



Audit Completion Report

London Borough of Hackney

Year ending 31 March 2020

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Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited.

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Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

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London Borough of Hackney Pension Fund
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14 September 2020

Dear Members

Audit Completion Report – Year ended 31 March 2020

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 15 January 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the challenges and restrictions of COVID-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

One implication of COVID-19 for the Council was that the deadlines for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. Despite the revised deadlines we acknowledge the difficulties encountered by your team during accounts preparation and audit, and would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07387 242052.

Yours faithfully

Lucy Nutley
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1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of London Borough of Hackney ('the Council') for the year ended 31 March 2020, and forms the basis for discussion at the Audit Committee meeting on 14 September 2020.

The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control
- Revenue recognition
- Valuation of Property, Plant & Equipment
- Valuation of Defined Benefit Pension Scheme liability

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing an unqualified opinion on the financial statements. As outlined in more detail in section 2, we intend to include an Emphasis of Matter paragraph within our auditor's report with respect to the material valuation uncertainty disclosed in note 4 of the financial statements.

Value for Money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B

Whole of Government Accounts (WGA)

We are awaiting receipt of the Group Audit instructions from the National Audit Office at the time of presenting this report. We anticipate completing our work on WGA relatively quickly once these instructions have been received.

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. Further details on the exercise of our wider powers are provided in section 2.

1. EXECUTIVE SUMMARY (CONTINUED)

Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding:

| Audit area | Status | Description of outstanding matters |
|-------------------------------------|--------|--|
| Journals | ● | We are currently completing our review of the detailed testing completed. |
| Income and Expenditure | ● | We are awaiting final pieces of supporting evidence from management in respect of our income, expenditure and payroll sample testing. |
| LPFA IAS19 assurances | ● | We require the auditor of the LPFA to provide us with assurances in respect of the material valuation and disclosures of the IAS19 liability within the Council's financial statements. |
| PPE valuation and existence testing | ● | Our work on land and building valuations, including the review of the material valuation uncertainty and material adjustments to the valuations is ongoing. We are also completing our confirmation of asset existence |
| Debtors / Creditors | ● | We are awaiting final pieces of evidence from management in respect of our debtor and creditor samples. |
| Group accounts | ● | We are awaiting confirmation of sign-off from the auditor of the group companies to allow completion of the consolidation process. |
| Closure procedures and review | ● | Our final reviews and completion work needs to be performed, including a further technical review of the financial statements and consideration of post balance sheet events until the date of sign-off. |
| Whole of Government Accounts (WGA) | ● | Our work on the WGA return will take place later in the year |

Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

We will provide the Audit Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in January 2020. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set materiality at the planning stage of the audit at £20.9m using a benchmark of 1.5% of Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £22.5m, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee, at £0.675m based on 3% of overall materiality.

1. EXECUTIVE SUMMARY (CONTINUED)

Overview of our group audit approach

Our Audit Strategy Memorandum provided details of our intended group audit approach, including our initial assessment of group materiality. The table below confirms the approach we have taken to auditing the Council's consolidated financial statements.

| Entity | Nature of entity audit | Auditor | Description of audit procedures undertaken on the component | Changes to audit approach |
|--|------------------------------|----------------------------|---|---------------------------|
| Hackney Housing Company Limited (subsidiary); | Statutory audit | Mazars LLP (Milton Keynes) | We reviewed the consolidation balances for the entity in comparison to confirmation from the entity auditor, together with audit of associated consolidation adjustment journals. No issues arose from this work. | None |
| Hackney PRS Housing Company Limited (Subsidiary) | Statutory audit | Mazars LLP (Milton Keynes) | We reviewed the consolidation balances for the entity in comparison to confirmation from the entity auditor, together with audit of associated consolidation adjustment journals. No issues arose from this work | None |
| Hackney LLR Housing Company Limited (subsidiary) | Statutory audit | Mazars LLP (Milton Keynes) | We reviewed the consolidation balances for the entity in comparison to confirmation from the entity auditor, together with audit of associated consolidation adjustment journals. No issues arose from this work | None |
| Otto Management Company Limited (subsidiary) | None – below audit threshold | Mazars LLP (Milton Keynes) | We confirmed management's judgement that the company is not material to the group financial statements. | None |
| Makers Management Company Limited (subsidiary) | None – below audit threshold | Mazars LLP (Milton Keynes) | We confirmed management's judgement that the company is not material to the group financial statements. | None |

Group materiality

We set materiality at the planning stage of the audit at £20.91m using a benchmark of 1.5% of Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £22.6m, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee, at £0.68m based on 3% of overall materiality.

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit Committee in a follow-up letter.

2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. We have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk

Description of the risk

Management override of controls

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk through performing audit work over:

- accounting estimates included in the financial statements for evidence of management bias;
- any significant transactions outside the normal course of business; and
- journals and other adjustments recorded in the general ledger in preparing the financial statements.

Audit conclusion

As noted above, our work in this area is ongoing and we will provide an update on any issues arising to the Audit Committee.

At this stage, there are no significant findings arising from our review of areas of potential management override of controls.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Description of the risk

Revenue recognition

Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable.

Based on our initial knowledge and planning discussions we have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Council's revenue income. In particular we can rebut the revenue recognition risk for income derived from Council Tax, Grants and NNDR due to the low inherent risk associated with these amounts.

We are not rebutting the income risk relating to other material income streams within the Council, such as charges for use of Council facilities, where the level of inherent risk is higher.

How we addressed this risk

We addressed this risk by obtaining a detailed understanding of the Council's processes which assure the Council that revenue and expenditure are materially recognised in the correct accounting year, and performed the following work:

- detailed testing of transactions within the 2019/20 financial statements to confirm they were accounted for in the correct year;
- testing from receipts around the year-end to provide assurance that there were no material unrecorded items of income in the 2019/20 accounts.

Audit conclusion

As noted above, our work in this area is ongoing and we will provide an update on any issues arising to the Audit Committee

At this stage, there are no significant findings arising from our review of revenue recognition.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Description of the risk

Property, Plant & equipment valuation

Where a Council's assets are subject to revaluation, the Code requires that the year end carrying value should reflect the appropriate current value as at that date. The Council has adopted a rolling revaluation model which sees other land and buildings revalued over a five year cycle, and may result in individual assets not being revalued for several years. This creates a risk that the carrying value of those assets that have not been revalued in year is materially different from the year end current value.

In respect of Council Dwellings, these are reviewed using a beacon valuation methodology, which values Council stock by grouping assets into type and using a nominated beacon asset for each group. The assessed value is uplifted based on an open market assessment then amended for an adjustment factor provided by MHCLG.

Due to the high degree of estimation uncertainty associated with these valuations, we have determined there is a significant risk in this area.

Update to risk

The Covid-19 pandemic has had an impact on all markets with initial significant impact on valuations. In March 2020, RICS issued a valuation practice alert in response to the Coronavirus global pandemic, setting out guidance in light of the potential impact on the ability of valuers to undertake valuations, noting there may be a greater level of uncertainty over valuations as a result of a lack of comparable market or cost data.

This potential lack of relevant recent market or cost data upon which to base a valuation, combined with a potentially limited ability to physically inspect properties, has given rise to a potential for material valuation uncertainty disclosures within valuers' reports. It is noted that, even where data is available, the current market circumstances may make that data less reliable than has previously been the case.

The alert has reminded valuers of the potential need to disclose that material uncertainty exists over the valuations as part of their reports. It is clear in the alert that such a disclosure is not a disclaimer and that valuers can still provide valuations where material uncertainty exists.

The Council's valuer applied a material valuation uncertainty paragraph to their valuations performed as at 31 March 2020. This will also be recognised in the final accounts (note 4).

How we addressed this risk

We addressed this risk by reviewing the approach adopted by the Council to assess the risk that assets not subject to valuation at year end were not materially misstated, and considered the robustness of that approach. We also assessed the risk of the valuation changing materially in year, and considered the movement in market indices between revaluation dates and the year end, in order to determine whether these indicate that fair values have moved materially.

In addition, for those assets which have been revalued during the year we:

- assessed the valuer's qualifications;
- assessed the valuer's objectivity and independence;
- reviewed the methodology used; and
- performed testing of the associated underlying data and assumptions.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Property, Plant & equipment valuation (continued)

In response to the potential valuation uncertainty arising from the COVID-19 pandemic we have completed additional review procedures, including review of the Council's responses to the updated RICS guidance and available data to support valuation movements arising on assets in the period. We have also:

- obtained and documented our understanding of the market/cost data used by the valuer in forming the valuations
- obtained and documented our understanding of the arrangements that management has put in place to assure itself that the valuation is materially accurate, considering use of actual cost/market data as opposed to estimated data
- challenged the market/cost data used, by comparing against other relevant data.

Audit conclusion

Our work in this area is ongoing and we will provide an update on any further issues arising to the Audit Committee.

Audit work identified an error in the index figure used to calculate DRC valuations, with a national figure being used, as opposed to a more localised index. Recalculation of the valuations using the correct index identified a material misstatement, which has been adjusted for in the financial statements.

The Council's valuer has included a material valuation uncertainty paragraph within their valuation report. The Council has included a disclosure of material valuation uncertainty in note 4 to the financial statements. In our view, this matter is fundamental to the users' understanding of the financial statements and as such we intend to include an 'Emphasis of Matter' paragraph in respect of this disclosure within our auditors report set out in Appendix B. Our opinion on the Council's financial statements is not modified in respect of this matter.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Description of the risk

Defined benefit liability valuation

The latest triennial valuation London Borough of Hackney pension fund was completed at 31 March 2019. As an admitted body within the fund, the valuation also provides the basis of the associated net pension liability for the Council as at 31 March 2020.

The valuation of the Council's net liability includes use of discount rates, inflation rates, mortality rates etc., all of which should reflect the profile of the Council's employees and other appropriate data. Due to the high degree of estimation uncertainty associated with these valuations, we determined there is a significant risk in this area.

We note the council also discloses assets and liabilities in respect of the London Pension Fund Authority which, as individually material, will also be considered by our review of the disclosures and a separate requites for work to be performed on our behalf.

How we addressed this risk

We addressed this risk by reviewing the controls that the Council had in place over the information sent to the Scheme Actuary by the fund administrators (London Borough of Hackney Pension Fund). We also:

- assessed the skill, competence and experience of the Fund's actuary;
- challenged the reasonableness of the assumptions used by the actuary as part of the annual IAS 19 valuation;
- carried out a range of substantive procedures on relevant information and cash flows used by the actuary as part of the annual IAS 19 valuation.

Audit conclusion

There have been no significant findings arising from our review of the defined benefit liability valuation and disclosures in the financial statements, although our internal review of this work remains to be completed.

We await confirmation of findings arising from the work of the auditor of the LPFA.

Management judgement

Description of the management judgement

NNDR Appeals

The business rates retention scheme came into operation at 01/04/2013 and it requires the Council to calculate a provision based on the appeals on the 2005/10 appeals list, 2017 appeals list, future periods relating to the 2017 appeals list, NHS Trust, cases where a reduction in the rateable value is determined, i.e. Iceland case, etc. These calculations have judgement elements and can be complex in nature.

How our audit addressed this area of management judgement

We reviewed the appeals listings from the Valuation Office Agency (VOA) and assessed the reasonableness of the judgemental elements within the calculations. We have further reviewed the reasonableness of the provision through use of external data (Analyse Local) with regards to the threats of appeals arising in periods subsequent to the 2017 appeals list.

Audit conclusion

There were no significant findings arising from our review of the NNDR appeals provision.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 15 June 2020 and were of a good quality. Supporting working papers were made available to us at the start of the audit and were also of a good quality.

Significant matters discussed with management

We discussed the following significant matters with management:

- The impact of COVID-19 on the Council, including potential impact on risks of material misstatement to the valuation of Property, Plant & Equipment, the assessed provision for expected credit losses and the potential overall impact on the Council's financial position.
- Going Concern – we have reviewed managements' assessment of the Council as a going concern and have reviewed treasury management forecasts and Cabinet finance papers to support the going concern assessment.
- Group Accounts – the Council has assessed its subsidiaries, associates and joint ventures and considered some of them to be material and have prepared group accounts accordingly. We have considered management's judgement and the associated working papers prepared for the consolidated group accounts and are satisfied that the accounts are not materially misstated as a result of this judgement.

Significant difficulties during the audit

Despite the undoubted impact of the pandemic on both the preparation and completion of the draft accounts, which were completed for audit two weeks later than originally planned, as well as our audit work, during the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. We would like to express our thanks to management and officers for their co-operation throughout the audit.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2019/20 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have received no questions or objections in relation to the 2019/20 accounts.

PSAA (under direction from the Secretary of State for Communities and Local Government) have appointed Mazars LLP to undertake work on the objection raised in 2016/17 relating to the Hackney Technology and Learning Centre PFI contract. Our work on this is ongoing.



2. SIGNIFICANT FINDINGS (CONTINUED)

Modifications required to our audit report

We have identified the following issue which has resulted in us proposing to issue a change to our audit opinion. Our draft auditor's report, in full, is set out in Appendix B.

As described further within our response to the significant risk over the valuation of the Council's PPE portfolio, our draft auditor's report set out in Appendix B, includes an emphasis of matter paragraph with respect to the Council's disclosure of material valuation uncertainties. Our opinion on the Council's and Group's financial statements is not qualified in respect of these matters.



3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

| Priority ranking | Description | Number of issues |
|-------------------|--|------------------|
| 1 (high) | In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately. | 0 |
| 2 (medium) | In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future. | 2 |
| 3 (low) | In our view, internal control should be strengthened in these additional areas when practicable. | 0 |

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Use of suspense accounts – Level 2

Description of deficiency

As part of the audit we have completed a detailed review of the Council's bank reconciliations and the various reconciling items that exist within them. We identified, within the reconciliation of the Council's main bank account balance, a significant reconciling item of £9.6m, which relates to items in a suspense account awaiting appropriate clearing journal adjustments.

Suspense accounts should be reviewed and cleared regularly and such a significant balance should not be allowed to build up.

Potential effects

While we recognise that the balance has been reconciled and the content of the £9.6m is understood, and correctly reflected in the bank figure in the financial statements, not completing the analysis and processing of suspense adjustments on a timely basis increases the complexity of the reconciliation process and the volume of transactions that need to be considered and tracked on an ongoing basis within the reconciliation process.

Recommendation

While we are aware that the council is in the process of ensuring the reconciling items are appropriately cleared, we recommend that the council seeks to complete this process at the earliest opportunity.

Management response

DRC property valuations – Level 2

Description of deficiency

During the course of our review and challenge of the revaluation of land and building valuations, for DRC assets that had been revalued in year, we identified that the valuer had used an incorrect rate when calculating the valuation. A national rate had been used as opposed to a more specific, local rate. The effect of using the local rate increased the valuation by £36.8 million. An audit adjustment has been posted to this effect (see page 15)

Potential effects

The use of an incorrect index when calculating a valuation may give rise to a material error being recorded within the assessed value of Property, Plant & Equipment, and subsequently within the council financial statements.

Recommendation

The council should ensure the valuation work completed, and any associated use of indices, is subject to detailed review, challenge and confirmation to ensure that the correct rate has been used.

Management response

3. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £0.672m.

Unadjusted misstatements 2019/20

We have not identified any misstatements during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

Adjusted misstatements 2019/20

| | Comprehensive Income and Expenditure Statement | | Balance Sheet | |
|---|--|---------------|---------------|---------------|
| | Dr (£'000) | Cr (£'000) | Dr (£'000) | Cr (£'000) |
| 1 Dr: PPE | | | 39,200 | |
| Cr: CIES - Reversal of past impairments | | 27,400 | | |
| Cr: CIES – Revaluation gain | | 11,800 | | |
| Dr: Adjustments between accounting and funding basis (MIRS) | 39,200 | | | |
| Cr: Unusable reserves – revaluation reserve | | | | 11,800 |
| Cr: Unusable reserves – capital adjustment account | | | | 27,400 |
| Adjustments arising as a result of the correction to revaluations, using the correct indices, for DRC assets revalued in year and recorded within the fixed asset register at the year end. | | | | |
| Total adjusted misstatements | 39,200 | 39,200 | 39,200 | 39,200 |

Disclosure amendments

During our review of the financial statements we identified some amendments to disclosures. The following were amended by management.

- **Accounting polices:** A number of revisions to ensure the accounts reflect the requirements of the Code.
- **Group accounts** – improvements to disclosures and amendment to the location within the financial statements
- **General:** A number of other changes have been made to the financial statements not requiring individual analysis.

5. VALUE FOR MONEY CONCLUSION

Our approach to Value for Money

We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

| Sub-criteria | Commentary | Arrangements in place? |
|--------------------------|--|------------------------|
| Informed decision making | <p>The Council has well developed arrangements setting out how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable. The Audit Committee fulfils the expected functions of such a committee and has continued to meet regularly throughout the year, receiving reports of internal and external audit, and challenged the findings and recommendations as appropriate. During the year the Audit committee has received the results of a deep dive into SEND and has been kept up to date on the financial impact of councils decisions and involved with the work resulting from the responses to the Covid-19 pandemic.</p> <p>The Corporate Risk Register is formally reported regularly to HMT and to Audit Committee with a supporting analysis detailing movements in risk levels. There are a number of developed risk registers at service levels which are also subject to regular review and challenge, with presentations to the Audit Committee as considered appropriate.</p> <p>The Council had a Medium Term Financial Plan in place for the year ended 31 March 2020, covering the period 2022/23, and this considered factors such as funding reductions, inflation, demand pressures, and include a sensitivity analysis. Throughout the year the Mayor and Cabinet are provided with regular financial reporting including an assessment of the overall position. This has been updated and expanded to include details associated with the council's response to the Covid-19 pandemic, and its potential longer term impact, as this has developed.</p> <p>The 2019/20 budget, as approved in February 2019, was challenging and included both savings and an increase in Council tax to help fund the identified shortfall. The financial plan for 2020/21, developed from the MTFs and approved by Cabinet, is also challenging and included the need for further savings. The council continues to review and update this to reflect its consideration of the impact of the response to the pandemic, as well as the details from returns prepared for MHCLG, and identify its response.</p> | Yes |



5. VALUE FOR MONEY CONCLUSION

| Sub-criteria | Commentary | Arrangements in place? |
|---------------------------------|--|------------------------|
| Sustainable resource deployment | <p>At the time of setting the 2019/20 budget, the Council had forecast an outturn overspend of approximately £6.935 million, with this being funded by the application of unspent Council Tax and NNDR Collection Fund surpluses. The budget for 2020/21 was balanced, but the Council had recognised it had to fund cost pressures and income reductions and had a need for a further £30m of savings by 2022/23 after assuming an annual 4 per cent Council Tax increase. The Council did not include the well-documented cost pressure it faced in SEND in this analysis as they have an expectation of this being at least partially funded.</p> <p>Prior to the setting of the 2020/21 budget the council had identified savings of around £13 million, leaving a gap of £17 million, although it had also identified other cost pressures over the life of the MTFS. When considering the savings that need to identified, the council is using five main methods to discuss and assist in identifying other savings initiatives to close the gap:</p> <ul style="list-style-type: none"> - Scrutiny Panel (through Budget Task and Finish Groups) - Cabinet led working groups - HMT / Cabinet Steering groups - Co-ordinated Cross Council Approach to resource deployment - Directorate specific initiatives. <p>Throughout these groups, there has been excellent member and officer working to achieve a common goal. While these groups continue to progress the impact of the pandemic, and in particular lockdown and any continuing restrictions, has impacted on the effective and sustainable deployment of resources. In response to its own financial monitoring needs, as well as the information requests from MHCLG, the Council performed a range of assessments and analysis on the impact, considering both changes in service delivery and costs, as well as identified and potential changes in income. These, and updates to likely cash flows, are being regularly reported internally (as well as to MHCLG) and are used by the council to manage the pandemic response and associated impact as far as can be achieved within the councils resource constraints.</p> <p>In view of the net revenue position for 2019/20, the setting of a balanced budget for 2020/21, its continued approach to seeking further savings, as well as the overall managed response to the pandemic, we consider the approach to securing value for money to be appropriate.</p> | Yes |



5. VALUE FOR MONEY CONCLUSION (CONTINUED)

| Sub-criteria | Commentary | Arrangements in place? |
|---|---|------------------------|
| Working with partners and other third parties | <p>The Council works with a range of third parties, for example, working with Hackney Clinical Commissioning Group (CCG) to reduce emergency admissions and provide as much support as possible in a social care setting.</p> <p>During the course of the year the Council received the results of the latest Ofsted inspection of Children's services, which rated the service as 'requires improvement'. In response to this, and prior to the pandemic, the council have developed a whole council response and were developing a plan to move the council to Good and onto Outstanding. While plans are in place, the pandemic has had an impact on the initial delivery of the response, although the Council considers them to be achievable in the short to medium-term.</p> <p>The Council also received an updated review of Housing with Care from the Care Quality Commission (CQC). The previous review, in 2019 rated performance as 'inadequate', and the follow up has recognised that improvements have been made and the overall assessment has improved to 'requires improvement' as a result, with some aspects rated as 'good'.</p> | Yes |

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant Value for Money risk(s). The work we carried out in relation to significant risks is outlined below.

| Risk | Work undertaken | Conclusion |
|--|--|--|
| <p>Financial sustainability</p> <p>The current financial forecast shows that the Council is forecasting budget gap of £30m over the period 2019-20 to 2022-23, primarily a result of unavoidable costs.</p> <p>The Council has identified the need to make further savings of to be able to remain within forecast funding levels and have therefore introduced savings themes which include scrutiny panels, co-ordinated cross council approach to the deployment of resources and directorate initiatives.</p> | <p>We addressed this risk by</p> <ul style="list-style-type: none"> Reviewing the controls put in place by the Council to ensure financial resilience, including the development and implementation of the Medium Term Financial Strategy, and that this has taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, the pandemic impact, etc. Reviewing management actions and mitigations to deliver the budgeted position. | <p>We have no significant issues arising from our work to report and note that the Council is continuing to respond to the challenges presented by the COVID-19 pandemic..</p> |

Our overall Value for Money conclusion

Our draft auditor's report included in Appendix B states that we intend to issue an unqualified Value for Money conclusion for the 2019/20 financial year.



APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD
[Date]

Dear Lucy

London Borough of Hackney - audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of London Borough of Hackney ('the Council') for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Group Director, Finance and Corporate Resources that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates are reasonable, including:

- those measured at current or fair value; and
- provision for NNDR Appeals.

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Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Group Director - Finance and Corporate Resources for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Group accounts

I confirm I consider where any of the Council's subsidiary companies have not been included within the group accounts prepared, their inclusion would not have a material impact on the accounts.

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Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements, as shown in the appendix to this letter, are immaterial, both individually and in aggregate, to the financial statements as a whole.

Yours sincerely

Ian Williams
Group Director, Finance and Corporate Resources, Section 151 Officer

APPENDIX B

DRAFT AUDITOR'S REPORT

Independent auditor's report to the members of London Borough of Hackney

Report on the financial statements

Opinion

We have audited the financial statements of London Borough of Hackney ('the Council') and its subsidiaries ('the Group') for the year ended 31 March 2020, which comprise the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Movement in Reserves Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of London Borough of Hackney and the Group as at 31st March 2020 and of the Council's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council and Group 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Group Director, Finance and Corporate Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Group Director, Finance and Corporate Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's or the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Emphasis of Matter – the valuation of land and buildings and property investments

We draw attention to note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's and group's land and buildings as at 31 March 2020. As disclosed in note 4 to the financial statements, the outbreak of Covid-19 has had a significant impact on financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. A material valuation uncertainty was therefore disclosed in the Authority's property valuer's report. Our opinion is not modified in respect of this matter.

Other information

The Group Director, Finance and Corporate Resources is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. 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.

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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 this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Group Director, Finance and Corporate Resources for the financial statements

As explained more fully in the Statement of Responsibilities, the Group Director, Finance and Corporate Resources 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 2019/20, and for being satisfied that they give a true and fair view. The Group Director - Finance and Corporate Resources is also responsible for such internal control as the Group Director, Finance and Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Group Director - Finance and Corporate Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Group Director, Finance and Corporate Resources is responsible for assessing each year whether or not it is appropriate for the Council and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

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.

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. This description forms part of our auditor's report.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on London Borough of Hackney's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, London Borough of Hackney has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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DRAFT AUDITOR'S REPORT

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in April 2020, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

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

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Use of the audit report

This report is made solely to the members of London Borough of Hackney, 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 members of the Council 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 members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have:

- completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack; and
- undertaken work on the objection raised in 2016/17 relating to PFI, which we were appointed to review during the year by PSAA (under direction from the Secretary of State for Communities and Local Government).

We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Lucy Nutley
For and on behalf of Mazars LLP
Tower Bridge House
St Katharine's Way
London, E1W 1DD

[Date]

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APPENDIX C INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.



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