

Audit Completion Report

London Borough of Hackney
Year ended 31 March 2021

October 2022



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12 October 2022

Dear Committee Members

Audit Update Report – Hackney’s accounts year ending 31 March 2021

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. Our conclusion and reporting still remains subject to the resolution of a national issue relating to the accounting of infrastructure assets. Once this matter has been resolved and we have undertaken any associated procedures with the Council, we will aim to issue a final Audit Completion Report as soon as possible thereafter. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We 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 07977 261873.

Yours faithfully



Suresh Patel

Mazars LLP

01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 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 on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report, we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Valuation of property, plant and equipment (including investment property valuations)
- Housing Revenue Estimates
- Housing Benefits expenditure estimates
- Net defined benefit liability valuation
- Collection Fund Estimates
- Management override of controls

Misstatements and internal control recommendations

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements; unadjusted misstatements total £8.285 million. Section 7 outlines our work on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021. At the time of preparing this report, there are no significant matters outstanding

except for a national issue relating to the accounting of infrastructure asset. We will provide an update to you in relation to infrastructure assets through issuance of a follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



Audit opinion

We anticipate issuing an unqualified opinion, modified to include an 'emphasis of matter' paragraph relating to the valuation of the Council's share of the pooled property investments held by the Pension Fund. Our proposed audit opinion is included in the draft auditor's report in Appendix B.



Value for Money

We anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our Value for Money work is provided in section 7 of this report



Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the Authority's WGA submission. We are unable to commence our work in this area until such 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. No such correspondence from electors has been received.










02

Section 02:

Status of the audit

2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the national issue relating to Infrastructure assets and the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters	
Closure procedures and review		Our final reviews and completion work needs to be performed, including final technical review of the financial statements.	 Likely to result in material adjustment or significant change to disclosures within the financial statements.
IAS 19 Assurance Additional Procedures		Our final reviews and completion of identified additional IAS 19 Assurance procedures.	 Potential to result in material adjustment or significant change to disclosures within the financial statements.
Events after the reporting period		Review of events after the reporting period, up to the point at which we sign our audit report	 Not considered likely to result in material adjustment or change to disclosures within the financial statements.
Whole of Government Accounts		Completion of audit procedures supporting the WGA return to the NAO.	



03

Section 03: **Audit approach**

3. Audit approach

Changes to our audit approach

We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum dated 14 December 2021.

Materiality

Our provisional materiality at the planning stage of the audit was set at £20m using a benchmark of 1.5% of gross operating expenditure. No changes to the materiality level set at the planning stage have been made. We set performance materiality at 50% of overall materiality, with the final value of £10.1m.

Reliance on internal audit

We have not placed any reliance on the work performed by the Authority's internal audit function. We have reviewed the functions work programme for the year and used this to inform and confirm our own risk assessment.

Use of experts

We have made use of two auditors' experts during our work. Details of the work provided are as follows:

- PwC: The NAO have appointed PwC to review the qualifications, resources, objectivity and approach of each of the actuaries involved in the production of IAS19 figures for Local Government Pension Schemes (LGPS). The assessment also looks at the approach taken by each actuary and considers the main assumptions used by each in order to value the schemes underlying assets and liabilities. We rely on the work of PwC to identify any further procedures that may be required with respect to defined benefit pension liabilities.
- Gerald Eve: The NAO appoint Gerald Eve to help inform auditors consideration of the movements in the values of property. Their valuation trends report provides an analysis of movements on certain valuation indices relevant to the consideration of different classification of land and buildings. We use the work of this expert to inform our expectations when auditing property valuations.



04

Section 04: **Significant findings**

4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other 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. On page 38 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;
- any significant difficulties we experienced during the audit; and

Significant risks

Management override of controls	Description of the risk
	<p>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.</p>
	<p>How we addressed this risk</p> <p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> • Accounting estimates impacting amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	<p>Audit conclusion</p> <p>We have no significant findings to report as a result of our work on areas subject to potential management override of controls.</p>



4. Significant findings

Valuation of Property, Plant and Equipment (PPE)	Description of the risk
	<p>The CIPFA Code requires that the carrying value of PPE should reflect the appropriate current value as at the year end. 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 fair value. Land and buildings including Council dwellings are the Council's most valuable assets accounting for £3.8 billion of the Council's £4.1 billion Property, Plant and Equipment balance at 31 March 2020. 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 government. Due to the high degree of estimation uncertainty associated with valuations and the fact that there were significant findings in the prior year we have determined there is a significant risk in this</p>

How we addressed this risk
<p>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 are not materially misstated, and considered the robustness of that approach. We also assessed the risk of the valuation changing materially in year, considering 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:</p> <ul style="list-style-type: none">assessed the valuer's qualifications;assessed the valuer's objectivity and independence;reviewed the methodology used; andperformed testing of the associated underlying data and assumptions. We will also follow up the recommendations made during the 2019/20 audit regarding PPE valuations.

Audit Conclusion

The have been no significant findings arising from our audit procedures to review the Council's revaluation of its PPE.

The Council addressed the issues that we raised and recommendation we made in the prior year Audit.

4. Significant findings

Investment Property Valuation	Description of the risk
	<p>The CIPFA Code requires that the carrying value of investment properties should reflect fair value. For the Council's £199 million of investment properties this is using fair value. Due to the high degree of estimation uncertainty associated with market valuations and the issues we reported in the prior year, we have determined there is a significant risk in this area.</p>
	<p>How we addressed this risk</p>
	<p>We reviewed the Council's approach to revaluing its investment property portfolio as at 31 March 2021. For a sample of those assets which had been revalued during the year we engaged our own expert to :</p>
	<ul style="list-style-type: none"> • assess the valuer's qualifications; • assess the valuer's objectivity and independence; • review the methodology used; and • perform testing of the associated underlying data and assumptions.
	<p>We also followed up the recommendations made during the 2019/20 audit regarding investment property valuations.</p>
	<p>Audit conclusion</p>
	<p>The have been no significant findings arising from our audit procedures to review the Council's revaluation of its Investment Property.</p>

Net Defined Benefit Pension Scheme liability Valuation	Description of the risk
	<p>The valuation of the Council's net liabilities (£665.7m as at 31 March 2020) 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 the valuations, we have determined there is a significant risk in this area.</p>
	<p>How we addressed this risk</p>
	<p>As the Council is the Fund administrator, we have addressed this risk by reviewing the controls that the Council has in place over the information sent to the Scheme Actuary, Hymans Robertson.</p>
	<p>We have also:</p>
	<ul style="list-style-type: none"> • assessed the skill, competence and experience of the Fund's actuary; • challenged the reasonableness of the assumptions used by the actuary as part of Technical Actuarial Standards; • 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.
	<p>Audit conclusion</p>
	<p>There have been no significant findings arising from our audit procedures review of the defined benefit pension scheme liability valuation. However, we are completing final IAS 19 Assurance procedures.</p>
	<p>We also report that the pension fund accounts disclose a material valuation uncertainty (MVU) in respect of its £156m pooled investment funds and the auditor of the fund is including an emphasis of matter in their audit report. The Council has a 97% share of these funds and therefore has included a MVU disclosure in Note 4 which we will emphasis in our audit report.</p>



4. Significant findings

Collection Fund Estimates	Description of the risk
	<p>The cyber attack in October 2020 significantly impacted the Academy system which provides the Council with information to prepare the Collection Fund. Although the method and principles remain consistent with prior years, the loss of data from Academy and the recovery actions that are still in progress mean that the Council has been required to make more material estimates in the Collection Fund. As a result we have determined that the material estimation within the Collection Fund represents a significant audit risk.</p>
	<p>How we addressed this risk</p> <p>We have reviewed the estimation techniques deployed by officers to derive the material estimates within the Collection Fund.</p> <p>We have reviewed the revised requirements of the auditing standard in respect of accounting estimates :</p> <ul style="list-style-type: none">• Understood and documented the estimation methods applied;• Considered and challenged the appropriateness of the data used;• Considered and challenged the reasonableness of assumptions made; and• Applied professional scepticism to the above.

Audit Conclusion

We have completed our review of the estimates used by the Council in respect of the Council Tax and NNDR balances within the accounts.

The Council has made assumptions around the future recoverability of outstanding amounts at year end as a result of both the pandemic and the cyber attack. This has resulted in an increase in the impairment loss being set against outstanding balances for both NNDR and Council Tax across all year were there is outstanding debt.

As part of the audit we have reviewed and challenged the assumptions made by the Council in setting the impairment percentages in respect of these aged debts. Whilst these amounts are estimates, they should be supported by evidence and analysis to support the assessment of the percentage used. We noted that the pandemic and cyber attack have both affected the recovery rates achieved for the values of NNDR and Council tax outstanding from prior years, with the Council having undertaken limited recovery procedures in respect of the older debt.

In respect of NNDR balances the Council has assessed significant increases in the impairment percentages used, resulting in a £6m increase in the impairment balance. The cyber attack and Council focus on current year receipts has reduced the volume of internally generated information on prior years. As such the Council has based its assessment on wider considerations of the debt recoverability

There has only been a small increase in the impairment of council tax.

There are no other significant matters arising from our audit work on the Collection Fund Estimates. We are satisfied that the Council has applied appropriate estimation techniques and the resultant estimates are reasonable in the context of audit materiality.

4. Significant findings

Housing Benefits Expenditure	<p>Description of the risk</p> <p>The cyber attack in October 2020 significantly impacted the Academy system which provides the Council with information to assess housing benefit expenditure. Although the method and principles remain consistent with prior years, the loss of data from Academy and the recovery actions that are still in progress mean that the Council has been required to make more material estimates. As a result we determined that the material estimation within Housing benefit expenditure is a significant audit risk.</p>
	<p>How we addressed this risk</p> <p>We reviewed the estimation techniques used by officers to derive the material estimates of housing benefit expenditure. We considered the revised requirements of the auditing standard in respect of accounting estimates and sought to:</p> <ul style="list-style-type: none"> • Understand and document the estimation methods applied; • Consider and challenge the appropriateness of the data used; • Consider and challenge the reasonableness of assumptions made; and • Apply professional scepticism to the above.

<p>Audit Conclusion</p> <p>We have completed our review of the estimates made by the Council in respect of the Housing Benefit expenditure included within the financial statements. We have assessed the approach to the assessment, and the use of available information from prior to the cyber attack to support the value of payments made in the remainder of the year.</p> <p>The Council has been unable to process the majority of the expected changes to records, which has limited the ability of the Council to identify the value of any overpayments made and assess recovery. This assessment is being completed as data within the system is updated, although it will take some time to complete.</p> <p>Entries within the financial statements have been based on payments made to date and a limited analysis as far as it is available. We have reviewed the entries within the financial statements and there are no other significant matters arising from our audit work on the Housing Benefits Expenditure.</p> <p>We are satisfied that the Council has applied appropriate estimation techniques and the resultant estimates are reasonable in the context of audit materiality</p>



4. Significant findings

Housing Revenue Account Material Estimates

Description of the risk

The cyber attack in October 2020 impacted the Universal Housing system which provides the Council with information to prepare the HRA. Whilst we are aware that the Council is replacing the UH system and has been able to recover information there remains an increase in the extent of estimation used in preparing the HRA. As a result we have determined that the material estimation within the HRA represents a significant audit risk.

How we addressed this risk

We have reviewed the estimation techniques deployed by officers to derive the material estimates within the Housing Benefits Expenditure.

We have reviewed the revised requirements of the auditing standard in respect of accounting estimates :

- Understood and documented the estimation methods applied;
- Considered and challenged the appropriateness of the data used;
- Considered and challenged the reasonableness of assumptions made; and
- Applied professional scepticism to the above.

Audit Conclusion

We have completed our review of the Council estimate in respect of the Housing rent information included within the financial statements, and in particular the value of the rental income recorded within the financial statements.

The Council has made use of data from immediately prior to the cyber attack as the basis for assessing income across the remainder of the year, reconciling this with the value of receipts to confirm the details included within the financial statements. We have reviewed the assessments completed and consider them to be reasonable.

We are satisfied that the Council has applied appropriate estimation techniques and the resultant estimates are reasonable in the context of audit materiality



4. Significant findings

Key areas of management judgement

Grant Accounting	Description of the management judgement <p>In common with other councils, the Council received a significant level of Covid-19 related government grants during the financial year. Some of these grants have specific conditions for their use and others the Council has discretion on its use. As a result, the Council had to make a judgement on how it accounts for each type of grant and in particular a judgement on whether the Council is acting as the principal (which impacts the Councils accounts) or agent (which has less of a financial reporting impact) in respect of each grant.</p>
	How our audit addressed this area of management judgement <p>We reviewed the Council's approach to considering the terms and conditions associated with each of the grants received, and its associated proposals for accounting, ensuring these accounting proposals were in line with the requirement as set out in the CIPFA Code.</p>
	Audit conclusion <p>There are no significant findings arising from our audit procedures to review grant accounting. We are satisfied the balances and associated disclosures are materially accurate and appropriately accounted for within the financial statements.</p>

Bank Reconciliation	Description of the management judgement <p>Our final report to those charged with governance on the 2019/20 audit, identified internal control recommendations regarding the bank reconciliation.</p> <p>Given the complexity of the process, the risk of human error in manual transactions and the importance of controls operating effectively over cash, we have identified an enhanced risk in this area.</p>
	How our audit addressed this area of management judgement <ul style="list-style-type: none">• Follow up of the agreed recommendations from the 2019/20 audit;• We reviewed of the processes and controls in place for documenting the bank reconciliation, ensuring there is a clear trail of how the bank balance ties back to the Council's ledger; and• Substantively testing the balances per the bank statement and the ledger and confirm reconciling items have been appropriately accounted for.
	Audit conclusion <p>There are no significant findings arising from our review of the bank reconciliation process and the Council addressed the issues that we raised and recommendation we made in the prior year Audit.</p>



4. Significant findings

Qualitative aspects of the Authority's accounting practices

We have reviewed the Authority's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Authority's circumstances. The accounts have been prepared on a going concern basis and we have not identified any reasons why this would not be appropriate or any material uncertainties that the Council would be required to disclose.

Draft accounts were provided by the authority on 6 December 2021 and were of a good quality. Supporting working papers were made available prior to the commencement of the audit. Staff members were generally timely in response to evidence requests and audit enquiries.

Internal control matters

To date we have identified one matter that we wish to bring to the Committee's attention. During our review of the related party disclosures within the financial statements, we noted that the Council had not obtained declarations of interest forms from two Members. Whilst we have satisfied ourselves through other procedures that there are no interests that warrant disclosure, the Council needs to ensure that it has sufficient evidence to support the completeness of its own disclosures.

Significant matters discussed with management

We have discussed the following significant matters with management:

- The impact of covid-19 on the council and the associated impacts this may have on the risks of material misstatement to the valuation of property, plant and equipment, the assessed provision for expected credit losses and the potential overall impact on the Council's financial position.
- Going concern and the basis of management's assessment of its current position. We have reviewed management's initial assessment and considered this against budget forecasts and cabinet finance papers to support the judgement.
- The continued impact of the cyber attack suffered by the council on its operations and ability to provide support for figures within the financial statements.
- Amendment to the Council's prior year Cash Flow Statement and disclosures to adjust for an item incorrectly recorded within the 2019/20 financial statements.

Significant difficulties during the audit

During the course of the audit, we did not encounter any unexpected difficulties and we have had the full co-operation of management.



4. Significant findings

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 2020/21 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 not received any objections for 2020/21.

Modifications required to our audit report

To date we have not identified any issues which would result in us proposing to issue a modified audit opinion



05

Section 05:

Internal control recommendations

5. Internal control recommendations

The purpose of our audit was 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 in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or 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.	0
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	1



5. Internal control recommendations

Significant deficiencies in internal control – Level 3

Retention of HR documentation

Description of deficiency

As part of our review of redundancies in the year, and verification of amounts and decisions to supporting analysis, we noted one instance where the council was unable to provide appropriate supporting documentation.

Potential effects

As a result of absence of supporting evidence we were unable to confirm the original employment of the individual by the council and that the decision to grant redundancy was supported in line with the Council's approach.

Recommendation

The Council should ensure that all required documentation to confirm employment and the award of redundancy of an individual member of staff is included in the HR systems.

Management response

We will complete a review of processes to ensure that staff and departments are aware of the need to retain proper documentation for all employees of the Council.



06

Section 06:

Summary of misstatements

6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £608k. The first table outlines the misstatements that were identified 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.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Provisions Cr: CIES – Service expenditure Dr: Adjustments between accounting and funding basis Cr: Usable General Fund Reserves	5,428	5,428	5,428	5,428
Adjustment for the removal for Low Traffic Neighbourhood PCN provision as, in light of legal challenge, this provision is no longer required.					
2	Dr: CIES – Impairment charges Cr: Investment property valuations Dr: Unusable reserves - Capital Adjustment Account Cr: Adjustments between accounting and funding basis	600	600	600	600
Adjustment of investment property valuation for overstatement within individual valuation					

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6. Summary of misstatements

Unadjusted misstatements (continued)

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
3	Dr: Property, Plant and Equipment Cr: Investment Property			506	506
Adjustment required for the reclassification of property from Investment Property to PPE.					
4	Dr: CIES Cr: General Fund Reserves	8,285			8,285
Extrapolation adjustment arising from income cut-off errors identified from occurrence and accuracy testing					
Total unadjusted misstatements		14,313	6,028	6,534	14,819



6. Summary of misstatements

Adjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: CAA Property, Plant and Equipment revaluations Cr: CAA Investment Property valuations			41,922	41,922
Revision of details with the Capital Adjustment Account to separate out the revaluations of investment properties from property, plant and equipment.					
Total adjusted misstatements				41,922	41,922

Disclosure amendments

During our testing we identified one significant disclosure amendment. We identified that the council had incorrectly included movement in Investment property valuation in revaluation losses and reversal of Property, Plant and Equipment in the Capital Adjustment Account. The Authority made the required amendment.

In addition, in Note 4 the Council has removed the material uncertainty valuation (MVU) disclosure in relation to its land and buildings and investment properties as this was no longer relevant for 2020/21. However, it has added, the MVU in relation to its 97% share of the pension fund's £156m pooled property investments which do have a MVU for 2020/21.



07

Section 07:

Value for Money

7. Value for Money

Approach to Value for Money

We are required to consider whether the Authority 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 and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **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
- **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

At the planning stage of the audit, we undertake work to understand the arrangements that the Authority has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

The table overleaf outlines the risks of significant weaknesses in arrangements that we have identified, the risk-based procedures we have undertaken, and the results of our work.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Authority's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report within 3 months of the financial statements.

Status of our work

We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2021. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however we continue to undertake work on the Authority's arrangements.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to the Authority's arrangements.



Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

Mazars LLP
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Dear Suresh

London Borough of Hackney - Audit for year ended 31 March 2021

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 2021 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 2020/21 (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.



Appendix A: Draft management representation letter

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;
- those impact ion the Collection fund (Council Tax and NNDR);
- those impact on the Housing Revenue Accounts (Housing Rents and Housing Benefits); and
- provision for NNDR Appeals.

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, 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.



Appendix A: Draft management representation letter

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 other.



Appendix A: Draft management representation letter

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 and / or joint ventures have not been included within the group accounts prepared, their inclusion would not have a material impact on the accounts.

Unadjusted misstatements

All unadjusted misstatements above triviality have been listed in the appendix to this letter.

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.



Appendix A: Draft management representation letter

Private Finance Initiative

I confirm that, to the best of my knowledge, there have been no significant contract variations agreed during the year. There have also been no off-programme lifecycle expenditures.

Other matters

I can confirm in relation to the following matters that:

- Brexit - we have continued to review the impact of the United Kingdom leaving the European Union and that any disclosure in the Annual Report fairly reflects that assessment.
- COVID-19 - we have assessed the impact of the COVID-19 Virus pandemic on the Pension Fund and the financial statements, including the impact of mitigation measures and uncertainties, and are satisfied that the financial statements and supporting notes fairly reflect that assessment.
- We confirm that we have carried out an assessment of the potential impact of Russian Forces entering Ukraine on the business, including the impact of mitigation measures and uncertainties, and that the disclosure in the Directors' Report and the subsequent events note 6 to the financial statements fairly reflects that assessment.

Yours sincerely

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

Date:



Appendix B: Draft audit report

Independent auditor’s report to the Members of London Borough of Hackney

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of London Borough of Hackney “the Council” for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, Housing Revenue Account, Collection Fund Account 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2021 and of its 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 2020/21.

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 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.

Emphasis of Matter – the pension fund pooled 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 share of the Hackney Pension Fund pooled property investments. As disclosed in Note 4 to the financial statements, the Pension Fund valuers included a ‘material valuation uncertainty’ declaration in their reports because of the Covid-19 pandemic. Our opinion is not modified in respect of this matter.



Appendix B: Draft audit report

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Finance and Assurance’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 Council'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 Group Director, Finance and Corporate Resources, Section 151 Officer with respect to going concern are described in the relevant sections of this report.

Other information

The Group Director, Finance and Corporate Resources, Section 151 Officer 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.

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 the Director of Finance and Assurance’s 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 2020/21, 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.



Appendix B: Draft audit report

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 2020/21 and prepare the financial statements on a going concern basis on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Audit Committee is responsible for assessing each year whether or not it is appropriate for the Council 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.

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. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, the Local Government and Housing Act 1989 and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Director of Finance and Assurance’s incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Governance, Audit, Risk Management and Standards Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council which were contrary to applicable laws and regulations, including fraud.



Appendix B: Draft audit report

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Governance, Audit, Risk Management and Standards Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Governance, Audit, Risk Management and Standards Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Director of Finance and Assurance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

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.

Report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have not completed our work on the Council's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.



Appendix B: Draft audit report

We will report the outcome of our work on the Council's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

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. 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.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

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.



Appendix B: Draft audit report

Use of the audit report

This report is made solely to the Members of London Borough of Hackney Council, 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:

- satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- Issue our Certificates of completion in respect of the Councils 2018/19 and 2019/20 audits
- issue our assurance statement in respect of the Council’s Whole of Government Accounts consolidation pack.

Suresh Patel
For and on behalf of Mazars LLP

30 Old Bailey
London
EC4M 7AU

Date



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.

Fees

Area of work	2020/21 proposed fee	2019/20 final fee
Code work (scale fee)	£174,266	£174,266
Fee variations:		
- Cyber attack review (note 1)	-	£10,085
- PPE & IP valuations (note 2)	TBC	£6,016
- Impact of C-19 (note 3)	-	£4,512
- Group accounts (note 4)	£5,000-7,000	£5,062
- Increased regulatory requirements (note 5)	£5,000-6,000	£5,075
- Code changes to VFM (note 6)	£9,000-15,000	
- ISA 540 revised (note 7)	£5,000-10,000	
- Additional risks (note 8)	TBC	
- Dealing with correspondence	-	-
TOTAL	TBC	£205,616

PSAA sets the scale fee for Code work. We agree additional fees associated with additional work with the Group Director and then gain approval from PSAA.

Notes

1. In 2019/20 we carried out an additional review following the cyber attack.
2. In 2019/20 we engaged our valuation team to support our work on the significant risk in respect of the valuation of the Council's PPE and IP. For 2020/21 this use has been to a lesser extent and we will quantify the additional fee shortly.
3. In 2019/20 we incurred additional time in respect of C-19.
4. As the Council prepares group accounts we are required to undertake additional procedures which are outside of the PSAA scale fee.
5. We have reported to Committee previously the increased regulatory requirements on us that necessitate additional procedures and quality review processes.
6. The NAO Code changed for 2020/21 to include new responsibilities around VFM.
7. A revised International Auditing Standard (ISA) 540 in respect of auditing accounting estimates came into effect for 2020/21.
8. Where we identify additional risks we carry our additional work. We will quantify the additional fee shortly.

Appendix D: Other communications

Other communication	Response
Compliance with Laws and Regulations	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. Or detail significant matters identified.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
External confirmations	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
Related parties	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going Concern	<p>We have not identified any evidence to cause us to disagree with the Director of Finance that London Borough of Hackney will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p>



Appendix D: Other communications

Other communication	Response
<p>Subsequent events</p>	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
<p>Matters related to fraud</p>	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and Those Charged With Governance, confirming that</p> <ul style="list-style-type: none"> a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: <ul style="list-style-type: none"> i. Management; ii. Employees who have significant roles in internal control; or iii. Others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.

Suresh Patel, Partner

Mazars

30 Old Bailey

London

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.