

Audit and Corporate Governance Committee
London Borough of Camden
5 Pancras Square
London
N1C 4AG

25 November 2024

Audit of financial statements of London Borough of Camden Council and London Borough of Camden Pension Fund for the financial year 2021-22

Update/Conclusion of pending matters – Audit Completion Report September 2024

Following on from our recent correspondence and as required by International Standards on Auditing (UK and Ireland), we are writing to confirm that the matters that were marked as outstanding within our Audit Completion Report presented to the Audit and Corporate Governance Committee on 26 September 2024 have now been completed.

Council Audit

Matter	Update/Conclusions Reached
Fraud and related parties	Internal review of this area has been completed, with no further issues identified.
Movement in Reserves Statement (MiRS)/Usable and Unusable Reserves	Following the completion of other areas of the audit, work on this area has now been completed, with no further issues identified.
CIES – Income	We have received responses from the Council for the remaining samples and work on this area has been completed, with no further issues identified.
CIES – Expenditure	We have completed our work on this area, with no further issues identified.
CIES – Payroll	We have received a response from the Council in relation to the outstanding query and work on this area has been completed, with no further issues identified.
Cash Flow Statement	Internal review of this area has been completed, with no further issues identified.
Investment properties	Internal review of this area has been completed, with no further issues identified.
Property, plant and equipment	We have completed our work on this area. We report adjusted and unadjusted misstatements in Annexes 1B and 1C.
Investments	We have received the required external confirmations and work on this area has been completed, with no further issues identified.

Matter	Update/Conclusions Reached
Debtors	We have received responses to our audit queries and challenges from the Council and work on this area has been completed, with no further issues identified.
Cash	Internal review of this area has been completed, with two further misstatements being identified, details of which are included in Annex 1C.
Loans and borrowings	Internal review of this area has been completed, with no further issues identified.
Creditors and long-term creditors	We have received responses to our audit queries from the Council and work on this area has been completed, with one further misstatement being identified, details of which are included in Annex 1C.
Leases and PFI	Internal review of this area has been completed, with no further issues identified.
Pensions	Internal review of this area has been completed, with one further misstatement being identified, details of which are included in Annex 1C.
Financial instruments	Internal review of this area has been completed, with no further issues identified.
Housing Revenue Account and Collection Fund	We have received responses to our audit queries from the Council and work on this area has been completed, with no further issues identified.
Provisions and other areas	Internal review of this area has been completed, with no further issues identified.
Technical review of financial statements	We have received the final version of the financial statements, and our technical review has been completed.
VfM	We will report our commentary in a combined Auditor's Annual Report for 2021/22 and 2022/23. We have not identified any significant weakness in the work we have completed so far.
Signed final statements, Annual Governance Statements and signed Management Representation Letter	We have received the required final signed documents from the Council and confirmed that the signed version of the financial statements is consistent with the version of the financial statements that we have audited.
Final review and completion procedures	We have received a final set of updated statements which includes all the agreed amendments. We are now completing our final review and sign off procedures.
Events after the reporting period	As part of our finalisation procedures, we are now completing our review of events after the reporting period.
File closure procedures	As part of our finalisation procedures, we will complete our file closure procedures and our signing of the audit opinion.

The Committee should note that we remain unable to certify completion of the audit because of:

- Completion of work in relation to our Value for Money conclusion.

Misstatements

As a result of completing our work, we summarise the relevant adjusted and unadjusted misstatements in Annex 1 to this letter.

Pension Fund Audit

Matter	Update/Conclusions Reached
Investments	Internal review of this area has been completed, with no further issues identified.
Review of financial statements	We have received the final version of the financial statements, and our technical review has been completed.
File review and closure procedures	We have received a final set of updated statements which includes all the agreed amendments. We are now completing our final review and sign off procedures.
File review and closure procedures	We have received a final set of updated statements which includes all the agreed amendments. We are now completing our final review, sign off and closure procedures.
Review of Annual Report	We have completed our review of the Pension Fund Annual Report to confirm consistency with the financial statements, with no further issues identified.

Misstatements

As a result of completing our work, we confirm that we have not identified any further unadjusted misstatements in respect of the Pension Fund.

If you wish to discuss the points above, or any other points then please do not hesitate to contact me.

Yours faithfully,



Suresh Patel
Partner
 Forvis Mazars LLP

ANNEX 1

A – Adjusted misstatements – Council

In the Audit Completion Report, we communicated the following adjusted misstatements for the Council.

Details of adjustment	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£k)	Cr (£k)	Dr (£k)	Cr (£k)
Dr Financing and Investment Income and Expenditure / Unusable Reserves Cr Investment Property Amendment for 1-33 Liddell Road valuation incorrectly calculated by external valuer	10,751			-10,751

The following misstatements were subsequently identified:

Details of adjustment	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£k)	Cr (£k)	Dr (£k)	Cr (£k)
Dr Other Long-Term Liabilities Cr Cash and Cash Equivalents Derecognition of cash balances held in trust			4,247	-4,247
Dr Assets Held For Sale Cr Property, Plant and Equipment Transfer of surplus assets to 'Assets Held For Sale'			8,538	-8,538
Dr Remeasurements of the Net Defined Benefit Liability/(Asset)/Unusable Reserves	35,444			
Dr Unusable Reserves			39,231	
Cr Supporting People/Unusable Reserves		-20,051		
Cr Supporting Communities/Unusable Reserves		-5,613		
Cr Corporate Services/Unusable Reserves		-24,600		
Cr Cross Cutting/Unusable Reserves		-31		
Cr Housing Revenue Account/Unusable Reserves		-4,766		
Cr Short Term Debtors Correction of treatment of current year and prepaid employer contributions under IAS 19				-19,616
Dr Short Term Creditors Cr Cash and Cash Equivalents			18,702	-18,702

Details of adjustment	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£k)	Cr (£k)	Dr (£k)	Cr (£k)
Correction of March payroll payment erroneously recognised as creditor				
Dr Investment Property Dr Financing and Investment Income and Expenditure/Unusable Reserves Cr Property, Plant and Equipment Transfer of Bloomsbury Square Car Park to 'Investment Property' and subsequent revaluation loss	1,080		1,280	-2,360
Dr Supporting People/Unusable Reserves Cr Property, Plant and Equipment Loss on revaluation of Charlie Ratchford Court	4,983			-4,983

B – Unadjusted misstatements – Council

As a result of completing our work, we have identified unadjusted misstatements for the financial statements of London Borough of Camden Council.

Details of adjustment	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£k)	Cr (£k)	Dr (£k)	Cr (£k)
Dr Gross Income – Cost of Services Cr Gross Expenditure – Cost of Services Extrapolation of capitalised expenditure incorrectly charged against income, rather than expenditure	744	-744		
Dr Property, Plant and Equipment Cr (Surplus) or Deficit on Revaluation of Property, Plant and Equipment/Unusable Reserves Judgemental misstatement of 'Council Dwellings' carried at historical cost		-3,305	3,305	
Dr (Surplus) or Deficit on Revaluation of Property, Plant and Equipment/Unusable Reserves Cr Property, Plant and Equipment Judgemental misstatement of 'Other Land and Buildings' carried at historical cost	1,790			-1,790
Dr Short Term Creditors Cr Other Long Term Liabilities Misclassified refundable deposits of previous year			5,697	-5,697
Aggregate effect of unadjusted misstatements	2,534	-4,049	9,002	-7,487

We set materiality at £22.0m, with performance materiality at £13.2m. As such, we are satisfied that the above unadjusted misstatements do not materially affect the Council accounts.

C – Unadjusted misstatements – Pension Fund

As a result of completing our work, we have identified unadjusted misstatements for the financial statements of London Borough of Camden Pension Fund.

Details of adjustment	Assets	Liabilities	Reserves	Income Statement
	Dr (£k)	Cr (£k)	Dr (£k)	Cr (£k)
DR Investment Assets – Harbour Vest CR Change in Market Value (SOCl)	2,608	-	-2,608	-
DR Investment Assets – - LCIV Stepstone CR Change in Market Value (SOCl)	4,534	-	-4,534	-
DR Investment Assets – Partners Group CR Change in Market Value (SOCl)	1,118	-	-1,118	-
DR Investment Assets – JP Morgan CR Change in Market Value (SOCl)	-1,087	-	1,087	-
Total	7,173	-	-7,173	-
Difference between investment asset valuations used in financial statements and valuations from third-party confirmations				

We set materiality at £22m, with performance materiality at £17.6m. As such, we are satisfied that the above unadjusted misstatements do not materially affect the Pension Fund accounts.

D – Previously reported internal control deficiencies – Council and Pension Fund

In the Audit Completion Report, we communicated the following internal control deficiencies for the Council.

No regular reviews of Oracle user access rights

Description of deficiency

The Council does not conduct periodic reviews of access rights for all non-standard Oracle users. Although the client has started undertaking periodic reviews for certain classes of non-standard Oracle users, e.g. users assigned with payroll roles, there is no such review for all non-standard users and no review is done for users assigned with finance roles.

Potential effects

The Oracle system may be accessed inappropriately or fraudulently. Unintentional or fraudulent data alteration or entry may occur.

Recommendation

The Council should implement a formal policy and process which allows for periodic reviews of the access rights of all users with non-standard access to Oracle.

Management Comments

We accept the recommendation and will implement a formal policy for system access reviews for all non-standard users. We have carried out ad hoc reviews of standard and non-standard users in 2022, the risk of the Oracle system being accessed inappropriately and fraudulently is low but will look to introduce a formal policy for 2025/26.

E – Internal control deficiencies identified since September 2024 – Council

As a result of completing our work, we have identified internal control deficiencies for London Borough of Camden Council, in addition to those reported in our Audit Completion Report presented to the Audit and Corporate Governance Committee.

1. Issues with accounting for disposals of fixed assets

Description of Deficiency

The audit team identified that £8.0m of assets reported as having been derecognised during 2021/22 had actually been disposed of prior to the 2021/22 financial year. The Council has confirmed that these assets do not strictly meet the criteria to constitute 'Derecognitions' during the year and that these amounts had been identified as a result of an exercise undertaken by the Council to thoroughly review the fixed asset register in an attempt to identify all instances where assets had been disposed of in previous years but had not been derecognised accordingly from the fixed asset register. We therefore anticipate that this issue will not impact the financial statements going into 2022/23 and beyond.

Potential Effects

The valuation of 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 compliant with proper accounting practices as set out in the Code.

Recommendation

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

Management Comments

The Council has already recently reviewed its approach to asset accounting. An internal audit was conducted following the issues identified in the 2019/20 accounts, along with a service review, establishing and documenting processes for capital accounting, information sharing within the Council on activity on the Council's estate, and establishing a robust valuation cycle methodology.

Part of the review identified corrections needed to the asset data which have been enacted in the 2021/22 accounts. This will not impact the financial statements going forwards.

2. Issues with record-keeping of staff members' contracts of employment

Description of deficiency

The audit team asked to vouch expenditure of staff costs during the year to the relevant signed employment contracts. The Council was unable to provide several of these due to arrangements with their HR service provider, prohibiting them from accessing these records. Furthermore, we identified a separate issue whereby some employment contracts which were provided had not been signed at all.

Potential impact

The inability of the Council to provide the requested records increases the risk of fraud and error on the staff costs disclosed in the accounts.

Recommendation

The Council should ensure that they it maintains and retains access to sufficiently detailed records with regards to their employment contracts with staff members across the Council and associated schools.

Management Comments

The Council records signed employee contracts as part of the onboarding process and maintains them in in line with GDPR requirements. Digital signatures have been captured since 2019. Pre 2019 signatures were physical and scanned into the system.

Historic records of existing employees, pre-digital on-boarding, are kept in secure physical archive off-site. Scans have proved to be incomplete in some instances, and management are considering how this can be reviewed and addressed.

3. £25,000 de minimis threshold for accruing items of income and expenditure

Description of deficiency

Although the Council's financial statements are required to be prepared on the accrual basis, the Council has explained that they do not make manual accruals for revenue transactions with a value greater less £25,000.

Potential Impact

Only accruing revenue transactions above £25,000 could result in cumulatively material cut-off errors at the beginning or end of the financial year, impacting income and expenditure reported for the year.

Recommendation

The Council should review its current de minimis threshold of £25,000 for accruing transactions and consider whether it should be reduced to increase the accuracy of income and expenditure reported on the accrual basis each financial year.

Management Comments

The accounts are prepared on an accruals basis. The vast majority of accruals are system generated, based on outstanding purchase order values, or invoices raised, and can be of any value - not limited to a minimum £25,000. Manual accruals are raised where necessary if the council has additional information of payments due or received in advance. These are not automated, and officers focus on items over £25,000 for expedience.

Other local authorities have higher de minimis levels for manual accruals, and it is not considered necessary to reduce the existing threshold, however officers will conduct an exercise to assess the accuracy of cut-off income and expenditure across the Mar-25 year end to support the audit.

4. Fixed assets inappropriately carried at historical cost

Description of deficiency

The Council's applicable reporting financial framework ('the Code') stipulates that all PPE assets should have been formally revalued to their current value within five years prior to the balance sheet date of the financial year in question. Within the draft accounts, £164m worth of assets were disclosed as being carried at historical cost when they should have been revalued within five years. Following discussion with the Council, this figure has been reduced to £18m within the final accounts.

Potential Impact

Although we have obtained assurance that the particular assets in question are not materially misstated, non-compliance with the five-year revaluation cycle outlined within the Code increases the risk of material errors within the Council's PPE balance.

Recommendation

The Council should undertake a thorough exercise each year which allows them to confirm that all assets which are required to have been revalued within the five-year revaluation cycle have been so revalued.

Management Comments

The Council has reviewed its approach to asset accounting. An internal audit was conducted following the issues identified in the 2019/20 accounts, along with a service review, establishing and documenting processes for capital accounting, information sharing within the Council on activity on the Council's estate, and establishing a robust valuation cycle methodology.

Due to the compressed timeframe between accounts production, not all valuations were able to take place in the 2021/22 valuation cycle as the new cycle embedded. The evidence of the 2022/23 and 2023/24 accounts demonstrate that this is not an issue going forwards and that the approach to the valuation cycle is being correctly implemented.

F – Previously reported disclosure misstatements – Council

In the Audit Completion Report, we communicated the following disclosure misstatements for the Council.

- Note 37: The operating leases note was not correctly prepared and the same was not agreeing to schedule of leases and working paper provided.
- Note 20: A formula error within the workings for Note 20 resulted in an £819k misclassification between 'Other Local Authorities' and 'Other Entities and Individuals'. The overall total is unaffected.
- Note 31: The 'Total row' within the prior year comparatives table for part b) of Note 31 ('Remuneration of officers earning above £50,000') does not cast correctly.
- Note 30: The current year figures for the member allowance in the draft accounts had not been updated from the prior year and represented the 2020-21 figures. The prior year comparatives had also not been updated and represented the 2019-20 figures.
- Note 16: Cash and cash equivalents were referred as cash and cash equivalents as just "cash" in the financial instruments fair value section of Note 16.
- Note 14: Investment Property the net gains/(losses) from fair value adjustment amount was incorrectly calculated, see page 38 for detail of error.

The following presentation changes were subsequently identified:

Adjusted Disclosure Misstatements

- **Changes to wording of Note 1 - Accounting Policies** - Following the audit team's review of accounting policies, the Council made five minor changes to the wording of various accounting policies.
- **Changes to Note 4 - Assumptions made about the future and other major sources of estimation uncertainty** - Following our technical review of the financial statements, the Council made minor changes to the wording of disclosures within Note 4. The Council also removed the narrative disclosing 'Grant claims yet to be certified (Housing Benefit)' as a major source of estimation uncertainty.
- **Omission of tables analysing the past due but not impaired element of council tax and business rates within Note 17 - Short Term Debtors** - Following our technical review of the financial statements, the Council included the required disclosures around council tax and business rates which are overdue from taxpayers and ratepayers, but which have not been impaired by the Council.
- **Misclassification errors within Note 20 – Creditors** - During the audit, the audit team identified multiple classification errors within the Council's working papers and during the performance of substantive audit procedures. The audit team requested the client to review the nominal codes which were impacted by the identified errors and having reviewed their work, the audit team is reasonably satisfied that the classification amendments to Note 20 - Creditors are complete and appropriate.

- **Lack of apportionment of pensions service costs between the Council's directorates within Note 27 - Expenditure and Funding Analysis** - Within the draft version of Note 27, the impact of the net adjustment for the removal of employer contributions from the CIES and the replacement of them with pensions service costs was not appropriately recognised in the Council's different directorates. The Council has amended for this issue within the final version of the accounts.
- **Omission of prior period comparatives within Note 35 - Related Parties** - Within the draft version of Note 35, some disclosures were lacking accompanying prior period comparatives. The Council has rectified this issue within the final version of the accounts.
- **Omission of disclosure of the net book value of PFI assets within Note 38 - Private Finance Initiatives and Similar Contracts** - Following the audit team's review of the presentation and disclosure of the accounts, the Council has now included the required analysis of the net book value of PFI assets required by the Code within the final version of its PFI note.
- **Inclusion of future estimate within Note 40 - Pensions Schemes Accounted for as Defined Contribution Schemes** - Within the final accounts, the Council included a disclosure estimating the Teachers' Pensions contributions payable for the 2022/23 financial year. This disclosure was not present in the draft accounts.
- **Changes to narrative within Note 41 - Defined Benefit Pension Schemes** - Following our technical review of financial statements, the Council made additional disclosures within the narrative of Note 41.
- **Omission of amounts held in trust on behalf of adult social care clients in Note 44 - Trust Funds and other accounts** - The Council did not disclose the value of amounts held in trust on behalf of adult social care clients within the draft accounts.
- **Amendments for consistency to the following disclosures which arose solely as a result of other audit issues that have already been reported:**
 - Cash Flow Statement
 - Movement in Reserves Statement
 - Note 5a Expenditure and Funding Analysis
 - Note 6a Prior Period Adjustment 2020/21
 - Note 7 Movement in Reserves Statement - adjustments between accounting basis and funding basis under regulation
 - Note 10 Financing and Investment Income and Expenditure
 - Note 12 Property, Plant and Equipment
 - Note 14 Investment Properties
 - Note 16 Financial Instruments
 - Note 17 Short-Term Debtors
 - Note 18 Cash and Cash Equivalents
 - Note 19 Assets Held For Sale
 - Note 22 Unusable Reserves

- Note 23 Cash Flows from Operating Activities
- Note 24 Cash Flows from Investing Activities
- Note 25 Cash Flows from Financing Activities
- Note 44 Trust Funds
- Part 4 Housing Revenue Account

Unadjusted Disclosure Misstatements

1. **Omission of segmental analysis of revenue from external customers within Note 5b - Expenditure and Income Analysed By Nature** – Our technical review of the financial statements included a request for the Council to include a table breaking down revenue from external customers (i.e. 'Fees, charges and other service income' as disclosed within Note 5b) into a segmental analysis by directorate. Management was unwilling to include this, but did choose to include an additional table, breaking 'Fees, charges and other service income' down into an additional analysis by nature, rather than directorate. Following management's reluctance to include the required disclosures, we have concluded that the disclosure issue does not impact on our audit opinion.
2. **Disclosure of assets as carried at historical cost within Note 12 - Property, Plant and Equipment** - Within the draft accounts, the Council inappropriately disclosed £164,021k of PPE assets as being carried at historical cost when the Code specifies that these assets should be carried at current value, so the audit team requested that the Council reclassify these assets. Within the final accounts, the Council has reclassified most of these assets but £17,828k worth of PPE is still inappropriately disclosed as being carried at historical cost. Although this is not compliant with the Code, the audit team have performed sufficient procedures to satisfy themselves that these assets are not materially misstated relative to their current value, although we have raised two unadjusted misstatements (see Summary of Misstatements tab). Following management's to address the issue as it relates to these remaining assets, we have concluded that the remaining disclosure issue does not impact on our audit opinion.
3. **Wording of disclosures in relation to estimation uncertainty associated with the valuation of land and buildings** – Within Note 4 – Assumptions made about the future and other major sources of estimation uncertainty, the Council has made disclosures around the estimation uncertainty associated with the valuation of land and buildings. This disclosure refers to the particular uncertainty associated with valuations as at 31 March 2020 which were impacted by the effects of the Covid-19 pandemic. Although the Council was satisfied with the wording of the disclosures, the audit team considers that the wording could more clearly state that the estimation uncertainty relates to all of the Council's land and buildings, rather than just the land and buildings owned by the Council which were last revalued as at 31 March 2020. The audit team wishes to report this matter to the Audit and Corporate Governance Committee, but we do not consider that it has an impact on our audit opinion.
4. **Presentation of financial instruments disclosures** - Some of the disclosures made by the Council within Note 16 – Financial Instruments make use of terminology which is inconsistent with the terminology prescribed for use within the CIPFA Code. Although the audit team wishes to report this matter to the Audit and Corporate Governance Committee, we do not consider that it has an impact on our audit opinion as does not mislead the leader.