

Audit Completion Report

London Borough of Camden— Year ended
31 March 2021

September 2023



Contents

- 01** Executive summary
- 02** Status of the audit
- 03** Audit approach
- 04** Significant findings
- 05** Internal control recommendations
- 06** Summary of misstatements
- 07** Value for Money

Appendix A: Draft management representation letter

Appendix B: Draft audit report

Appendix C: Independence

Appendix D: Other communications

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London Borough of Camden
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11 September 2023

Dear Committee Members

Mazars LLP
30 Old Bailey
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EC4M 7AU

Audit Completion Report – London Borough of Camden financial statements for the year ending 31 March 2021

We are presenting this report to Members in accordance with ISA 260 for the year ended 31 March 2021. The purpose of this document is to summarise our audit conclusions and to provide you with the detailed findings from our work.

The scope of our work, including the identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 08 December 2021. Since we issued our Audit Strategy Memorandum the local government sector has been subject to the challenges and emerging issues, including accounting for infrastructure assets. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We have carried out the audit of the accounts for the year ended 31 March 2021 at the same time as we have been working with the Council to complete the audit of the accounts for the year ending 31 March 2020. Whilst we acknowledge that the Council has improved some aspects of its accounts preparation and supporting working papers for 2020/21, we have encountered some of the same significant issues and challenges that we reported in respect of the 2019/20 accounts. We have reported audit progress to the Committee several times over the period we have been working with your team to address the issues. We set out in more detail in the report the issues that have contributed to the delay and increased time inputs required to complete of work.

Our work on the VFM arrangements is in progress. We aim to issue the Auditor's Annual Report which contains our commentary on VFM soon after our signed auditor's report by the end of Oct 2023.

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

Yours faithfully

Suresh Patel, For and on behalf of Mazars LLP

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01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor 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.

Although we anticipate issuing an unqualified opinion on the Council's accounts, Members of the Committee should note that the audit of 2019-20 was not concluded when we commenced the audit of 2020-21 and material adjustments were identified in the accounts during the course of our audit, which impacted the accounts of both 2019-20 and 2020-21. Management took time to provide the information for the audit especially the debtors and creditors listings and evidence to support the valuation of PPE. We also note that at the time of drafting this report the final 2019/20 statements were yet to be approved.

Section 4 of this report sets 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.

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements; The net adjusted misstatements total £11m to the Balance Sheet and £11m on the CIES. The value of unadjusted misstatements is £3.5m.

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, matters remaining outstanding as outlined in section 2. We will provide an update to you in relation to the significant matters outstanding 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, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.



Value for Money

Our work in respect of the Council's VFM arrangements is still in progress. At the time of preparing this report, we are considering a range of matters reported in the ACR in relation to the Council's arrangements pertaining to timely and accurate financial reporting, to determine whether these constitute a significant weakness in arrangements; however, we continue to undertake work on the Authority's arrangements.



Whole of Government Accounts (WGA)

The NAO have confirmed that they do not require any further work or submissions from component auditors on WGA returns for 2020-21 and this work has therefore been completed.



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. We have not received any questions or objections in respect of the 2020/21 statement of accounts.



02

Section 02:

Status of the audit

2. Status of the audit

At the date of this report there remains audit testing in progress, audit testing that is subject to internal review and our review processes which include the Engagement Lead and Engagement Quality Reviewer completing their respective reviews of audit work.

Audit testing complete but subject to internal review

• Journals	• Financial Instruments	• Leases	• PFI
• Long Term Liabilities	• Creditors	• Investment Properties	

Audit testing in progress

The majority of the audit testing in progress relates to where we are reviewing and considering the evidence received from the Council to support sampled items we have selected.

• Cash and Bank	• VFM	• Property, Plant and Equipment	• MIRS
• Infrastructure Assets	• Usable and unusable reserves	• Estimates	• Agreement of opening balances
• Pension			















We will update the Audit and Corporate Governance Committee on the status of the audit.

In addition to the above, as expected, at the date of this report we have yet to complete our concluding audit procedures, the Engagement Lead and Engagement Quality Control Reviewer's input and our final review procedures. We summarise the status of the audit overleaf.



2. Status of the audit

While we have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2021, our internal review and clearance process remains ongoing. Subject to the outstanding matters detailed below there are currently no matters of which we are aware that would require modification of our audit opinion.

Audit area	Status	Description of the outstanding matters	
Infrastructure Assets		Our testing procedures on infrastructure assets are in progress.	
Property, Plant and Equipment		We are updating our working papers for the final set of responses from the Council.	
Cash and Bank		We are currently awaiting an update on the Council's control account closing balance as at 31 March 2021 and we are awaiting (and chasing) one bank confirmation.	 Likely to result in material adjustment or significant change to disclosures within the financial statements.
Movement in Reserves Statement (MiRS) and usable and unusable reserves		Our audit work on this is in progress. It is generally completed when the audit work on all other areas is done.	
Agreement of opening balances		Awaiting the signed financial statements of 2019-20	
Estimates		Our documentation of the work performed on estimates is in progress.	 Potential to result in material adjustment or significant change to disclosures within the financial statements.
Pension		The Council has a net assets position in relation to LPFA as at 31 March 21. We are requesting additional information on this from the Council.	
Review and closure procedures		Completion of audit closure procedures, including: <ul style="list-style-type: none"> review of the final updated version of the financial statements, which we are awaiting; and final audit file review by Engagement Partner and Engagement Quality Reviewer. 	 Not considered likely to result in material adjustment or change to disclosures within the financial statements.
Signed final statements, Annual Governance Statements and signed Management Representation Letter		When we receive the signed version of the accounts and letter of representation, we will complete a final review of the financial statements to confirm they are consistent with our expectation based on our work during the course of the audit.	
Events occurring after reporting date		Review of events after the reporting period, up to the point at which we sign our audit report.	
File closure procedures		This will be completed on receipt of management's letter of representation and completing our consideration of post balance sheet events to the date of final sign-off.	

Executive summary

Status of audit

Audit approach

Significant findings

Internal control
recommendations

Summary of
misstatements

Value for Money

Appendices

03

Section 03: **Audit approach**

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum presented to Audit Committee in December 2021. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £20.44m using a benchmark of 2% of gross operating expenditure.

Our final assessment of materiality, based on the draft financial statements, is £23.46m using the same benchmark.

We set our trivial threshold at £711k based on 5% of overall materiality. Individual errors below this level will not be reported to the Audit and Governance Committee. .

Infrastructure assets

During 2022, a sector-wide issue in respect of local authority accounting for infrastructure assets emerged. This related to the way in which accounting for the derecognition of infrastructure assets was accounting for. In January 2023, CIPFA and the Department of Levelling Up, Housing and Communities (DLUHC) published an update to the Code as well as amendment to the Capital Finance and Accounting Regulations. The Council has subsequently amended the financial statements to accounts for the changes made to the Code and Accounting regulations. The amendments have been subject to review by audit.

Use of experts

We set out in our Audit Strategy Memorandum our planned use of experts to assist in our audit procedures. There were no changes to our planned approach.

Item of account	Management’s expert	Our expert
Defined benefit pension liability valuation and disclosures	Hymans Robertson Barnet Waddingham	PwC – Consulting actuary appointed by the National Audit Office.
Property valuations: operational land & buildings owned by the Council and investment properties	Lambert Smith Hampton	We engaged our own valuer to review the Council’s approach to valuations and some of the complex property valuations
Financial Instrument disclosures	Link Asset Services	No expert required



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 17 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

Management override of controls

Description of the risk

This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. 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 there is a risk of material misstatement due to fraud on all audits.

How we addressed this risk

- Testing accounting estimates impacting amounts included in the financial statements;
- Considering any identified significant transactions outside the normal course of business; and
- Testing a sample of journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

During our audit work on journals, we noted that certain journals were created and approved by the same employee. We have raised an internal control recommendation on this, please refer Section 5 for detailed observation. Apart from this, there were no significant findings to report as a result of our work on testing management estimates, transactions outside the normal course of business and journals made in preparation of the financial statements.



4. Significant findings

Valuation of property, plant and equipment (PPE) and investment properties

Description of the risk

Where a Council's assets are subject to revaluation, the Code requires that the year end carrying value should reflect the appropriate current value (fair value in case of investment properties) as at that date. The Council has adopted a rolling revaluation model which sees other land and buildings revalued over a five year cycle, which may result in individual assets not being revalued for four 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 (fair value in case of investment properties).

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.

The Council's investment properties are valued at fair value.

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

Updates to the risk

During 2022, a sector-wide issue in respect of local authority accounting for infrastructure assets emerged. This related to the way in which accounting for the derecognition of infrastructure assets was accounting for. In January 2023, CIPFA and the Department of Levelling Up, Housing and Communities (DLUHC) published an update to the Code as well as amendment to the Capital Finance and Accounting Regulations. The Council has subsequently amended the financial statements to accounts for the changes made to the Code and Accounting regulations. The amendments have been subject to review by audit, with the relevant assurance gained. See section 03 of the report for further details on accounting for infrastructure.

How we addressed this risk

We are addressing 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 have 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 current value (fair value in case of investment properties) have moved materially. In addition, for those assets which have been revalued during the year we have:

- 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.

We have also followed up on recommendations made during the 2019/20 audit regarding PPE valuations.

4. Significant findings

Valuation of property, plant and equipment and investment properties

Audit conclusion

The Council has adopted a rolling revaluation model which sees other land and buildings revalued over a five-year cycle. We liaised with the Council and the external valuer and have completed our audit procedures.

Auditor's challenge of the valuations has identified Council dwellings of £10m which had been disposed of in the previous year, but the relating accounting entries were passed in 2020-21. Similarly, there were assets of £6.3m which were wrongly classified as investment properties. The Council has adjusted both these misstatements.

There were significant delays in providing supporting information and responses on audit queries by the Council's external valuation expert. The retirement of the Council's key valuation expert during the audit delayed the completion of audit of valuation of PPE.

Our audit work on property, plant and equipment's relating to 2020-21 is still in progress.

Infrastructure

In response to the national issue in respect of infrastructure asset accounting, the Council determined it needed to apply the provisions of the statutory override.

In doing so, the Council amended the 2019-20 and 2020-21 financial statements to reflect an impact of the changes to the Code and accounting regulations and presented this for audit. Our audit work on infrastructure assets relating to 2020-21 is still in progress.



4. Significant findings

Defined benefit liability valuation	<div data-bbox="486 239 2361 639">Description of the risk<p>The latest triennial valuation of both the Camden PF and LPFA pension funds which the Council has disclosed in its statements were completed at 31 March 2019. As an admitted body within each fund, the valuation also provides the basis of the associated net pension liability for the Council as at 31 March 2021.</p><p>The valuation of the Council’s net liabilities (£741.7m as at 31 March 2021) 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>The Council relies upon its actuaries, Hymans Robertson and Barnet Waddingham to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.</p></div> <div data-bbox="486 639 2361 953">How we addressed this risk<p>We addressed this risk by considered the design and implementation of the controls the Council had in place over the information sent to the Scheme Actuaries by the fund administrators, Camden PF and LPFA.). We also:</p><ul style="list-style-type: none">• assessed the skill, competence and experience of the actuary for each Fund;• challenged the reasonableness of the assumptions used by the actuaries as part of the annual IAS 19 valuation;• carried out a range of substantive procedures on relevant information and cash flows used by the actuaries as part of the annual IAS 19 valuation.</div> <div data-bbox="486 953 2361 1169">Audit conclusion<p>We have noted that the whilst overall the Council has a net pension liability, the LPFA element is a small asset. We are currently asking management for additional information to verify the reasonableness of the asset position.</p><p>Completion of our work in this area is subject to obtaining and assessing the assurances from the auditor of the Camden Pension Fund. We will update the Committee at the meeting.</p></div>
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4. Significant findings

Bank reconciliation	<p>Description of the risk</p> <p>Our final report to those charged with governance on the 2018/19 and 2019/20 audits, identified internal control recommendations regarding the bank reconciliation. We have found the bank reconciliation process to be complex and coupled with a large number of material manual amendments, which has the effect of potentially increasing the risk of manual errors arising in the process.</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 a significant risk in this area.</p> <p>How we addressed this risk</p> <ul style="list-style-type: none">• We considered the design and implementation of the controls in place for documenting the bank reconciliation, ensuring there was a clear trail of how the bank balance ties back to the Council's ledger.• We substantively tested the balances per the bank statement and the ledger and confirmed reconciling items have been appropriately accounted for• We followed up on the issues which we identified in the prior year to ensure that management has implemented agreed recommendations. <p>Audit conclusion</p> <p>The majority of our work in this area is complete, other than one outstanding bank confirmation which we are chasing.</p> <p>We have also followed up a prior year recommendation in relation to bank control accounts and we outline in Section 5, we are currently discussing with management an unreconciled difference in the control accounts as at 31 March 2021.</p>
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4. Significant findings

Enhanced risks

Accounts payable and receivables	Description of enhanced risk
	As part of the 2019/20 audit we made recommendations in respect of the absence of procedures for producing creditors and debtors listings at month end/ year end at transaction level. In addition, we identified that the Council's reconciliation processes required a high number of manual adjustments, including several debtor and creditor codes that needed to be netted off in order to reflect the correct balance on both sides.
	How our audit addressed this risk <ul style="list-style-type: none">• We sought assurances from the Council that the agreed recommendations had been actioned and that for the 2020/21 accounts, the Council had supporting listings of debtors and creditors.• Reviewed the listings for selection of samples.• We performed substantive testing on the debtors and creditors balance as at the yearend.
	Audit conclusion <p>The listings provided by the Council were primarily the ledger accounts of different debtors and creditors nominal codes with opening balance, transactions during year (both Dr. and Cr.) and closing balances. These were insufficient to support the balances included in the accounts and we could not use them for selection of samples. The Council was required to carry out further work to establish appropriate supporting transaction lists. These have been explained in previous year control weakness in Section 5.</p> <p>Our work identified a reclassification misstatement of £23m. This has been adjusted by management.</p>

Grant accounting	Description of the management judgement
	In common with other councils, the Council has 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 needs 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 Council's accounts significantly) or agent (which has less of a financial reporting impact) in respect of each grant.
	How our audit addressed this area of management judgement <p>We discussed the Council's approach to considering the terms and conditions associated with each of the grants received, and the proposals for accounting, ensuring these accounting proposals were in line with the requirements set out in the CIPFA code.</p>
	Audit conclusion <p>We have completed our audit work in this area and we have no matters to report.</p>

4. Significant findings

Other key areas of management judgement and enhanced risks

Payroll reconciliation	Description of enhanced risk <p>As part of the 2019/20 audit we made recommendations in respect of expected controls not operating as intended during the year, including the reconciliation between the payroll system and the general ledger which had not been undertaken for all 12 months. As a result, reconciling items were not being appropriately identified and cleared.</p>
	How our audit addressed this area of management judgement <ul style="list-style-type: none">• We sought assurances from the Council that the agreed recommendations had been actioned and that for the 2020/21 accounts, the Council had the expected controls in operation and had carried out monthly reconciliations between the payroll and GL.• We performed audit procedures on the payroll balances during the audit of 2020-21.
	Audit conclusion <p>The Council provided the assurances we sought we have no matters to report.</p>



4. Significant findings

Qualitative aspects of the Council's accounting practice

We have reviewed the Council's accounting policies and disclosures as part of our audit. The draft financial statements presented for audit were subject to a number of amendments. We are awaiting the final version of accounts from the Council.

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 the correct (continued provision of service) going concern basis.

The detail of the amendments made to the accounts are set out in Section 8 of this report.

Significant difficulties during the audit

During the course of our audit, we encountered a number of difficulties in completing our work. This was because the draft accounts, submitted for audit in September 2022, were subject to material adjustments during the audit. There were delays in providing the working papers supporting the financial statements and responses on the audit queries. The debtors and creditors listings were not fit for purpose and needed to be re-drafted by the Council's Financial Reporting Team.

There were significant delays in providing supporting information and responses on audit queries by the Council's external valuation expert. The retirement of the key valuation expert during the audit delayed the completion of audit of valuation of PPE.

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.
- Two internal control findings identified during the 2020/21 audit and the actions taken by the

Council to address the seven control issues identified during 2019-20 audit. We have reported in Section 5 that whilst the Council has made some progress, given the limited time between the 2019/20 audit and the 2020/21 audit, in our view for 2020/21 six of the seven control issues remain.

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. During the year we have received and responded to correspondence from the public. However, we have not received any objections to the 2020/21 accounts.

Modifications required to our audit report

We have not identified any issues which would result in us proposing to issue a modified audit opinion. Our draft audit report, in full, is set out in Appendix B.



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.	1
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.	1
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	-

5. Internal control recommendations

1. Journals approval – Level 1

Description of deficiency

During our journal testing, we identified an issue of segregation duties in the Oracle system where it allowed the creator of journals to self-approve the journal. We identified 18 such self-approved journals. Management explained that these were year-end financial closure journals where rights were given to staff members to pass the rectification journals to fix errors identified during the closure and this right has since been revoked.

The Council's finance team were able to evidence that for 12 of 18 journals a compensating control was in place to ensure that the journal was reviewed and approved through email. For the remaining 6 journals management could not evidence the segregation of duties. However, we tested these 6 journals substantively and confirmed that they were reasonable journals and there was no indication of any management override of controls.

Potential effects

Absence of segregation of duties between posting and approving journals increases the risk of management override of control and fraud.

Recommendation

The Council should consider removing the functionality of self-creating, approving and posting journals.

Management response

Oracle has a control feature that prevents submitters of journals from also approving, and this has now been turned on to prevent self-authorisation. There is currently no built-in system control in Oracle to prevent the creator of a journal, which is then submitted by a second employee, from approving the journal. Camden are in discussion with Oracle to develop this control, and have communicated guidance to users to avoid approving journals on which they were also the creator.



5. Internal control recommendations

2. Accounting of deferred income/income received in advance – Level 2

Description of deficiency

During our testing of debtors and creditors, we noted that the Council recognises income at the time an invoice is raised during the year by debiting debtors and crediting income. Where income needs to be deferred to the subsequent year, the Council pass an entry by debiting income and crediting receipt in advance. Whilst the value of samples involved are below our triviality level, this has the effect of carrying a debtor and creditor for the amount of deferred income. These book entries are not adjusted/reversed at the year-end..

Potential effects

The Council's accounting increases the risk that the accounts are materially misstated.

Recommendation

The Council should reverse the relevant accounting entries as part of its year-end financial closure and reporting process.

Management response

The carrying of an opposing debtor and creditor will occur where a receipt in advance is processed but there is no payment received at bank by 31 March. As part of financial closing a check will be undertaken to check whether Receipts in Advance have been paid, and where required an accounting adjustment will be put through to reverse the debtor and creditor position.



5. Internal control recommendations

Follow up on previous internal control points

1. Financial statements and supporting working papers – Level 1, CONTROL POINT REMAINS

Description of deficiency

The draft financial statements presented for audit contained a significant number of misstatements and presentational errors. In addition, the supporting working papers did not reconcile to the financial statements in a number of areas. In our view, the Council’s Financial Reporting Team did not have the capacity and capability to properly understand the requirements of the CIPFA Code of Practice for Local Authority Accounting (the Code) and the underlying IFRS based financial reporting framework.

Potential effects

The draft financial statements did not accurately reflect the Council’s financial position and were not fully compliant with the Code. The audit process was more time consuming because of the high number of complex issues that need resolving during the course of our work. The extent of this, together with the national issue in respect of infrastructure asset accounting, led to a considerable delay in the signing of audit report.

Recommendation

The Council should review the skills and capacity of its Financial Reporting Team alongside its closedown process to ensure it is sufficient to prepare a materially correct set of draft accounts. This should include a detailed management review of the draft financial statements and supporting working papers before these are presented for audit and published on the Council’s website for public inspection.

Management response

We accept there were errors in the statements presented for audit. The closedown and production of draft accounts were concluded by 31 May despite the impact of COVID on working arrangements, and despite vacancies in the core team.

Additional resource has been brought in to support the production of draft accounts for 2020/21, and the Council has improved quality of working papers, reconciling all working papers to the ledger system.

The publication of draft accounts for 2020/21 was delayed as a result of the ongoing audit of 2019/20 and remediating actions. The 2020/21 accounts were published on 30 September 2022, after incorporating an internal review process to improve quality and ensure consistency across the statement and supporting notes, as per the recommendation.

[Continued over]



5. Internal control recommendations

Follow up on previous internal control points

1. Financial statements and supporting working papers (continued)

Management response

The draft accounts for 2021/22 and following years will incorporate the same quality review before publication and presentation to audit. The Council is working through the backlog of financial reporting and audits to target compliance with reporting deadlines for the 2023/24 accounts.

Status of Implementation in 2020-21

The publication of draft accounts for 2020/21 was delayed and first draft submitted for audit in September 2022, were subject to material adjustments identified during the audit. There were delays in providing the working papers supporting the financial statements and responses on the audit queries.

The internal control weakness remains and we have considered this as part of our VFM reporting in Section 7.



5. Internal control recommendations

Follow up on previous internal control points

2. Bank reconciliations and cash held on behalf of third parties – Level 1, CONTROL POINT REMAINS

Description of deficiency

Our testing of the bank reconciliations identified the Council was unable to fully reconcile its cash position.

In addition, the Council holds substantial levels of cash on behalf of third parties, in particular, North London Waste Authority (NLWA). The underlying records allocating the amounts held on behalf of third parties were not sufficiently clear to ensure the financial accounts correctly reflected the underlying position.

Furthermore, we identified the Council uses two sub-nominal codes in relation to the Cash Control Account for card payments. Processing transactions through two sub-nominal codes generates significant balances within the general ledger which need to be manually netted off in order to reflect the correct cash position.

Potential effects

There is a risk the draft accounts do not accurately record the Council's cash position.

Recommendation

The Council should ensure all bank accounts are properly and fully reconciled. All unreconciled balances should be appropriately explained and cleared.

The records supporting the cash held on behalf of third parties should be improved.

The Council should review the current practice of using two sub-nominal accounts to ensure significant balances are not accruing on both.

Management response

The Council manages and invests the working balances of the NLWA and these were included in the overall cash and short term investment balances in the draft accounts. We have discussed with Mazars that this was not the correct presentation and this has been corrected in the revised Statement presented.

The recording of cash and investment balances held on behalf of NLWA has been reviewed and clarified by both Camden and NLWA during the audit of 2020/21 accounts.

The Council has reviewed and improved its bank reconciliation processes following control recommendation from external audit and an internal audit Key Financial System review of the banking processes, moving from monthly to daily bank reconciliations to support instant investigation and resolution of any unreconciled balances. There are no unidentified unreconciled items at the time of writing.

[Continued over]

5. Internal control recommendations

Follow up on previous internal control points

2. Bank reconciliations and cash held on behalf of third parties (Continued)

Management response

The Council has reviewed the system configuration for recording two separate sub-nominals in the control account for card payments and amended to incorporate the control on a single sub-nominal to prevent opposing debit and credit balances from accruing.

Status of Implementation in 2020-21

No issues with reconciling items were identified during our testing of the Council’s bank reconciliations.

The Council has not included cash or investments held on behalf of NLWA on its balance sheet and there were no indications that it has included any other amounts held on behalf of third parties within its reported cash balance.

Although the Council has confirmed that it now only uses one of the control account sub-nominal codes, there remains a £2.4m timing difference between the two codes, which should have been netted off against each other to zero to allow only one code to be used going forward. The Council should perform the reconciliation and pass the adjustment entry as required. We have not reported this as an unadjusted misstatement as the Dr/Cr impact is not known at this stage. We are currently discussing this matter with management to gain assurance that there are no material gross errors.

RECOMMENDATION REMAINS OPEN



5. Internal control recommendations

Follow up on previous internal control points

3. Payroll cost monitoring and reconciliations– Level 1, CLOSED

Description of deficiency

Our testing of payroll transactions identified the controls expected to be in place were not operating as intended throughout the year. This included the reconciliation between the payroll system and the general ledger which had not been undertaken for each of the 12 months. As a result, reconciling items were not being appropriately identified and cleared.

Potential effects

In the absence of effective and regular reconciliations between the payroll system and the general ledger, there is a risk of error in the Council’s accounts. This could also impact on budget monitoring and control. There is also a risk of undetected payroll fraud.

Recommendation

The Council should ensure there is a full monthly reconciliation of payroll to the general ledger. Reconciling items should be followed up and cleared promptly. The reconciliation should be reviewed and signed off as such by a senior member of the finance team .

The Council should ensure there is a regular review of payroll costs against the budget and should follow up on any unexpected variances.

Management response

Detailed payroll monitoring is done by budget holders as part of the council’s budget monitoring processes, ensuring a regular review of payroll costs against budget, and investigation of unexpected variances.

During 2019/20 the council undertook pay run reconciliation between payroll and GL every month, conducted at a summary level between payroll system, GL and cash.

Since producing 2019/20 accounts, in January 2021 the Council moved to using the Oracle Fusion payroll system. Reconciliations between payroll costing and payment files are done on an individual employee basis, and system functionality allows instant reporting of any GL posting failures, which are reviewed and corrected in month.

Status of Implementation in 2020-21

We obtained and reviewed monthly reconciliations which were performed monthly between both of the payroll systems which were active during the year and the general ledger. We also agreed the sum of these listings to relevant disclosures in the financial statement, with no issues arising.



5. Internal control recommendations

Follow up on previous internal control points

4. Accounts payable balance – Level 1, CONTROL POINT REMAINS

Description of deficiency

Our testing of accounts payable identified there were no procedures in place for producing creditors listing at month end/ year end at transaction level. In addition, the Council did not update creditors listing promptly after paying creditors. As a result, the information initially provided to support the year end balance was incorrect.

The Council's reconciliation processes require a high number of manual adjustments, including several debtor and creditor codes that needed to be netted off in order to reflect the correct balance on both sides.

There are a number of balances included in the ledger relating to legacy systems that need to be properly investigated and cleared so that redundant codes can be closed.

Potential effects

The absence of standard operating procedures such as producing month end/ year listing for review and the updating of creditor account balances as they are paid increases the risk of error in the reporting of the accounts payable balance.

The need for significant netting off of debtor and creditor balances and the failure to clear legacy balances out of the ledger increases the risk of inaccurate reporting of accounts payable balance.

There is a further risk that the Council may over-pay some of the suppliers and under-pay others

Recommendation

The Council should ensure there is:

- a comprehensive review of the procedures for reviewing and reporting month end and year end balances;
- a full review of the ledger codes available for use so that redundant codes are closed;
- a change to procedures so that debtor and creditor balances are properly cleared rather than netted off; and
- a review of all old (legacy) balances so that these are paid or written off as appropriate

See over



5. Internal control recommendations

Follow up on previous internal control points

4. Accounts payable balance (Continued)

Management response

The Council has identified reporting functionality for Payables within Oracle to support creditor balances, relating to goods and services received and supplier invoices due for payment.

There are a number of creditor balances for year end manual accrual processing for creditors or receipts in advance, for which there will be no corresponding balances report, and which will require audit through sampling of year end transactions. Other creditors are the result of legitimate balances on control accounts.

A review of debtor and creditor balances has taken place as part of the 2020/21 audit of accounts, resulting in a number of legacy debtor and creditor balances being cleared in the financial ledger rather than netted off in the working papers.

Further work to review and assign responsibilities for balance sheet monitoring is taking place to ensure month end and year end balances are accurate and supportable.

Status of Implementation in 2020-21

We have identified similar issues during the audit of accounts payable. The listings of accounts payables provided by management were primarily the ledger accounts of different creditors nominal codes with opening balance, transactions during year (both Dr. and Cr.) and closing balance. These listings could not be used for selection of samples and the same were sent back to Council for revision.

RECOMMENDATION REMAINS OPEN



5. Internal control recommendations

Follow up on previous internal control points

5. Accounts receivable balance – Level 1, CONTROL POINT REMAINS

Description of deficiency

Our testing of accounts receivable identified that there were no procedures for producing debtors listing at month end/ year end at transaction level including aged debtors listing.

We observed a lack of control over the reconciliation of the accounts receivable figure reported within the financial statements and the general ledger. A balance of £139m was reported within the financial statements whereas the general ledger balance totalled £152m. Audit testing identified further errors in the reported position so the balance of £139m was amended to £158m.

As with accounts payable, the Council needs to make a significant number of manual adjustments in respect of several debtor and creditor codes that need to be offset (net to zero).

Potential effects

- In the absence of appropriate procedures such as producing month end/ year listing for review and producing and reviewing regular aged debtors listings, there is a risk of error in the Council's financial accounts.
- The current practice of netting off of debtors/ creditors balances increases the risk of inaccurate reporting of the Council's debtors balance.
- Furthermore, the current operational arrangements could lead to delays in recovering debts or an increase in irrecoverable debt which ultimately reduces the Council's available resources

Recommendation

The Council should ensure there are proper procedures in place to ensure month end and year end balances are properly reviewed and reconciled. This should include regular review of the aged debtors.

Management response

The Council reports aged debtors from its debtor system, and reconciles debtor system balances to the general ledger on a daily basis.

There are a number of balances for year end manual accrual processing for debtors or payments in advance (prepayments), for which there will be no corresponding balances report, and which will require audit through sampling of year end transactions.

A review of debtor and creditor balances has taken place as part of the 2020/21 audit of accounts, resulting in a number of legacy debtor and creditor balances being cleared in the financial ledger rather than netted off in the working papers.



5. Internal control recommendations

Follow up on previous internal control points

5. Accounts receivable balance – Level 1

Management response

Further work to review and assign responsibilities for balance sheet monitoring is taking place to ensure month end and year end balances are accurate and supportable.

Status of Implementation in 2020-21

The similar issues were noted during the audit of accounts receivables. The listings of accounts receivables provided by management were primarily the ledger accounts of difference debtors nominal codes with opening balance, transactions during year (both Dr. and Cr.) and closing balance. These listings could not be used for selection of samples and the same were sent back to Council for revision.

RECOMMENDATION REMAINS OPEN



5. Internal control recommendations

Follow up on previous internal control points

6. Property, plant and equipment/ Investment properties/ Assets held for sale – Level 1, CONTROL POINT REMAINS

Description of deficiency

Our audit work identified a number of fundamental weaknesses in the Council’s approach to the valuation of its property, plant and equipment , including council dwellings, investment properties and assets held for sale. These included a:

- lack of understanding of the requirements of the CIPFA code and MHCLG guidance on the valuation of HRA stock;
- lack of clear instruction to the valuer to ensure valuations were compliant with the CIPFA Code and MHCLG guidance;
- lack of review and/ or challenge of valuations presented by the valuer, especially in relation to HRA and investment properties;
- lack of review and updating of the valuations of assets held for sale; and
- number of deficiencies in the approach to the maintenance of the asset manager data such that assets were incorrectly categorised between investment properties and HRA. .

Potential effects

There valuation of the property plant and equipment, including council dwellings, investment properties and assets held for sale reported in the Council’s financial statements may be materially misstated. The disclosures may not be complaint with proper accounting practice as set out in the Code and other guidance.

Recommendation

The Council should fundamentally review it’s approach to accounting for its asset portfolio. This includes the arrangements for obtaining valuations and the associated capital accounting to ensure compliance with the relevent accounting practice. There is also a need to ensure the Financial Reporting Team has the relevant skills, knowledge and experience of capital accounting.

Management response

The Council has reviewed and reassessed classification of its HRA Commercial properties, and recommissioned professional valuers to confirm building plans in place and provide valuations for all properties over the valuation cycle to ensure compliance with the Code of Practice.

In addition, an internal audit review has been carried out on asset valuation processes, implementing recommendations across the 2020/21 and 2021/22 asset valuations, including detailed procedure notes for completion of capital accounting entries and ensuring check/challenge of Valuers reports.

Status of Implementation in 2020-21

The issues noted during 2019-20 audit of valuation of PPE and investment properties were addressed by management during 2020-21 except the robust instructions to valuer and evidences of challenging the valuation presented by valuer.

RECOMMENDATION REMAINS OPEN

5. Internal control recommendations

Follow up on previous internal control points

7. Other recommendation on internal control– Level 2, CONTROL POINT REMAINS

Description of deficiency

We have observed number of other internal control issues with regards to following areas;

- lack of clarity about roles and responsibilities between Control Team and Financial Reporting Team.
- lack of controls over completeness of provisions, contingencies and legal claims because of communication issues between the legal and Financial Reporting Team.
- an overall lack of knowledge and experience in the Financial Reporting Team, including vacancies in some key posts.

Potential effects

There is risk the quality of the financial statements prepared will continue to be of a poor quality. This will lead to continued delays in completing the audit and significant additional audit costs.

Recommendation

The Council should review its arrangements for preparing the financial statements to ensure there is clarity of roles and responsibilities. This should involve regular liaison with services to ensure they are clear about the contribution to the closedown processes. The Council should ensure there is an appropriate level and quality of staff in place to support the finance function.

Management response

The finance team has a detailed timetable for managing the close down process and producing the financial statements, with responsible officers or teams identified. This is reviewed on an annual basis and communicated to all members involved.

Additional resource has been brought in to support the production of draft accounts for 2020/21, establishing good practice and ensuring financial statements and supporting documentation are of an appropriate standard.

Status of Implementation in 2020-21

Given the time it has taken to complete the audit in our review there remains a need for the Council to provide greater clarity in the roles and responsibilities in respect of accounts closedown and preparation. There remains an over dependence of contracted employees in the finance team.



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 £0.71m.

Management has assessed this error as not material to the financial statements and does intend to amend for the error.

Unadjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1.	Dr: Short term creditors			£3,473	
	Cr: Other long-term liabilities				£3,473
<i>Being adjustment in respect of extrapolation of errors identified from our testing of refundable deposit due for payment more than a year in future but wrongly classified as short-term creditors.</i>					
Total unadjusted misstatements		-	-	£3,473	£3,473

6. Summary of misstatements

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

Adjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Income (£'000)	Expenditure (£'000)	Assets (£'000)	Reserves & Liabilities (£'000)
1	Dr: Housing Revenue Account Dr: Capital Adjustment Account Dr: Supporting Communities Cr: Corporate Services Cr: Housing Revenue Accounts Cr: Other operating Expenditure	£19,095	£6,497 -£1,104 -£17,502 -£10,000		£3,014
<i>The adjustments required to reconcile the 'Expenditure and Income analysis by nature' and with the CIES and Balance Sheet and to correct the internal recharges.</i>					
2	Dr: Creditors Cr: Debtors			-£23,620	£23,620
<i>This corrects errors made in the debtors and creditors (classification, grossing-up, etc.) due to Council's difficulties in preparing listings to support year end debtors and creditors.</i>					
3	Dr: Depreciation – Infrastructure Cr: Capital Adjustment Account Dr: Capital Adjustment Account Cr: Accumulated Depreciation			£6,986 -£6,049	-£6,986 £6,049
<i>Being adjustment for depreciation on the Infrastructure Assets for 2020/21.</i>					

Executive summary

Status of audit

Audit approach

Significant findings

Internal control
recommendations

Summary of
misstatements

Value for Money

Appendices

6. Summary of misstatements

Adjusted misstatements (continued.....)

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Income (£'000)	Expenditure (£'000)	Assets (£'000)	Reserves & Liabilities (£'000)
4.	Dr: Council Dwelling - PPE			£10,000	
	Cr: Capital adjustment account				-£10,000
	<i>Adjustment for disposal of dwelling that was completed in prior year but incorrectly included in the current year accounts.</i>				
5.	Dr: Property, plant and equipment (PPE)			£6,300	
	Cr: Investment properties			-£6,300	
	<i>Reclassification of property previous included as investment properties but should have been Other land and buildings</i>				
Total adjusted misstatements		-£12,683	£23,620	-£7,923	-£3,014

Executive summary

Status of audit

Audit approach

Significant findings

Internal control
recommendationsSummary of
misstatements

Value for Money

Appendices

6. Summary of misstatements

Disclosure amendments

During our audit, a significant number of changes have been made to the financial statements to improve clarity and internal consistency of the accounts and to ensure proper compliance with the requirements of the CIPFA code.

The most significant of these changes include:

- **Accounting policies** – The revision during the review of financial statements by the audit team reflect the requirements of the Code.
- **Property, Plant and Equipment** – revisions in the PPE balance to adjust the misstatement identified during the audit
- **Taxation and Non-specific Grant Income** – the note was amended to address the error in classification of income from NNDR Pool and Council Tax Income.
- **Capital Expenditure and Capital Financing** – the note was amended to address inconsistencies within the notes to the financial statements.
- **Revaluation Reserve and capital adjustment account** – the note was amended to address inconsistencies within the notes to the financial statements.
- **Unusable reserve** – a separate note of usable reserves was added within the accounts as per the CIPFA code requirements.
- **Cash Flow Statement** – the note was amended multiple times to account for the impact of adjustments in CIES and Balance Sheet.
- **HRA** – changes required due to reconciliation difference between CIES and HRA Comprehensive Income and Expenditure Statement.
- **Short-term debtors and creditors** – to address inconsistencies between the figure on the face of the balance sheet and the supporting disclosure note.
- **Expenditure and Funding Analysis (EFA)** – A adjustment were made in CIES, and this resulted to adjustment in Note 27 for Expenditure and Funding Analysis.
- **General** – a number of relatively minor changes were made to address typos and other errors.



07

Section 07: **Value for Money**

7. Value for Money

Approach to Value for Money

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

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - How the Council 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 Council 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. In our audit strategy memo, we did not identify any risks of significant weaknesses in arrangements as the audit of 2019-20 was concluded at that time..

The primary output of our work on the Council'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 by the end of October 2023.

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 are considering a range of matters reported in the ACR in relation to the Council's arrangements pertaining to timely and accurate financial reporting, to determine whether these constitute a significant weakness in arrangements.



Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

To be provided to us on client headed note paper

[Date]

Dear Suresh

London Borough of Camden - 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 Camden ('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) as amended in December 2023, 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 as amended, 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 Chief Financial Officer 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.



Appendix A: Draft management representation letter (continued)

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.

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.



Appendix A: Draft management representation letter (continued)

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 Chief Financial Officer 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 and Group 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 and Group'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 and Group'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.



Appendix A: Draft management representation letter (continued)

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.

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 and Group 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 are immaterial, both individually and in aggregate, to the financial statements as a whole. All uncorrected misstatements are included in the Appendix to this 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.

Yours faithfully

John Rowney
Chief Financial Officer



Appendix A: Draft management representation letter (continued)

Appendix

Unadjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1.	Dr: Short term creditors			£3,473	
	Cr: Other long-term liabilities				£3,473
<i>Being adjustment in respect of extrapolation of errors identified from our testing of refundable deposit due for payment more than a year in future but wrongly classified as short-term creditors.</i>					
Total unadjusted misstatements		-	-	£3,473	£3,473



Appendix B: Draft audit report

Independent auditor’s report to the members of London Borough of Camden

Report on the financial statements

Opinion

We have audited the financial statements of London Borough of Camden (‘the Council’) for the year ended 31 March 2021, which comprise the Council Comprehensive Income and Expenditure Statements, the Council and Movement in Reserves Statements, the Council and Balance Sheets, the Council and Cash Flow Statements, Housing Revenue Account, the Movement on the Housing Revenue Account Statement, 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 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (“the Code Update”), published in November 2022.

In our opinion, the financial statements:

- give a true and fair view of the financial position of London Borough of Camden as at 31st March 2021 and of the Council’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 2020/21 as amended by the Code Update.

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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Financial Officer (Section 151 Officer)’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 Chief Financial Officer (Section 151 Officer)’s with respect to going concern are described in the relevant sections of this report.

Executive summary	Status of audit	Audit approach	Significant findings	Internal control recommendations	Summary of misstatements	Value for Money	Appendices
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Appendix B: Draft audit report

Other information

The Chief Financial Officer (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 Chief Financial Officer (Section 151 Officer) for the financial statements

As explained more fully in the Statement of the Chief Financial Officer (Section 151 Officer)’s Responsibilities, the Chief Financial Officer (Section 151 Officer) 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 as amended by the Code Update, and for being satisfied that they give a true and fair view. The Chief Financial Officer (Section 151 Officer) is also responsible for such internal control as the Chief Financial Officer (Section 151 Officer) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (Section 151 Officer) is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended for the Code update 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 Chief Financial Officer (Section 151 Officer) 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.



Appendix B: Draft audit report

We evaluated the Chief Financial Officer (Section 151 Officer)’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 Corporate 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.

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

- making enquiries of management and the Corporate 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 Corporate 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 Chief Financial Officer (Section 151 Officer)’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.

Appendix B: Draft audit report

Report on the Council’s arrangements for securing economy, efficiency and effectiveness in the 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.

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. 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.

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.



Appendix B: Draft audit 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.

Use of the audit report

This report is made solely to the members of London Borough of Camden, 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:

- Certify completion of the Council’s 2019/20 audit.
- Satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Suresh Patel - Key Audit Partner

For and on behalf of Mazars LLP

30 Old Bailey, London, EC4M 7AU

[date]



Appendix C: Independence & fees

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 for the work as the Council’s auditor

As we reported in the Audit Strategy Memorandum our final fees for the audit are higher than the scale fees set by PSAA, as a result of changes in the scope of our work arising from a new NAO Code, revisions to auditing standards and increased regulatory requirements. In addition, we are also in the process of agreeing with the Executive Director of Corporate Services the final fee for 19/20 and the proposed fee for 2020/21 in light of the extensive audit issues we identified and were required to input significant additional audit time. We are currently establishing our final fees position.

Area of work	2020/21 Proposed fee	2019/20 Final fees
Scale fee	£126,242	£126,242
Additional inputs:		
1. Code changes to value for money (Note 1)	£9,000-18,000	n/a
2. Revised auditing standard on accounting estimates (Note 2)	£10,000	n/a
3. Additional work to address significant risks, new enhanced risks and reduction in the level of performance materiality (Note 3)	TBC	n/a
4. Additional work to address issues identified during the audit (Note 4)	TBC	TBC
TOTAL FEES	TBC	TBC

Notes:

- 1. The Code introduced new VFM requirements. We have used the PSAA range plus an estimate of work to address significant weaknesses in arrangements if identified by the risk assessment.
- 2. Revisions to ISA 540 apply to the 2020/21 audit and we have used the PSAA range additional fees.
- 3. This ASM reported significant risks, new enhanced risks and a lower level of performance materiality which increased the audit work we needed to carry out.
- 4. In addition to the risks, we identified several issues with the financial statements and supporting working papers that required a significant level of additional audit input address.

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.</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; andb. 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 Chief Financial Officer that London Borough of Camden 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
Subsequent events	<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>
Matters related to fraud	<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 the Audit Committee, 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; oriii. Others where the fraud could have a material effect on the financial statements; andd. 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

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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.