Opportunities to manipulate revenue recognition are very limited.
- The culture and ethical frameworks of local authorities, including the London Borough of Hammersmith and Fulham, mean that all forms of fraud are seen as unacceptable.

Therefore, at the planning stage we did not consider this to be a significant risk at for the London Borough of Hammersmith and Fulham or Hammersmith and Fulham Pension Fund. No circumstances have subsequently arisen during the course of the audit process which would lead us to amend our initial assessment as reported in the Audit Plan.

### Management override of controls

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 and Pension Fund face external scrutiny of their spending and funding positions and this could potentially place management under undue pressure in terms of how they report performance.

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.

Council and Pension Fund

We have:

- Evaluated the design effectiveness of management controls over journal entries;
- Analysed the journal entry listing and determine the criteria for selecting high risk unusual journals;
- Tested unusual journal entries 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 considered their reasonableness with regard to corroborative evidence with a special focus on accounting provisions in the General Fund and Collection Fund; and
- Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

We identified in the 2020-21 year audit that there is no two-stage authorisation process for journal entry postings in place, and we made a recommendation related to this in our Audit Findings Report 2020-21 issued in May 2023. We have in our audit to date not identified from our testing of journal entries any material misstatements or instances of management override of controls. However, we do not test every journal and there may be undetected fraud or error. We have retained the control recommendation for improvement related to two-stage authorisation in the Action Plan at Appendix A. We note that the Council has designed compensatory local controls (the general ledger system being managed by Hampshire Council as service provider) to effect a stage authorisation which is outside the general ledger IT system. We have retained this recommendation as a best practice IT control to evidence segregation of duties.

We are completing testing of a small number of further samples. No further issues were identified during the course of our audit procedures which we would be required to report to the Audit Committee as those charged with governance.

## 2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
<p><b>Fraud in expenditure recognition</b></p> <p>Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:</p> <p>"As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition".</p> <p>Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.</p> <p>We assessed the significant expenditure streams of the Council and Pension Fund, and the risk of material misstatement arising from inappropriate expenditure recognition has a low likelihood of occurrence for the majority of expenditure streams and is unlikely to be of a size which would be material to the users of the financial statements.</p> <p>One exception was identified in relation to expenditure incurred by the Council relating to the Covid-19 pandemic, which was included on returns made to DLUHC which formed the basis of grant income support receivable by the Council. We therefore considered that there was a significant risk around expenditure of this nature, which was one of the most significant assessed risks of material misstatement.</p> <p>At the planning stage, we rebutted the risk of fraud in expenditure recognition for all other expenditure streams across the Council and Pension Fund. No circumstances have subsequently arisen during the course of the audit process which would lead us to amend our initial assessment as reported in the Audit Plan.</p>	<p>Council and Pension Fund</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• Evaluated the design effectiveness of management controls over expenditure recognition;</li> <li>• Tested samples of expenditure recognised in the accounts to gain assurance over the occurrence and classification;</li> <li>• Obtained and tested a listing of non-pay payments made and invoices processed in April and May 2022 to ensure that they had been charged to the appropriate year.</li> </ul> <p>In our work to date we have not identified which are required to be reported to the Audit Committee as those charged with governance, subject to clearance of outstanding issues as reported on pages 3-4.</p>



## 2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
<p><b>Valuation of land and buildings</b></p> <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, and £81m investment property at 31 March 2022) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management 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. 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>	Council	<p>We have:</p> <ul style="list-style-type: none"> <li>• Evaluated 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>• Evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li>• Written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code were met;</li> <li>• Engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpinned the valuation of Land and Buildings (including council dwellings);</li> <li>• Used our valuer to evaluate the appropriateness of obsolescence factors and rental yields, for the £82.6m investment properties held in the balance sheet, used in asset valuation calculations where applicable;</li> <li>• Tested revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements;</li> <li>• Assessed the value of a sample of assets in relation to market rates for comparable properties; and</li> <li>• Tested a sample of beacon properties in respect of Council Dwellings to consider whether their valuation assumptions were appropriate and whether they were truly representative of the other properties within that beacon group.</li> </ul> <p>We identified one issue in our testing of investment properties; 1 property tested was in fact leased out for 250 years as part of a contractual agreement with a housing association so was not therefore under the control of the Council. This property therefore did not meet the relevant criteria of an investment property as per the CIPFA Code section 4.4.2.4 and should have been derecognised from the balance sheet. We were able to establish that this was an isolated issue which could not result in material error in the balance sheet at 31 March 2022, but we have made a control recommendation in Appendix A for the Council to carry out a review of leased properties to ensure that they are all being correctly treated under the Code. The value of the property was not material and this would also not require a prior period adjustment.</p> <p>We have not identified any further issues in our audit work which is substantially completed in this area, subject to clearance of outstanding issues as reported on pages 3-4.</p>

## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Risk relates to

### Commentary

#### Valuation of the pension fund net liability - assumptions applied by the professional actuary in their calculation

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.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (approximately £477 million in the Authority's balance sheet at the 31 March 2022) and the sensitivity of the estimate to changes in key assumptions.

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.

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.

Council

We have:

- Updated 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 evaluated the design of the associated controls;
- Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- Assessed 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;
- Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- 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;
- Undertaken 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.

The latest triennial valuation for the London Borough of Hammersmith and Fulham Pension Fund has recently been published. This valuation, which is at 31 March 2022, provides updated information for the net pension liability on the Council's balance sheet, particularly in respect of membership data and demographic assumptions.

As a result, we requested that management obtain a revised report from their actuary, detailing what impact this updated information had on its net pension liability disclosures at 31 March 2022. This revised report showed that the impact was material and so management have adjusted the financial statements accordingly.

Additional audit work has been required in respect of this issue, resulting in an increase to the audit fee (see Appendix D). This included obtaining assurance in respect of updated membership data, considering the reasonableness of revised assumptions and estimates and checking the accuracy of management's adjustments to the financial statements.

We have not identified any further issues in our audit work which is substantially completed in this area, subject to clearance of outstanding issues as reported on pages 3-4.

## 2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
<p><b>Valuation of level 3 investments</b></p> <p>The Pension 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 at 31 March 2022) 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>	Pension Fund	<p>We have:</p> <ul style="list-style-type: none"> <li>• Evaluated management's processes for valuing Level 3 investments;</li> <li>• Reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code were met;</li> <li>• Independently requested and triangulated year-end confirmations from investment managers and the custodian;</li> <li>• We discussed and considered the role of the custodian, including making inquiries to their role in valuing/reviewing the valuation of investments;</li> <li>• For a sample of investments, tested 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. Where the dates of audited accounts are not at the accounts year end (often they would be to December 2021) we reconciled those values to the values at 31 March 2022 with reference to known cash movements in the intervening period. We also reviewed the cash movements to June 2022 to understand any risk associated with those;</li> <li>• In the absence of available audited accounts, evaluated the competence, capabilities and objectivity of the valuation expert; and</li> <li>• Where available, reviewed investment manager service auditor reports on design and operating effectiveness of internal controls.</li> </ul> <p>As in the previous year, an infrastructure Investment Fund (Level 3 investment) in which the Pension Fund held a material investment as at 31 March 2022, received a qualified audit opinion on their financial statements as at 31 December 2021. The Investment Fund's auditors qualified their audit opinion because they concluded they were unable to obtain sufficient appropriate audit evidence regarding claims made against a Limited Partnership 100% owned by the Investment Fund. Management's evaluation was that this issue did not lead to a material misstatement of the financial statements or result in an erroneous valuation of the Pension Fund's investment in the infrastructure fund. However disclosure of management's judgement in this regard was included in Note 4 to the Pension Fund financial statements. This disclosure will be highlighted in an emphasis of matter paragraph in the Pension Fund's audit opinion. This does not constitute a qualification of the audit opinion.</p> <p>Our audit procedures in this area are now complete. No further issues were identified which are required to be reported to the Audit Committee as those charged with governance.</p>

## 2. Financial Statements – Other risk areas

This section provides commentary on the other audit risks which we communicated to you in the Audit Plan which we did not consider to be significant risks. Note that with regard to the other risks communicated around Minimum Revenue Provision and Breach of the HRA ringfence we have no findings or issues to report.

Risks identified in our Audit Plan	Risk relates to	Commentary
<p><b>Completeness and accuracy of member data</b></p> <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>	Pension Fund	<p>We have:</p> <ul style="list-style-type: none"> <li>Gained 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> </ul> <p>We set out to undertake substantive data testing of the completeness/accuracy of data through closing/opening balance reconciliation, and through detailed substantive testing. We were able to carry out work that gave us assurance over the reconciliation of the opening member data on the new system after the data transfer to the closing data on the Altair system by reviewing reports on data completeness produced by the Local Pensions Partnership Administration (LPPA). Surrey County Council (SCC) do not retain detailed membership data after the transfer out to another service provider and therefore we were unable to carry out detailed substantive testing from the old system to the new system as intended. We carried out alternative procedures through reviewing the completeness assurance reports which LPPA produce, and by tracing a number of members from data reports in the prior year audit file through to the closing data reports at the 31 March 2022 provided for the audit. This allowed us to conclude with sufficient assurance that the data transferred over from SCC to LPPA was complete and accurate.</p>

## 2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £335.1m	<p>Other land and buildings comprises £257m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£52.4m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks, Head and Eve to complete the valuation of properties as at 31 March 2022 on a five yearly cyclical basis. 92.3% of total land and buildings assets were revalued during 2021/22.</p> <p>Management have considered the year end value of properties which were not revalued as at 31 March 2022 and the potential valuation change in the assets since the last revaluation date. Management have applied indices and sought advice from their specialist valuer to determine whether there had been a material change in the total value of these properties. Management's assessment of assets not revalued identified no material change to the properties' value, and no further valuations outside of the initial programme were required as at 31 March 2022.</p> <p>The total year end valuation of land and buildings was £335.1m, a net increase of £3.2m from 2020/21 (£331.9m).</p>	<ul style="list-style-type: none"> <li>We have assessed management's expert, Wilks, Head and Eve, to be competent capable and objective.</li> <li>The valuer has correctly prepared the valuation using DRC on a modern equivalent asset basis for specialised properties, and EUV for non-specialised properties.</li> <li>92.3% of properties have been valued as at 31 March 2022.</li> <li>We engaged our own valuation specialist, Gerald Eve, to provide a commentary on the instruction process for Wilks, Head and Eve, the valuation methodology and approach, and the resulting assumptions and any other relevant points.</li> <li>We have carried out testing of the completeness and accuracy of the underlying information provided to the valuer used to determine the estimate and have no issues to report.</li> <li>Valuation methodologies applied are consistent with those applied in the prior year.</li> <li>We have agreed the valuation reports provided by management's expert to the fixed asset register and to the financial statements.</li> </ul> <p>No significant findings were identified from our audit of the accounting estimate relating to valuation of Land and Buildings.</p>	Light purple

### Assessment

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

## 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																							
Net pension liability – £477.1m	<p>The Council's total net pension liability at 31 March 2022 is £477.1m (PY £657.9m) comprising the Hammersmith and Fulham Pension Fund and the London Pension Fund Authority obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.</p> <p>As noted above, the triennial valuation was carried out as at 31 March 2022. This valuation which used a fully updated set of membership data as against the roll forward valuation method employed by the actuary between triennial valuations, provided more accurate information as to the valuation of the liability at 31 March 2022. As the impact on the valuation was material management have adjusted the financial statements based on the revised report.</p>	<ul style="list-style-type: none"> <li>We have assessed the actuary, Barnett Waddingham, to be competent, capable and objective.</li> <li>We have performed additional tests in relation to accuracy of contribution figures and benefits paid to gain assurance over the 2021/22 calculation carried out by the actuary.</li> <li>We have used PwC as our auditor's expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:</li> </ul> <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.70%</td> <td>2.70% - 2.75%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>3.20%</td> <td>3.15% - 3.30%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>4.20%</td> <td>1.00% above CPI</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>22.1/2312</td> <td rowspan="2">PwC state the actuary approach gives a reasonable best estimate life expectancy (by use of Club Vita table).</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>24.7/26.1</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.</li> <li>We have confirmed there were no significant changes in 2021/22 to the valuation method.</li> <li>We have carried out testing of the updated membership data provided by the Pension Fund to the actuary for the triennial valuation, and we have carried out review/testing of assumptions which were revised. As noted on page 3, we are completing this additional work, but we have not identified any significant issues in the work to date.</li> <li>Our work confirms that the decrease in the IAS 19 estimate is reasonable.</li> </ul>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.70%	2.70% - 2.75%	●	Pension increase rate	3.20%	3.15% - 3.30%	●	Salary growth	4.20%	1.00% above CPI	●	Life expectancy – Males currently aged 45 / 65	22.1/2312	PwC state the actuary approach gives a reasonable best estimate life expectancy (by use of Club Vita table).	●	Life expectancy – Females currently aged 45 / 65	24.7/26.1	●	Light purple
Assumption	Actuary Value	PwC range	Assessment																							
Discount rate	2.70%	2.70% - 2.75%	●																							
Pension increase rate	3.20%	3.15% - 3.30%	●																							
Salary growth	4.20%	1.00% above CPI	●																							
Life expectancy – Males currently aged 45 / 65	22.1/2312	PwC state the actuary approach gives a reasonable best estimate life expectancy (by use of Club Vita table).	●																							
Life expectancy – Females currently aged 45 / 65	24.7/26.1		●																							

### Assessment

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

## 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provision for NNDR appeals - £16.8m	The Council is responsible for repaying a proportion of successful rateable value appeals. In 2021/22, management used an external organisation, Analyse Local, to calculate the level of provision required. Analyse Local's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.	<ul style="list-style-type: none"> <li>We have assessed management's expert, Analyse Local, to be competent, capable and objective.</li> <li>Analyse Local have used up to date data around outstanding appeals and potential information around unlodged appeals and historic success rates to form a reliable estimate of the impact on Rateable Values in the future, and timings based on historic observations.</li> <li>The methodology used is consistent with comparable local authorities</li> <li>The disclosure of the estimate in the financial statements was found to be adequate.</li> </ul>	Light purple
Land and Buildings – Council Housing - £1,412.2m	The Council owns over 12,000 dwellings and is required to revalue these properties in accordance with the Stock Valuation for Resource Accounting guidance, published by DLUHC. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged Wilks, Head and Eve to complete the valuation of these properties. The year end valuation of Council Housing was £1,474.4m, a net increase of £62.2m from 2020/21 (£1,412.2m).	<ul style="list-style-type: none"> <li>We have assessed management's expert, Wilks, Head and Eve, to be competent, capable and objective</li> <li>We have assessed the methods and assumptions used by the valuer in the estimate.</li> <li>We have selected a sample of the beacons to test the appropriateness of the beacon within the archetype property class and then to test the revalued amount to comparable property sales/marketed properties to assess whether the valuation movement was reasonable.</li> <li>Reviewed those beacons/archetype groups which were not revalued in the year to assess whether the properties were still held at an appropriate/materially correct valuation.</li> <li>Challenged the valuer assumptions employed.</li> <li>The valuer has correctly prepared the valuation using the stock valuation guidance issued by DLUHC, and has ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH) value disclosed within the accounts.</li> <li>All properties have been valued as at 31 March 2022.</li> </ul> <p>No significant findings were identified from our audit of the accounting estimate relating to valuation of Council Housing.</p>	Light purple

### Assessment

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- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
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## 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £2m	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>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>The year end MRP charge was £2m, a net increase of £1.2m from 2020/21 (£3.2m).</p>	<ul style="list-style-type: none"> <li>the MRP charge for the year has been calculated in accordance with the methodologies permitted in the statutory guidance</li> <li>the Council's policy on MRP in relation to borrowing taken out for the acquisition of General Fund assets complies with statutory guidance</li> <li>the Council's policy on MRP was discussed and agreed with those charged with governance and approved by full council as part of the Treasury Management Strategy Statement in February 2021.</li> <li>there have been no changes to the Council's MRP policy since 2020/21</li> <li>our audit procedures to determine whether the level of increase in the MRP charge is reasonable in the context of additional borrowing incurred during the year, did not identify any significant findings or concerns.</li> <li>The Council has considerably lower General Fund borrowing than many comparable sized councils and its MRP reflects that context.</li> </ul>	Light purple

### Assessment

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## 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £131.2m	<p>The Pension Fund has investments in unit trusts, specialised investment funds and infrastructure funds that in total are valued on the net assets statement as at 31 March 2022 at £131.2m.</p> <p>These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management relies on information provided by the investment managers, who based their valuation on unit prices which in turn are based on the fund net asset value. The trusts/funds produce accounts to 31 December 2021 which are audited. The value of the investment has increased by £49m in 2021/22, due to a combination of purchases, sales and changes in market value, but predominantly due to the purchase of a £32m valued investment in a unit trust leisure development fund.</p>	<ul style="list-style-type: none"> <li>We have assessed the appropriateness of the underlying information used to determine the estimate, including fund manager and custodian reports, and audited accounts of the trusts/funds as at 31 December 2021.</li> <li>We have corroborated the cash flows associated with each fund from the date of the audited accounts to 31 March 2022.</li> <li>We have assessed the consistency of the estimate against peers and industry practice</li> <li>We have reviewed the reasonableness of the increase in the estimate</li> <li>We have assessed the adequacy of disclosure of estimate in the financial statements</li> <li>As outlined on page 11, an infrastructure Investment Fund held at level 3 in the fair value hierarchy, in which the Pension Fund held a material investment as at 31 March 2022, received a qualified audit opinion on their financial statements as at 31 December 2021. Management's evaluation was that this issue did not lead to a material misstatement of the financial statements or result in an erroneous valuation of the Pension Fund's investment in the infrastructure fund. However disclosure of managements judgement in this regard was included in Note 4 to the Pension Fund financial statements. This disclosure will be highlighted in an emphasis of matter paragraph in the Pension Fund's audit opinion. This does not constitute a qualification of the audit opinion.</li> </ul>	Light purple

### Assessment

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## 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £1,156.4m	<p>The Pension Fund has investments in pooled equity and property funds that in total are valued on the balance sheet as at 31 March 2022 at £1,156.4m.</p> <p>The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management make use of evaluated price feeds, with the exception of the valuation of property investments which is based on evaluation of market data. The value of the investments have increased by £13.5m in 2021/22, largely driven by changes in market value.</p>	<ul style="list-style-type: none"> <li>We have assessed the appropriateness of the underlying information used to determine the estimate</li> <li>We have assessed the consistency of the estimate against peers and industry practice</li> <li>We have reviewed the reasonableness of the increase in the estimate</li> <li>We have assessed the adequacy of disclosure of estimate in the financial statements</li> </ul>	Light purple

### Assessment

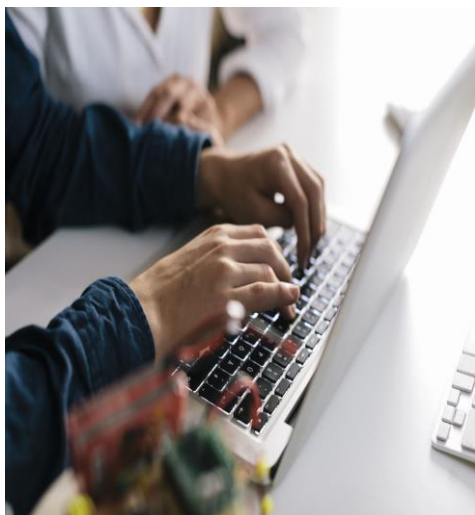
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## 2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	The Council and Pension Fund 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	Letters of representation will be requested from the Council and Pension Fund in advance of the finalisation of the financial statements and the issue of the audit opinions on the financial statements.

## 2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	<p>We requested from management permission to send confirmation requests to the Council and Pension Fund's banking and investment counterparties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.</p> <p>We wrote to those solicitors who worked with the Council and Pension Fund during the year, to confirm the completeness of provisions and contingent liabilities. All responses requested have been received.</p>
Accounting practices	<p>We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.</p> <p>We identified upon review that the accounting policy relating to revenue recognition did not explicitly address key provisions of IFRS 15 relating to fulfilment of performance obligations. From audit procedures undertaken relating to material revenue streams within the financial statements, we are satisfied that IFRS 15 has been appropriately adopted and applied where appropriate. We are also satisfied that the policy described would not give rise to an accounting treatment which would materially differ from that which has been applied.</p>
Audit evidence and explanations/ significant difficulties	<p>The audit team and Council officers have worked collaboratively to progress this audit in a shorter timeframe than the 2020/21 audit and we continue to meet regularly to debrief and retain learnings in order to improve the efficiency of the audit on both sides in the 2022/23 year.</p>

## 2. Financial Statements - other communication requirements



### Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

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

## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>• 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,</li> <li>• if we have applied any of our statutory powers or duties.</li> <li>• where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses.</li> </ul> <p>We have nothing to report on these matters.</p> <p>We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. This will be completed once the opinion on the Pension Fund financial statements has been issued.</p>



## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> <li>Note that work is not required as the Council does not exceed the threshold;</li> </ul>
<b>Certification of the closure of the audit</b>	<p>We intend to delay the certification of the closure of the 2021/22 audits of <b>the</b> London Borough of Hammersmith and Fulham and Hammersmith and Fulham Pension Fund in the audit reports, as detailed in Appendix E. This is because:</p> <ul style="list-style-type: none"> <li>we have not yet completed our VFM work and issued our Auditor's Annual Report;</li> <li>we have not yet undertaken the procedures required in ensuring the consistency of the financial statements with the pension fund annual report, as the opinion on the financial statements of the Pension Fund has not been issued. Once the opinion on the Pension Fund financial statements has been issued, we will be able to complete this work.</li> </ul> <p>Upon completion of all items on page 3-4, we will be in a position to complete the 2 steps above and certify closure of the 2021/22 audits.</p>

# 3. Value for Money arrangements

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

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

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



### Improving economy, efficiency and effectiveness

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



### Financial Sustainability

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



### Governance

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

## Potential types of recommendations

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



### Statutory recommendation

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



### Key recommendation

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



### Improvement recommendation

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



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## 3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to present our Auditor's Annual Report to Full Council on 1 November 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

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# 4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

## Transparency

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

# 5. Independence and ethics

## Audit and non-audit services

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

Service	Fees £	Threats identified	Safeguards
Audit related			
Agreed upon procedures relating to pooling of housing capital receipts (Council)	5,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £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.  To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports.
Agreed upon procedures relating to the Teachers' Pensions End of Year Certificate (Council)	7,700	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,700 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.  To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports.
Certification of Housing Benefit Subsidy Claim (Council)	25,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £25,000 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.  To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports.  Note that this fee is still TBC.

# 5. Independence and ethics

Service	Fees £	Threats identified	Safeguards
Audit related			
CFO Insights Subscription (Council)	12,500	Self-Interest (because this is a recurring fee)	<p>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 £12,500 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.</p> <p>The CFO insights service provides the Council with access to various data sources, which they decide how to use and make their own decisions about the delivery of services, therefore we do not believe there is an impact on the value for money conclusion.</p>

These services are consistent with the Council and Pension Fund's policy on the allotment of non-audit work to external auditors. None of the services provided are subject to contingent fees.

# Appendices

# A. Action plan – Audit of Financial Statements – Council

We have identified 2 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
	<p><b>Investment property not meeting the criteria for recognition</b></p> <p>We identified one issue in our testing of investment properties; 1 property tested was in fact leased out for 250 years as part of a contractual agreement with a housing association so was not therefore under the control of the Council. This property therefore did not meet the relevant criteria of an investment property as per the CIPFA Code section 4.4.2.4 and should have been derecognised from the balance sheet.</p>	<p>We would recommend that the Council carry out a brief review of leased properties to ensure that they are all being correctly treated under the Code.</p> <p><b>Management response</b> Agreed.</p>
	<p><b>Bank reconciliation issues</b></p> <p>In our review of bank reconciliations to gain assurance over cash and cash equivalents we identified that for some school bank reconciliations the unreconciled figures incorrectly included April transactions.</p>	<p>We would recommend that the school bank reconciliation process is reviewed to ensure that they are accurate and reflect transactions from only the correct accounting period.</p> <p><b>Management response</b> Agreed.</p>

## Controls

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

## B. Follow up of prior year recommendations

We identified the following issues in the audit of the Council's 2020/21 financial statements, which resulted in 11 recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations the status on implementation is shown below:

Assessment	Issue and risk previously communicated	Recommendation made and response in 2020/21	Update on actions taken to address the issue
X	<p><b>Journal entries control environment</b></p> <p>We identified during our testing of journal entries that there is no two-stage authorisation process for journal entry postings in place. We have not identified from our testing of journal entries any material misstatements or instances of management override of controls. However, we do not test every journal and there may be undetected fraud or error</p>	<p>It is best practice to include either a manual or automated two-stage approval process for journal entries to evidence that entries have been subject to adequate review prior to posting. Without this approval process we consider that there is an increased risk of undetected fraud or error.</p> <p><b>Management response</b></p> <p>Agreed – management will investigate the possibilities and implement as necessary an offline two-stage approval mechanism.</p>	<p>In addition to a notification via email, users are alerted via a Teams notification, informing them of the need to approve a journal. An automated two stage approach within the system will continue to be reviewed in partnership with our finance system provider.</p>
✓	<p><b>Retention of supporting documentation in relation to journal entries</b></p> <p>In our testing of journal entries, we identified that no evidence of approval had been retained for journal entries posted by an individual who had subsequently left the organisation. We are satisfied from substantive procedures undertaken that the journal entry postings themselves were appropriate and not indicative of management override of controls.</p>	<p>Evidence for approval of all journals should be retained in a shared location to evidence the audit trail.</p> <p><b>Management response</b></p> <p>Agreed - for 2021/22 all journal approvals and evidence are to be saved to a central location to ensure the process is streamlined for audit at year end.</p>	<p>Complete</p>
✓	<p><b>Recording of accounts payable invoices</b></p> <p>During testing of post-year end invoices received after the year-end to gain assurance of completeness of liabilities, we identified a number of invoices which had been received by the Council in mid-2020 but not recorded in the accounts payable system until April or May 2021. Whilst we are satisfied that the expenditure relating to these invoices was correctly recorded in the appropriate accounting period, delays in administrative processes give rise to a risk of expenditure being erroneously omitted from the financial statements.</p>	<p>Processes should be reviewed to ensure that purchase invoices received by the Council are recorded in the accounts payable system in a timely manner.</p> <p><b>Management response</b></p> <p>Agreed – communications on this matter will be circulated to relevant officers to ensure timely processing of invoices.</p>	<p>This is reviewed with IBC shared service colleagues on a quarterly basis and specific monitoring is in place for retrospective purchase orders and approvers not clearing orders within 30 days.</p>
✓	<p><b>Audit trail reports for the Reliefs and Reductions amounts in the Collection Fund</b></p> <p>When listings of reliefs and reductions were requested, these could not be provided because the council had not run reports from the system at the year end date and retained these as audit trails. As the system is a “live” system, the reports run at a later date do not agree fully to the reliefs/reductions amounts in accounts working papers and therefore are not a reasonable supporting audit trail.</p>	<p>We would recommend that processes are reviewed to ensure that appropriate detailed listing reports are retained to support the amounts in the Collection Fund working papers, and to facilitate the audit testing of these amounts.</p> <p><b>Management response</b></p>	<p>Future closing timetables will include an action to address this, therefore ensuring these are run on time.</p>

### Assessment

- ✓ Action completed
- X Not yet addressed

## B. Follow up of prior year recommendations (continued)

Assessment	Issue and risk previously communicated	Recommendation made and response in 2020/21	Update on actions taken to address the issue
X	<p><b>Accurate recording of grants and contributions received in advance</b></p> <p>During our sample testing of long-term grants and contributions received in advance, we identified two items which had been classified as developer contributions but were in fact other grants received in advance.</p> <p>Whilst there is no impact on the balance sheet as at 31 March 2021, as both types of receipt comprise part of the same line item, the permitted usage of grants and contributions under statute can vary and as such there is a risk that budget-setting may be impacted by inaccurate recording.</p>	<p>Management should implement a more comprehensive review process to ensure that grants and contributions received in advance are classified and accounted for appropriately.</p> <p><b>Management response</b></p> <p>Agreed – the grants process and contributions process will be reviewed.</p>	<p>The Council's Grant Register is now under review and enhancements will be made as necessary to limit the risk of misclassification of grants.</p>
✓	<p><b>Legacy balances brought forward in debtors and creditors listings provided to audit</b></p> <p>As part of the audit approach, we test the existence and accuracy of creditor and debtor balances recorded in the balance sheet and as such requested a listing from management, as part of the initial working paper request list for the audit, of outstanding amounts at the balance sheet date.</p> <p>The Council's accounting system contains a high volume of legacy balances brought forward from the previous accounting system which have not subsequently been written down effectively as amounts have been settled.</p> <p>This issue led to significant challenges in undertaking audit procedures in these areas and presents a risk that management will be unable to effectively analyse their outstanding creditor and debtor balances for financial management purposes.</p>	<p>A 'housekeeping' exercise should be undertaken by management to write down legacy balances where appropriate, to allow for effective analysis, and ensure that listings provided for audit are fit for purpose.</p> <p><b>Management response</b></p> <p>Agreed – a housekeeping exercise will be undertaken.</p>	<p>The first phase of the housekeeping exercise has been undertaken; this will now become a regular process as part of quarterly and year-end closing exercises.</p>
X	<p><b>Employee leaver forms</b></p> <p>In our sample testing of employee leaver forms which was undertaken to gain an expectation for payroll expenditure recorded for the year, we identified a number of instances where overpayments of salaries had occurred due to no or late notification of resignation, either from the employee themselves or from their hiring manager.</p> <p>Whilst we are satisfied that this has not given rise to a material error in the 2020/21 financial statements, there is a risk that without sufficient monitoring of controls, more extensive overpayments could occur which are difficult for the Council to subsequently recover.</p>	<p>Management should put into place procedures ensure that processes and controls around employee leavers are consistently applied.</p> <p><b>Management response</b></p> <p>Agreed.</p>	<p>A review of this recommendation is ongoing</p>

### Assessment

- ✓ Action completed
- X Not yet addressed



## B. Follow up of prior year recommendations (continued)

Assessment	Issue and risk previously communicated	Recommendation made and response in 2020/21	Update on actions taken to address the issue
✓	<p><b>Misclassification of bank overdrafts</b></p> <p>The Cash and Cash Equivalents disclosure note in the financial statements included £1,687k classified as 'bank overdrafts'. Upon auditor review, it was identified that these items in fact represented uncleared items which should have been included as reconciling items on management's bank reconciliation, and not genuine overdraft amounts. Management elected not to correct this presentation as they do not consider it to be material to the financial statements.</p> <p>However there is a risk that should this mis-presentation continue, it could mislead the user of the financial statements with regard to the nature of the Council's cash holdings.</p> <p>This finding is linked to the finding around bank reconciliations identified in previous years, as outlined in Appendix B.</p>	<p>Management should ensure that bank balances are appropriately classified in the disclosure note to reflect the nature of these holdings, with any genuine overdrafts being presented separately on the face of the balance sheet as required by the relevant accounting framework.</p> <p><b>Management response</b></p> <p>Agreed – this will be implemented as part of the closure of the 2021/22 accounts.</p>	Complete
X	<p><b>Process for capitalisation of employee salaries</b></p> <p>Within our sample testing of capital expenditure, we selected a number of items relating to the capitalisation of employee salaries. The basis on which these had been calculated was on an annual basis, rather than a review of actual time spent on a capital project on an ongoing basis.</p> <p>We are satisfied from audit procedures undertaken that this issue has not led to a material misstatement within the 2020/21 financial statements. However, there is a risk that, where this process occurs only annually, inaccurate time is recorded leading to inaccurate charges to capital and the general fund.</p>	<p>Processes should be implemented to capture employee time to be capitalised on a more regular basis such as monthly.</p> <p><b>Management response</b></p> <p>Agreed – management will look into at more frequent capitalisation where practicable - this would most likely be quarterly to coincide with the quarterly monitoring process.</p>	A review of this recommendation is ongoing.
X	<p><b>Impairment review for assets not revalued</b></p> <p>During the performance of our procedures we noted that the Council did not carry out an assessment of whether there were impairment indicators for assets that were not subject to the external valuation exercise. Due to the volatility of the property market there is a risk that the assets not revalued may be misstated.</p>	<p>Management should ensure that they have implemented procedures or policies to assess the assets not revalued and ensure they are not materially misstated.</p> <p><b>Management response</b></p> <p>Agreed, management will build this into the overall valuation process with input from our external valuers.</p>	A review of this recommendation is ongoing.
✓	<p><b>Collection Fund reliefs</b></p> <p>We were unable at the date of the audit to obtain a listing of reliefs that reconciled to the Collection Fund working papers and year end system reconciliations.</p>	<p>We would recommend that in order to keep a full audit trail, that the underlying listings for the Collection Fund system including reliefs and exemptions, are retained as evidence for the system reconciliations and for sampling from the system at year end audit fieldwork.</p>	Future closing timetables will include an action to address this, therefore ensuring these are run on time.

### Assessment

- ✓ Action completed
- X Not yet addressed

# C. Audit Adjustments

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

## Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<b><u>Mayoral CIL Balance Reclassification</u></b>	-	£2.3m (Creditors)	Nil
As highlighted in the prior year (and not adjusted during that year) this Mayoral CIL balance was funding amounts received in previous years which no longer had any repayment/clawback conditions attached and were therefore more appropriately classified within earmarked reserves.		(£2.3m) (Earmarked Reserves)	
<b>Overall impact</b>	<b>£Nil</b>	<b>£Nil</b>	<b>£Nil</b>

# C. Audit Adjustments

## Misclassification and disclosure changes

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

Accounts amendment	Adjustment agreed?
<p><b>Misclassification of the business rates tariff payable</b></p> <p>In our variance analysis of year on year movements income and expenditure in the Comprehensive Income and Expenditure Statement and Note 2 Expenditure and Income Analysed by Nature, it was highlighted that there were some unusual fluctuations by classification. When investigated with management it was agreed that £16.9m business rates tariff payable which should be classified as expenditure was instead netted off against income reducing the amount of expenditure and income disclosed though resulting in the same net surplus/deficit position. This has been corrected in the statements, and does not adjust the closing financial position reported.</p>	✓
<p><b>Audit fees</b></p> <p>The audit fees were accrued at the fee per the 2020/21 Audit Findings Report, where the fees should have been accrued in the accounts to agree to the 2021/22 Audit Plan proposed fees. This was adjusted for in the financial statements, resulting in an overall increase in accrued audit costs of £14k.</p>	✓
<p><b>Contingent assets</b></p> <p>We discussed with management the contingent assets related to affordable housing. The auditor challenged as to whether this still met the criteria for disclosure as a contingent asset. This contingent asset was removed from Note 34.</p>	✓
<p><b>Various minor disclosure amendments</b></p> <p>A number of minor presentational and disclosure changes to the financial statements have been agreed with management. There are no individually non-trivial amendments which have been identified.</p>	✓

# C. Audit Adjustments



## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 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
<p><b>Collection Fund – Safety Net</b></p> <p>During the budgeting process for the Collection Fund it was estimated that the outturn would result in the council being in the safety net position. At the year end the outturn position was different, requiring the repayment of grant monies. The credit required to repay this grant was held in the Collection Fund smoothing reserve and should, instead, have been held as a creditor.</p> <p>This would have no impact on the surplus/deficit or General Fund, as it is a balance sheet classification issue.</p>	Nil	£3.9m (Collection Fund Smoothing Reserve) [£3.9m] (Creditors)	Nil	Management consider this to be a presentational issue with no net impact on the general fund balance. It has been corrected-for through the 2022/23 accounts.
<b>Overall impact</b>	£Nil	£3.9m	£Nil	

## C. Audit Adjustments - Pension Fund

### Impact of adjusted misstatements

At the time of writing, no non-trivial misstatements have been identified in the financial statements, which management had adjusted for. This position will be updated in the final version of this report, which will be discussed with the Audit Committee as those charged with governance in advance of issuing our audit opinion on the financial statements.

### Misclassification and disclosure changes

A number of minor presentational and disclosure changes to the financial statements have been agreed with management. There are no individually non-trivial amendments which have been identified.

### 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	Fund Account £'000	Net Assets Statement £'000	Impact on total net expenditure £'000	Reason for not adjusting
<p><b>Triangulation testing of investments</b></p> <p>In our triangulation testing of investments the Partners Group – Infrastructure investment was understated in value by £1.73m. This was due to timing differences in the availability of valuation information from the Fund Manager.</p>	(£1.7m)	£1.7m	(£1.7m)	Management do not consider the difference to be material.
<p><b>Triangulation testing of investments</b></p> <p>In our triangulation testing of investments the ABRDN MSPC and LGIM - MSCI Low Carbon (Passive) investment was overstated in value by £1.74m. This was due to timing differences in the availability of valuation information from the Fund Manager.</p>	£1.7m	(£1.7m)	£1.7m	Management do not consider the difference to be material.
<b>Overall impact</b>	£Nil	£Nil	£Nil	

# D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
Council Audit	£212,742	£TBC
Pension Fund Audit	£38,000	£TBC
<b>Total audit fees (excluding VAT)</b>	<b>£250,742</b>	<b>£TBC</b>

<b>Non-audit fees for other services</b>	<b>Proposed fee</b>	<b>Final fee</b>
Agreed upon procedures relating to pooling of housing capital receipts	£5,000	£TBC
Agreed upon procedures relating to the Teachers' Pensions End of Year Certificate	£7,700	£TBC
Certification of Housing Benefit Subsidy Claim	£25,000	£TBC
CFO Insights Subscription	£12,500	£12,500
<b>Total non-audit fees (excluding VAT)</b>	<b>£50,200</b>	<b>£TBC</b>

The fees reconcile to the financial statements.

# E. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Council and Pension Fund with an unmodified audit report:

Independent auditor's report to the members of the London Borough of Hammersmith and Fulham

## Report on the audit of the financial statements

### Opinion on financial statements

We have audited the financial statements of the London Borough of Hammersmith and Fulham (the 'Authority') for the year ended 31 March 2023, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Account, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2023 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

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

### Conclusions relating to going concern

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

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability

to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Finance with respect to going concern are described in the relevant sections of this report.

### Other information

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

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

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

### Opinion on other matters required by the Code of Audit Practice

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

### Matters on which we are required to report by exception

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

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

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

# E. Audit opinion

## Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003).

In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to [include relevant details for your audit, e.g. health and safety, employee matters, and data protection].

We enquired of management and the Audit Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Audit Committee whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, Local Government Act 1972, the Local Government Act 2003, Local Government and Housing Act 1989, Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992 and the Local Government Finance Act 2012).
- We enquired of senior officers and the Audit Committee concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with

- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risks of management override of controls and fraud in expenditure recognition. We determined that the principal risks were in relation to:
  - Journal entries posted which met a range of criteria determined during the course of the audit, in particular those posted around the reporting date which had an impact on the Comprehensive Income and Expenditure Statement,
  - Accounting estimates made in respect of assets and liabilities in the Balance Sheet, and
  - Expenditure incurred by the Authority relating to the Covid-19 pandemic, which was included on returns made to DLUCH which formed the basis of grant income and support received by the Authority.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Director of Finance has in place to prevent and detect fraud;
  - journal entry testing, with a focus on entries meeting the risk criteria determined by the audit team;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of land and buildings, including council dwellings and investment property, and the valuation of the net defined benefit liability;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including [add details of risks]. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.



# E. Audit opinion

Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector
- understanding of the legal and regulatory requirements specific to the Authority including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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

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

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

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

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

### Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

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

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

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

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

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

We cannot formally conclude the audit and issue an audit certificate for the London Borough of Hammersmith and Fulham for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2023. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2023.

### Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 [and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited]. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Name Paul Dossett, Key Audit Partner

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

London

Date:

# E. Audit opinion – Pension Fund

## Independent auditor's report to the members of London Borough of Hammersmith and Fulham on the pension fund financial statements of Hammersmith and Fulham Pension Fund

### Opinion on financial statements

We have audited the financial statements of Hammersmith and Fulham Pension Fund (the 'Pension Fund') administered by London Borough of Hammersmith and Fulham (the 'Authority') for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2022 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

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

### Conclusions relating to going concern

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

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

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

Our responsibilities and the responsibilities of the Director of Finance with respect to going concern are described in the relevant sections of this report.

### Other information

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

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

We have nothing to report in this regard.

### Opinion on other matters required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements, the other information published together with the Pension Fund's financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

### Matters on which we are required to report by exception

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

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

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

### Responsibilities of the Authority and the Director of Finance

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Director of Finance is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been

# E. Audit opinion – Pension Fund

informed by the relevant national body of the intention to dissolve the Pension Fund without the transfer of its services to another public sector entity.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

- journal entries posted which met a range of criteria determined during the course of the audit, in particular those posted around the reporting date which had an impact on the Fund Account, and
- accounting estimates made in respect of the valuation of assets and liabilities in the Net Assets Statement.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Director of Finance has in place to prevent and detect fraud;
  - journal entry testing, with a focus on entries meeting the criteria determined by the audit team;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of level 3 investments and the IAS 26 pensions liability valuation;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may

involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

- The team's communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of level 3 investments and the IAS 26 pensions liability valuation.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government pensions sector
  - understanding of the legal and regulatory requirements specific to the Pension Fund including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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

## Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 [and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited]. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Name Paul Dossett, Key Audit Partner

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

London

Date:



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