



Audit Findings Report

Year ended 31 March 2019

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY

London Borough of Hammersmith and Fulham
London Borough of Hammersmith and Fulham Pension Fund

July 2019



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of London Borough of Hammersmith and Fulham Council ('the Council') and the Pension Fund and the preparation of the Council's and Pension Fund's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial statements audit	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's and Pension Fund's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the Council and Pension Fund and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July. Our findings are summarised on pages 6 to 23. We have identified adjustments to the financial statements but there is no impact on the Council's Comprehensive Income and Expenditure Statement.</p> <p>There is an unadjusted audit misstatement relating to the Council's and Pension Fund's pension liabilities. Management have not adjusted as it is immaterial to both the Council and Pension Fund and because it is an estimate which still has a number of uncertainties relating to it. We accept this and therefore we have reported this as an unadjusted misstatement. Further detail on this issue is included on page 13. Adjusted and unadjusted audit misstatements are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix B.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion in Appendix E. Our anticipated audit report opinion will be unmodified. This is subject to the completion of outstanding work detailed in Appendix A.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of the organisation and the financial statements we have audited.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that London Borough of Hammersmith and Fulham Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 24 to 31. We raised one recommendation for management as result of our VFM work in Appendix B.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit. 	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code but are unable to issue our completion certificate until we complete our work on the Council's Whole of Government Accounts return.</p>

Acknowledgements

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

Summary

Overview of the scope of our audit

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

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

Audit approach - Council

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

- an evaluation of the Council's internal controls environment, including its IT systems and controls;
- an evaluation of the components of the group based on a measure of materiality considering each as a percentage of the Council's gross revenue expenditure to assess the significance of the component and to determine the planned audit response.

Our approach to materiality

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

	Pension Fund Amount (£)	Council Amount (£)
Materiality for the financial statements	£18,000,000	£13,000,000
Performance materiality	£13,500,000	£9,750,000
Trivial matters	£900,000	£650,000

Audit approach (continued)

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

Audit Approach Pension Fund

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

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

We have not had to alter or change our audit plan, as communicated to you on 12 March 2019.

Conclusion

We have substantially completed our audit of the financial statements for the Council and the Pension Fund ,subject to outstanding queries being resolved in Appendix A, we anticipate issuing an unqualified audit opinion following the Audit, Pensions and Standards Committee meeting on 23 July 2019, as detailed in Appendix E.

We have set a lower materiality level for senior officers' remuneration for the Council's financial statements, as these are considered sensitive disclosures. A materiality of £28,000 was applied

Materiality calculations remain the same as reported in our audit plan, as communicated to you on 12 March 2019.

Significant findings – audit risks

Risks identified in our Audit Plan	Risk relates to	Commentary	Assessment
<p>The risk that revenue includes fraudulent transactions</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	Council and Fund	<p>Having considered the risk factors set out in ISA 240 and the nature of the Council's and the Fund's revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk.</p> <p>We have however :</p> <ul style="list-style-type: none"> • evaluated the Council's accounting policy for recognition of revenues for appropriateness; • performed substantive testing on material revenue streams; and • reviewed unusual significant transactions. <p>Our audit work has not identified any issues in respect of improper revenue recognition.</p>	●
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council and Fund face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for the Council and the Fund, which was one of the most significant assessed risks of material misstatement.</p>	Council and Fund	<p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Subject to the completion of outstanding testing, our audit work has not identified any issues in respect of management override of controls.</p>	●

Assessment

- We have identified material audit misstatements during our audit
- We have identified audit misstatements during our audit but we do not consider these to be material
- No audit misstatements have been identified.

Significant findings – audit risks

Risks identified in our Audit Plan	Risk relates to	Commentary	Assessment
<p>Valuation of land and buildings</p> <p>The Council revalues its land and buildings on a rolling five-yearly basis. Council houses are revalued annually. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.8 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2019.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Council Only</p>	<p>We have:</p> <ul style="list-style-type: none"> reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; considered the competence, expertise and objectivity of any management experts used; discussed with the valuer the basis on which the valuation is carried out and challenge of the key assumptions; reviewed and challenged the information used by the value to ensure it is robust and consistent with our understanding; tested revaluations made during the year to ensure they are input correctly into the Council's asset register; and evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. <p>Work is still in progress in respect of valuation of land and buildings. No significant audit issues have been identified to date.</p>	<p></p>

Assessment

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Significant findings – audit risks

Risks identified in our Audit Plan	Risk relates to	Commentary	Assessment
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£624 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	Council only	<p>We have:</p> <ul style="list-style-type: none"> updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; assessed the accuracy and completeness of the information provided to the actuary to estimate the liability; tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. <p>We have not yet completed our procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within that report.</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p> <p>A high level assessment received from the actuary to estimate the impact of the McCloud judgement on the Council's pension fund liability indicated an increase in pension liabilities of £6.6 million, which is 0.5% of pension liabilities. Management chose not to adjust for this item on the basis it is not material and it is an estimate and because the pension liability can vary year on year. We accept this and therefore we have included this as an unadjusted audit misstatement in Appendix C. Further detail on this issue is included on page 13.</p> <p>Work is still in progress in respect of the valuation of the Council's pension fund net liability. Nothing has been identified to date.</p>	●

Assessment

- We have identified material audit misstatements during our audit
- We have identified audit misstatements during our audit but we do not consider these to be material
- No audit misstatements have been identified.

Significant findings – audit risks

Risks identified in our Audit Plan	Risk relates to	Commentary	Assessment
<p>Incomplete or inaccurate financial Information transferred to the new general ledger.</p> <p>In December 2018, the Council implemented a new general ledger system. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data.</p> <p>There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system. We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Council and Fund</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • reviewed the Council and Pension fund’s arrangements and controls over the transfer of data from the old system to the new system, and the controls over the completeness and accuracy of data transferred; • mapped the closing balances from the redundant general ledger (Agresso) to the opening balance position in the new ledger (SAP) to assess accuracy and completeness of the financial information; and • completed an information technology (IT) environment review to document, evaluated and tested the IT controls operating within the new general ledger system. <p>We are satisfied that the data transfer of balances from Agresso to SAP was accurate and complete.</p>	

Assessment

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Significant findings – audit risks

Risks identified in our Audit Plan	Risk relates to	Commentary	Assessment
Valuation of Level 3 Investments	Fund Only	Auditor commentary	
<p>By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£77 million) and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2019.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>		<p>We have undertaken the following work in relation to this risk :</p> <ul style="list-style-type: none"> gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls; reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; independently verified the Northern Trust valuation to independent market data; reviewed the custodian independent valuation of Northern Trust; considered the competence, expertise and objectivity of any management experts used; and verified the investment balances to the fund manager and custodian reports <p>The investment balances in the financial statements were based on custodian reports. The custodian reported the valuation as at Month 11 for one of the investments, Partners Infrastructures. The Month 12 balances were subsequently £1.1m higher (which would be 0.1% of total Investments) than the balances disclosed in the financial statements. As the adjustment is not material management have decided not to adjust the financial statements . We accept this and have included this as an unadjusted audit misstatement in Appendix C . This is well below performance materiality, therefore, we are satisfied that the impact on the accounts is immaterial.</p> <p>Work is still in progress in respect of the valuation of the Pension Fund's level 3 investments. Nothing further has been identified to date.</p>	●

Assessment

- We have identified material audit misstatements during our audit
- We have identified audit misstatements during our audit but we do not consider these to be material
- No audit misstatements have been identified.

Significant findings – audit risks

Risks identified in our Audit Plan	Risk relates to	Commentary	Assessment
<p>Valuation of Level 2 Investments</p> <p>Level 2 investments do not carry the same inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.</p> <p>We therefore identified the valuation of the Fund's Level 2 investments as an other risk</p>	Fund Only	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> gained an understanding of the Fund's process for valuing Level 2 investments and evaluated the design of the associated controls; assessed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; agreed the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and obtained explanations for variances; obtained year-end confirmations from investment managers and custodian; where necessary, tested a sample of unit values used to value level 2 investments to externally quoted information sources, or where not quoted, to unit values provided by the investment manager's own independent custodian. for direct property investments agreed values in total to valuer's report and undertaken steps to gain reliance on the valuer as an expert; and assessed the related impact of Britain leaving the European Union on 29 March 2019. <p>Work is still in progress in respect of the valuation of the Pension Fund's level 2 investments. Nothing has been identified to date.</p>	●

Assessment

- We have identified material audit misstatements during our audit
- We have identified audit misstatements during our audit but we do not consider these to be material
- No audit misstatements have been identified.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Relates to	Commentary	Auditor view	Assessment
<p>Dedicated Schools Grant</p> <p>The Council had cumulative overspend of £13.6m as 31 March 2019 due to insufficient government funding.</p> <p>An earmarked reserved was set aside to off-set the deficit which resulted in a negative reserve being off set by a separate reserve reflected in the statements.</p>	<p>Council</p>	<p>The Council had previously disclosed the overspend on the DSG as a debtor. Based on revised guidance received from Education Skills and Funding Agency(ESFA) this year management were advised to reflect the cumulative spend as a deficit in an ear-marked reserved. This is not in line with the Code.</p> <p>We have asked management to account for this by:</p> <ul style="list-style-type: none"> reflecting the deficit as movement in year between the Efficiency Projects Reserve and the DSG Reserve - Deficit earmarked reserve which has resulted in a nil balance for this reserve. including a narrative in Note 29 – Dedicated Schools Grant reflecting the change in treatment of the deficit between the prior and current year. <p>Please refer to Appendix C. The disclosure above supported management’s need to maintain transparency and track the DSG deficit.</p>	<p>We have reviewed the joint statement from CIPFA and the Department for Education have issued on Direct Schools Grant (DSG) 2018/19. The statement confirms the guidance in LAAP bulletin 99 <i>Local Authority Reserves and Balances remains extant i.e. it “neither anticipates nor allows for a voluntary earmarked balance to be presented in a deficit position.”</i></p>	

Assessment

- We have identified material audit misstatements during our audit
- We have identified audit misstatements during our audit but we do not consider these to be material
- No audit misstatements have been identified.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Relates to	Commentary	Auditor view	Assessment
<p>Potential impact of the McCloud judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p>Council and Fund</p>	<p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of local government bodies.</p> <p>The Council requested a high level estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was:</p> <ul style="list-style-type: none"> • A possible increase in pension liabilities of £6,642k (this would be 0.5% of pension liabilities) for the Council and; • A possible increase in pension liabilities of £9,543k (this would be 0.6% of pension liabilities) for the Pension Fund; <p>Management's view is that the impact of the ruling is not material for the Council or the Pension Fund as this is an estimate and will be considered for future years' actuarial valuations. We concur with management's view and therefore adjustments were not made to the financial statements. We have included this as an unadjusted audit misstatement in Appendix C.</p>	<p>We have assessed the high level estimate provided by the actuary and considered that the approach that has been taken to arrive at this estimate is reasonable.</p> <p>Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's and Pension Fund's liability.</p> <p>We have included this as an uncertainty within Appendix C.</p>	

Assessment

- We have identified material audit misstatements during our audit
- We have identified audit misstatements during our audit but we do not consider these to be material
- No audit misstatements have been identified.

Significant findings - other issues

Issue	Relates to	Commentary	Auditor view	Assessment
<p>New System Transition (SAP)</p> <p>The Council implemented a new general ledger system in December 2018. The issues identified are due to the transition and has occurred due to the new system being implemented very close to year-end.</p>	Council	<p>Bank reconciliation</p> <p>After the implementation of SAP, the Council encountered some difficulties performing the bank reconciliation and identified the following issues through additional review:</p> <ul style="list-style-type: none"> cash received totalling £6,347k was entered into the Income Manager module, but did not transfer properly to the general ledger, meaning that the Council's cash balance was overstated, and creditors were overstated. This adjustment has no impact on the Council's income or expenditure. an amount of £1,316k relating to misallocations was posted to the general ledger code in duplicate due to a misunderstanding by the staff at Hampshire IBC in terms of the way the new system processes reports. A thorough manual review has been done to remove duplicated amounts and this adjustment has no impact on the Council's income or expenditure. <p>Total adjustments are £7,663k (this would be 10.24% of total Cash)</p> <p>Further detail on these adjustments is included on page 38.</p> <p>Debtors</p> <p>Based on our work performed on debtors at year-end, we noted £6.8 m (this would be 10.80% of Debtors) of credit debtors. This relates to receipts received that have not been matched against invoices due to the configuration of the new system, i.e. matching of receipts to outstanding invoices is amount specific.</p>	<p>Bank reconciliation</p> <p>There is a risk that errors in cash can be pervasive to the financial statements.</p> <p>We are satisfied that the cash balance is not indicative of a risk of material misstatement of the financial statements, as there are no unreconciled items.</p> <p>We have raised a recommendation in Appendix B that this be reviewed regularly</p>	●
			<p>Debtors</p> <p>We are satisfied that management have correctly included these credit balances as part of the debtors balance. There is no risk of material misstatement on the financial statement as these amounts are not material and by including these balances in the debtors balance this ensures that debtors at year end are not overstated.</p> <p>We have raised a recommendation in Appendix B that this be reviewed for the current year.</p>	

Assessment

- We have identified material audit misstatements during our audit
- We have identified audit misstatements during our audit but we do not consider these to be material
- No audit misstatements have been identified.

Significant findings - other issues

Issue	Relates to	Commentary	Auditor view	Assessment
New System Transition (SAP) contd.	Council	<p>Impairment Allowance for Doubtful Debts</p> <ul style="list-style-type: none"> Temp Accommodations - The Council's policy stated that debt over 6 years should be written off. However, the Council has not been writing off accounts for over 10 years now which amounted to £3.2 m Transport/Parking - The Council's policy stated that debt over 3 years should be written off. However this has not been done by the Council and our assessment is that this amounted to £17.2m. <p>Total write-off is £20.4m (this would be 32% of debtors)</p> <p>Creditors</p> <p>Based on our work performed on creditors at year-end, we noted £2.4m (this would be less than 1.16% of creditors of debit creditors. This relates to credit notes that have not been matched against invoices due to the configuration of the new system, i.e. matching of credit notes to outstanding invoices is amount specific.</p>	<p>Impairment Allowance for Doubtful Debts</p> <p>There is no risk of material misstatement on the financial statement as the write-offs recommended for both accounts have no impact on</p> <ul style="list-style-type: none"> Income and Expenditure; or The Balance sheet as it would be re-classification between line items within Note 16 <p>We have raised a recommendation in Appendix B that this be reviewed for the current year.</p> <p>Creditors</p> <p>We are satisfied that management have correctly included these debit balances as part of the creditors balance. There is no risk of material misstatement on the financial statement as these amounts are not material and by including these balances in the creditors balance this ensures that creditors at year end are not understated.</p> <p>We have raised a recommendation in Appendix B that this be reviewed for the current year.</p> <p>Our work on the Council's bank reconciliation, debtors and creditors are still in progress.</p>	●

Assessment

- We have identified material audit misstatements during our audit
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- No audit misstatements have been identified.

Significant findings - other issues

Issue	Relates to	Commentary	Auditor view	Assessment
New System Transition (SAP) contd.	Council and Fund	<p>IT Control - Insufficient details from SOC report demonstrated that the controls are designed adequately for SAP.</p> <p>We were provided with an ISAE 3402 SOC Type II by Hampshire County Council (HCC) for the LBHF's hosted SAP system. We noted that there were insufficient details to demonstrate that the controls listed below were designed adequately:</p> <ul style="list-style-type: none"> • Duties of security personnel do not include programming or IT management • User IDs required to be unique • Passwords are encrypted • Unauthorised access attempts are logged, investigated and follow-up actions documented. <p>IT Control - SAP Password Controls</p> <p>The SAP password policy for external users required a length of 7 characters that did not need to be changed. With regards to this last point, this chimes with HMG National Cyber Security Centre (NCSC) advice which has stated that changing a password regularly can encourage poor password practices such as simply adding numbers to old and common passwords.</p> <p>Instead NCSC encouraged longer passwords that can be based upon a memorable phrase with a mix of characters, numbers and special characters. For example, the NCSC quote '3redhousemonkeys27!' on their website which illustrated this approach. This password is 19 characters long and uses complex characters.</p>	<p>IT Control</p> <p>Management will not have complete assurance over the design adequacy of the controls.</p> <p>We have raised a recommendation in Appendix B.</p> <p>IT Control - SAP Password Controls</p> <p>Weak password controls could give rise to compromise of accounts through password guessing or cracking.</p> <p>We have raised recommendations in Appendix B.</p>	

Assessment

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- We have identified audit misstatements during our audit but we do not consider these to be material
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Significant findings – key judgements and estimates

Area	Relates to	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals Draft - £24m	Council	<p>The Council are responsible for repaying a proportion of successful rateable value appeals. Management use historic data relating to appeal success rates and the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) to calculate the level of provision required.</p> <p>Due to the London NNDR Pooling arrangement, which was new in 2018/19, the Council's share of the liability has increased from 30% to 64%, and so the provision has increased by £17m in 2018/19.</p>	<ul style="list-style-type: none"> We have not noted any issues with the completeness and accuracy of the underlying information used to determine the estimate; We have considered the approach taken by the Council to determine the provision, and it is in line with that used by other bodies in the sector; Disclosure of the estimate in the financial statements is considered adequate; and There have been no changes to the calculation method this year, with the exception of the increase in the Council's share of the liability. <p>Subject to the results of outstanding work, we have found no material misstatements in the financial statements relating to these balances.</p>	●
Land and Buildings – Council Housing Draft - £1,259m	Council	<p>The Council owns 12,218 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties.</p> <p>The Council has engaged Wilks, Head & Eve to complete the valuation of these properties. In the draft financial statements, the year end valuation of Council Housing was £1,259m, a net decrease of £13m from 2017/18 (£1,272m).</p>	<ul style="list-style-type: none"> We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council; No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate; There have been no changes to the valuation method this year; and Disclosure of the estimate in the financial statements is considered adequate. <p>Subject to the results of outstanding work, we have found no material misstatements in the financial statements relating to these balances.</p>	●

Assessment

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

Significant findings – key judgements and estimates

Area	Relates to	Summary of management's policy	Audit Comments	Assessment
Land and Buildings Other Land and Buildings £333,019k Surplus Assets £33,094k Investment Property £84,256k	Council	<p>The Council has engaged Wilks, Head & Eve to complete the valuation of these properties.</p> <p>Other Land and Buildings</p> <p>Each year the selection of properties for revaluation is based on top fifty assets with the highest Net Book Value plus any properties not being valued for more than 4 years. This ensures that at least 85% of the property portfolio is valued in-year. Any remaining properties not valued in year are reviewed by internal valuers in order to establish if there are any material changes in the values since their last valuation date. Properties which are subject to material value fluctuations are then added the revaluation list.</p> <p>We have applied Gerald Eve indices to evaluate the potential impact of management's decision not to revalue these assets. The total impact of not revaluing all assets at year end is below Performance Materiality.</p> <p>We are thus satisfied that the impact of not revaluing all PPE at year end is not material to financial statements.</p> <p>Surplus Assets</p> <p>The basis of valuation for surplus assets is fair value, as such, all of the assets in the class were revalued taking into account IFRS 13 implications. This is in line with the code.</p> <p>Investment Property</p> <p>The entire investment property portfolio was valued. There was a full inspection of 25% of the portfolio and 75% of the portfolio was valued on a desktop basis. Only assets held at 31 March 2019 were valued. Any in-year disposals and transfers were excluded from the valuation. Transfers-in and asset purchases were added to the revaluation portfolio. Investment properties have been valued at fair value, this is in line with the code.</p> <p>The total year end valuation of land and buildings was £450m, a net decrease of £24m from 2017/18 of £474m.</p>	<ul style="list-style-type: none"> We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. There has been a changes to the valuation method this year due to new RICS guidance on Depreciated Replacement Cost. This change had had an effect on age and obsolescence of buildings and one of the factors for the downward valuation on buildings. We are awaiting a response from the valuer on this to confirm the reasonableness of the change We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. This work has not raised any issues with the 2018/19 valuations. Disclosure of the estimate in the financial statements is considered adequate. We have considered the completeness and accuracy of the underlying information used to determine the estimate, and have noted the following issues: The Council did include additions and enhancements made to assets that were revalued when calculating the gain or loss on revaluations. <p>Subject to the results of outstanding work, we have found no material misstatements regarding the change in valuation method and assumptions of land and buildings in the financial statements relating to these balances.</p>	●

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
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Significant findings – key judgements and estimates

Area	Relates to	Summary of management's policy	Audit Comments	Assessment																								
Net pension liability Draft £624m	Council	<p>The Council's net pension liability at 31 March 2019 is £624m (PY £649m) comprising obligations under both the London Borough of Hammersmith and Fulham Council Pension Fund Local Government pension scheme and the London Pensions Fund Authority scheme.</p> <p>The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes.</p> <p>A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<ul style="list-style-type: none"> We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council. We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Pension Fund valuation: <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.35-2.45%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.4%</td> <td>2.4- 2.45%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.9%</td> <td>3.10 – 4.35% scheme specific</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>45 : 25 65 : 23.4</td> <td>22.2 – 25.0 20.6 – 23.4</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>45 : 25 65 : 23.4</td> <td>25.0 - 26.6 23.2 - 24.9</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above. We have confirmed that the Council's share of the pension scheme assets is in line with expectations. Disclosure of the estimate in the financial statements is considered adequate. <p>Subject to the results of outstanding work, we have found no material misstatements in the financial statements relating to these balances. Nothing has been identified to date.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.35-2.45%	●	Pension increase rate	2.4%	2.4- 2.45%	●	Salary growth	3.9%	3.10 – 4.35% scheme specific	●	Life expectancy – Males currently aged 45 / 65	45 : 25 65 : 23.4	22.2 – 25.0 20.6 – 23.4	●	Life expectancy – Females currently aged 45 / 65	45 : 25 65 : 23.4	25.0 - 26.6 23.2 - 24.9	●	●
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Assessment

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Significant findings – key judgements and estimates

Area	Relates to	Summary of management's policy	Audit Comments	Assessment
Level 3 investments Draft £ 77m	Fund	<p>By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£77m) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management utilised the services of investment managers as valuation experts to estimate the fair value as at 31 March 2019. The Pension Fund invested in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. The pricing of complex investment assets may also be susceptible to pricing variances given the number of assumptions underlying the valuation.</p> <p>For year ended 31 March 2019, £77m out of a total of £1,035m of investments were in this harder to price category. As part of our audit of the Pension Fund, we independently verified a selection of investment asset prices to third party information and obtained independent confirmation on asset existence. We also tested the extent to which the Pension Fund had challenged the valuations reported by investment managers for harder to price investments and obtained independent assessment of the figures.</p>	<p>We have undertaken the following work in relation to this risk :</p> <ul style="list-style-type: none"> gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls; reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; independently verified the Northern Trust valuation to independent market data; reviewed the custodian independent valuation of Northern Trust; considered the competence, expertise and objectivity of any management experts used; and verified the investment balances to the fund manager and custodian reports <p>Subject to the results of outstanding work, we have found no material misstatements in the financial statements relating to these balances.</p>	

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

Going concern

Our responsibility

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

Going concern commentary	Auditor commentary	Assessment
<p>Management's assessment process</p> <p>Management's assessment is that there is no reason to consider the Council or the Pension Fund is at risk of not being a going concern.</p>	<p>The Council and Pension Fund have sufficient cash, investment and reserves balances to deliver their services for 12 months from the date of the financials statements without income contributions.</p>	●
<p>Work performed</p> <p>We have:</p> <ul style="list-style-type: none"> held regular discussions with officers throughout the year ; and reviewed the Council's financial statements and financial forward planning. 	<p>The Council and Pension Fund financial forecasts show that they have sufficient assets available to meet liabilities for the foreseeable future.</p> <p>We have considered these forecasts and the Council and Pension Fund's past performance against its budgets. We have no concerns over the Council and the Pension Fund's financial plans.</p>	●
<p>Concluding comments</p>	<p>We intend to issue an opinion that is not modified in respect of Going Concern.</p> <p>No events or conditions have been identified in the course of our audit that cast doubt on the entity's ability to continue as a going concern.</p>	●

Assessment

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

Other communication requirements

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

Issue	Commentary	Assessment
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Standard and Pensions Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures	●
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.	●
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work to date. Work is still in progress on this area.	●
Written representations	A letter of representation has been requested from the Council which is included in the papers for this meeting.	●
Confirmation requests from third parties	<p>We requested from management permission to send confirmation requests to the Council and Pension Fund's counterparties. This permission was granted and the requests were sent.</p> <p>Council – All requests were returned with positive confirmation.</p> <p>Pension Fund - One confirmation received from Invesco UK Limited provided a balance as at 31 December 2018. We undertook alternative procedures to verify the year end position.</p>	●
Disclosures	Our review found no material omissions in the financial statements, however there were a number of internal consistencies and errors in the first version that was provided to us. Management have agreed to amend for the issues identified to date. Work is still in progress to ensure all final amendments are done. This is covered under work still to be completed in Appendix A.	●
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided. The finance team were very cooperative and we would like to thank the whole team for their approach to the 2018-19 audit. Work is still in progress to ensure all final audit queries/explanations are received. This is covered under work still to be completed in Appendix A.	●

Assessment

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

Other responsibilities under the Code

Issue	Commentary	Assessment
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Subject to the work in Appendix A being completed we plan to issue an unmodified opinion in this respect – refer to appendix E.</p>	●
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>	●
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we will need to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work is still in progress.</p>	●
Certification of the closure of the audit	<p>We intend to certify the closure of the 2018/19 audit of London Borough of Hammersmith and Fulham and the Pension Fund in the audit opinion, subject to the work in Appendix A being completed, as detailed in Appendix E.</p>	●

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
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Value for Money

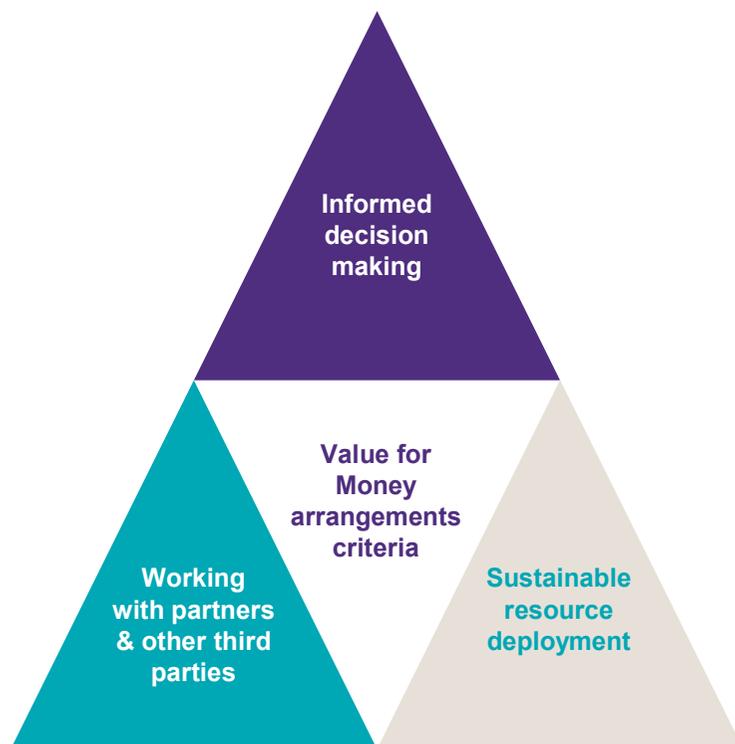
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in December 2018 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 12 March 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 25 to 31.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix B

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on the Council's arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Financial Sustainability

In light of the continued funding pressures that the Council face, there is a risk that you will not be able to generate new revenue streams or deliver saving cuts of sufficient scale to maintain a balanced budget over the period covered by the Medium Term Financial Strategy (MTFS).

We have reviewed recent performance against the budget and considered the reasonableness of the assumptions upon which the MTFS is based.

Findings

Local government finances have been under sustained pressure since 2011/2012. This has put pressure on the whole sector which has been compounded by:

- An increase in demand for adult social care as the population ages, lives longer and with greater numbers of illnesses
- An increase in the numbers of looked after and/or supported children due to challenges within communities impacted by drug and alcohol addition and the reduction in housing benefit and other support
- An increase in the number of children with special needs who require high support packages;
- An increase in the number of people recorded as homeless, particularly in London with the pressure on housing costs

Some of these risks have been mitigated by:

- Growth in the council tax base, particularly in London and the South- East
- Provision of support from the Better Care Fund in its various iterations to support health and social care integration
- Additional funds from the business rate pools
- The flexible use of capital receipts to support revenue funding. For example, £3.5m of Invest to Save costs were funded from capital resources.
- A focus on regeneration in the borough including the King Street West Regeneration project with a forecast profit of £11.1m coming back to the Council from the proposed Joint Venture profits. The Council will benefit from efficiencies in delivering modern, inclusively designed and fit-for purpose office and civic accommodation for its staff and visitors, as well as for small and start-up businesses

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Findings

Financial Sustainability (cont.)

The 2018/19 outturn

The table below shows the final revenue position against the budget for 2018/19 :

Department	Budget	Actual	Over/ (Under) Spend
	£m	£m	m
Children's Services	53.370	56.679	3.309
Corporate Services	1.260	1.235	(0.025)
Finance and Governance	14.886	13.751	(1.135)
Growth and Place	14.298	13.154	(1.144)
Public Service Reform	2.873	9.915	7.042
Residents' Services	67.615	69.142	1.527
Controlled Parking Account	(23.037)	(25.437)	(2.400)
Adult Social Care	53.764	53.765	0.001
Centrally Managed Budgets (including unallocated contingency)	33.114	27.492	(5.622)
Gross Operating Expenditure	218.143	219.696	1.553
Technical and Financial Accounting Adjustments	(31.952)	(31.952)	-
Capital Grants	(8.274)	(8.274)	-
Non-Ring-fenced Revenue Grants	(15.074)	(15.074)	-
Net Contribution to Earmarked Reserves	(19.418)	(19.418)	-
Total Net Expenditure	143.425	144.978	1.553

The key budgetary pressures revolve around Children Services and Public Services Reform. The significant variances on these departments have been outlined below:

Children Services

- £2.5m related to continued increases in demand for social care placements along with higher unit costs and more complex cases. As with other London Boroughs, we have seen a rise in demand from adolescents at risk due to knife crime and drug trafficking. The other significant variance is in Family Support and Child Protection and related to the numbers of children subject to protection plans having increased causing additional pressure and not covered through existing contracts. The Council needs to find a sustainable solution to manage the pressures in Children's Services.

Public Services Reform

- £2.1m is due to delays in business sales in 2018-19 as their team focused limited resources on delivering improved services.
- £1.9m related to prudent provisions due to commercial disputes and shortfalls in income from advertising profit sharing sites; and
- £1.2m on family support due to the delay in novating contracts to the Family Support Local Authority Trading Company.

To support the outturn position, the Council budgeted to use s106 funding during the year to relieve specific cost pressures.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
Financial Sustainability (cont.)	<p data-bbox="589 379 969 408"><i>Dedicated Schools Grant funding</i></p> <p data-bbox="589 427 2154 580">There are also ongoing pressures on Dedicated Schools Grant funding, a pressure which will continue into 2019/20. The cumulative deficit on £13.6m has been funded by the use of the Efficiency Projects Reserve. With the current trajectory of the deficit only expected grow for 2019-20 this is not a sustainable option for the future years. The Council has an action plan for their deficit recovery plan due to the overspend on this grant. Management are working to reduce this overspend as well as representations are being made to central government to demonstrate how they are underfunding the High Needs Block.</p> <p data-bbox="589 651 902 679"><i>Use of earmarked reserves</i></p> <p data-bbox="589 699 1989 759">General fund earmarked reserves have reduced from £95m to £63m. The general fund reserves were utilised for approved projects.£10.3m of the movement was due to technical NNDR adjustments.</p> <p data-bbox="589 778 2130 834">The use of earmarked reserves and the general fund have illustrated very clearly that the Council do have ongoing financial pressures, which need to be addressed in the medium term.</p>

Significant risk

Findings

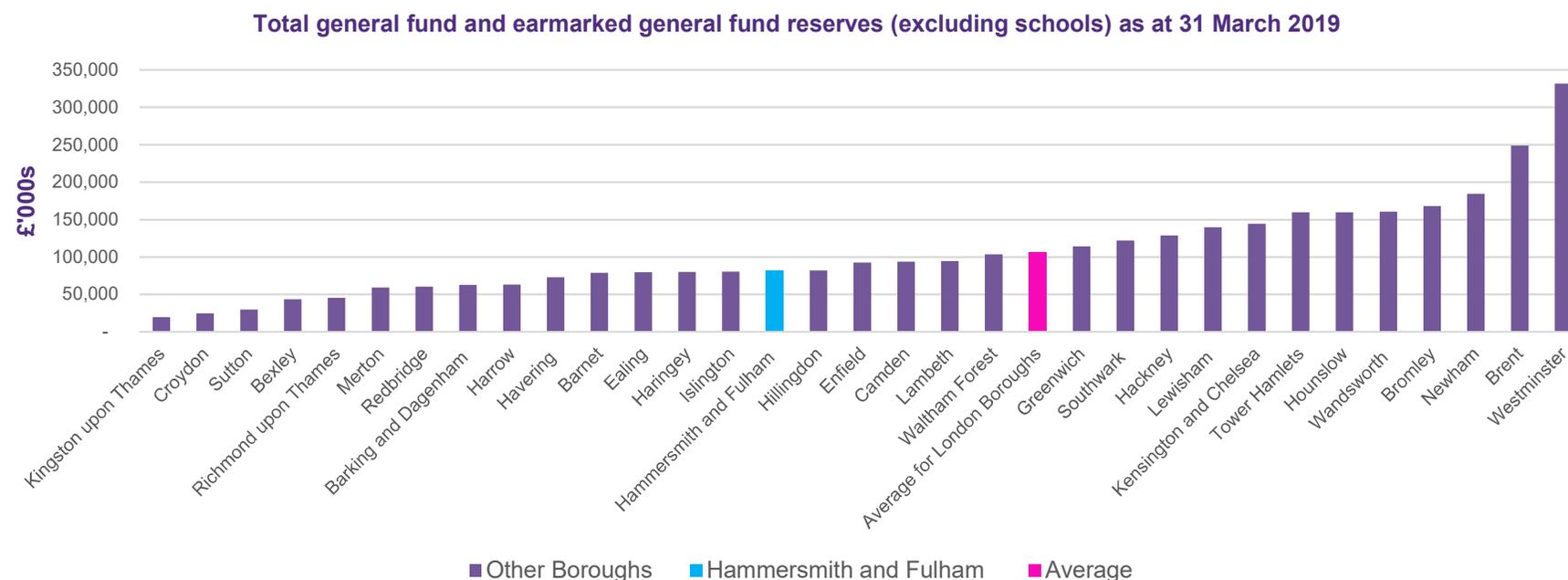
1

Financial Sustainability (cont.)

Reserves and financial position

Reserves have reduced in recent years as a result of the financial pressures that the Council has faced and its investments in regeneration schemes within the borough. As a result, the Council is now maintaining a reserves position that is below the average when compared to other London Boroughs.

The following graph sets out a summary of your reserves position and key financial ratios as at 31 March 2019 relative to other London Boroughs as per their draft published financial statements for 2018/19:



The Council's reserves level is of concern as there doesn't appear to be sufficient cushion to weather the ongoing financial challenges that the Council will face over the medium term due to reductions in central government funding and forecast pressures of the DSG funding. The Council only has finite reserves available and it is important that you continue to maintain appropriate budgetary control. It cannot be stressed enough how important it is to have a fall back position to address the challenges of the future. We have seen a number of Councils reach the financial precipice and members have a fiduciary duty to ensure the Council retains financial sustainability. We would strongly recommend that use of reserves remains limited in future years other than for specifically earmarked schemes. We have raised a recommendation for management in Appendix B in respect of this matter.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Financial Sustainability (cont.)

Findings

The 19/20 budget and beyond

The 2019/20 budget is more challenging. The budget was approved in February 2019 and included:

- c£10.3m of savings
- a decision to increase the Hammersmith & Fulham element of the council tax charge by 2.7%. The 2.7% inflation-linked increase in Council Tax will generate additional income of £6.3m over 4 years and £1.56m in the first year, and
- the “social care precept” levy of 2% as modelled by the Government.. The adult social care precept of 2% will generate additional income of £4.6m over 4 years and £1.15m in the first year.

The medium-term position is more uncertain due to impact of Brexit. Local Government funding is due to go undergo significant shake up due to the impact of the business rate retention plan and the fairer funding review.

Conclusion

The Council’s reserves have reduced significantly in recent years and are now below average when compared to other London Boroughs. As a result, our view is that the Council needs to carefully consider funding of future projects through the use of reserves as this will continue to weaken the Council’s financial position. The Council should also consider finding sustainable solutions to address the ongoing pressure areas, e.g. the underfunding of Dedicated Schools Grant. The financial outlook for local government is at its most uncertain for a generation. It is vital members recognise that the current level of reserves provides a buffer for the uncertainties ahead and does not represent an easy way to resolve immediate budget pressures.

Overall, we conclude that the Council has proper arrangements in place to mitigate its financial position.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents

Significant risk

Brexit

At the time of our planning and risk assessment, the UK was due to leave the European Union on 29 March. When Britain exits the EU, there will be national and local implications that will impact on the Council, which the Council will need to plan for.

We have reviewed the Council's arrangements and plans to mitigate any risks on Brexit.

Our review focussed on areas such as workforce planning, supply chain analysis and impacts on finances including investment and borrowing as well as any potential impact on the valuation of the Council's assets

Findings

At the time of writing our audit plan, the UK was due to exit from the EU on 31 March 2019. Brexit has been delayed with a revised date of 31 October 2019 so the risk has not materialised within the period covered by this report.

- The Council has established an EU Exit Strategic Board which meets to discuss Brexit related issues that could impact upon the Council, members of the board include Executive Director of City Management and Communities (chair), Director of Corporate Finance and Property, business continuity representatives and relevant service heads. The group reports to the Pan London Brexit group on a monthly basis. The Council has also established and monitors an EU Brexit risk register.
- The Council produced a Brexit Briefing ,which updated the Audit ,Pensions and Standards Committee on the potential impacts of Brexit on the Council. Mitigating actions being planned or developed are communicated to the Audit, Pensions and Standards Committee on a regular basis.
- Associated risks and opportunities are described and risk rated based on likelihood and impact resulting in an overall score and risk mitigations and actions to take forward. The register is regularly reviewed and updated by the EU Strategic Board. In addition, the Council is monitoring Performance Indicators for tracking Brexit Impacts in Hammersmith and Fulham.
- The Council have considered the impact of a no deal and are confident that there would be no impact on business continuity as:
 - the Council is not reliant on any European social care suppliers and business as usual will continue
 - senior management are all eligible for settled status therefore no unplanned vacancies or skills gaps will occur.
 - The Council has arranged access for senior staff to work from home as a contingency plan in the event of Council staff being unable to get to work due to traffic gridlock.
- The Council's website also provides helpful links to where residents and businesses can get the most up to date advice including government's official source for a wide-range of information for residents and businesses about the UK leaving the EU.

We have concluded that the Council has established proper arrangements to analyse and mitigate any potential risks and opportunities resulting from Brexit.

Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers). In this context, we disclose the following to you:

We draw your attention to the fact that ex-Grant Thornton employee, Emily Hill currently occupies a senior finance position within the Council. Emily Hill, who was a Director and Technical Lead in our Public Sector Assurance team (PSA), joined the Council in March 2017 as Assistant Director of Finance (Deputy S151 Officer). We have consulted with our Ethics team and have ensured that we have put in place adequate safeguards. These safeguards are listed below:

- We have allocated the Engagement Lead role to Andrew Smith, a Key Audit Partner from our Manchester office who joined the firm in April 2017, after Emily left Grant Thornton.
- We have appointed an Engagement Quality Control Review Partner, based in our Bristol office who will undertake a review of key audit work including critical judgements.
- We have reported the threat and our proposed safeguards to those charged with governance and outlined the mitigating actions we have taken.

We have reviewed the facts above and concluded that this has had no bearing on our audit judgement or independence.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Independence and ethics

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

	Fees £	Threats identified	Safeguards
Audit related	£21,000		
Certification of Housing capital receipts grant	£4,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,500 in comparison to the total fee for the audit of £126,242 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers' Pension Return	£3,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,500 in comparison to the total fee for the audit of £126,242 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefits Claim	£13,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £13,000 in comparison to the total fee for the audit of £126,242 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related	£17,950		
CFO Insights subscription	£12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £126,242 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
HSF LLP (JV entity of Council) + Tax Compliance	£3,700	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,700 in comparison to the total fee for the audit of £126,242 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
HSF 2 Developments (JV entity of Council) Accounts Compilation Audit	£1,750 TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £1,750 in comparison to the total fee for the audit of £126,242 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the Council's policy on the allotment of non-audit work to their auditors. All services have been approved by the Audit, Pensions and Standards Committee. None of the services provided are subject to contingent fees.

We do not believe that the previous services detailed above will impact our independence as auditors.

Outstanding Work

We have substantially completed our audit of the financial statements, with the exception of the following outstanding items:

Council

- managements response to the Fraud, Laws and Regulations Letter issued
- those charged with governance responses to Fraud, Laws and Regulations Letter issued
- receipt and review of supporting documentation for NNDR appeals provision and bad debts provision
- receipt and review of supporting documentation for a sample of debtors and creditors
- management responses to adjustments and disclosure queries(A1a/disclosure checklist)
- final quality checks and senior personnel reviews of the audit work performed;
- receipt of a signed management representation letter;
- review of the final, approved set of financial statements: and
- completion of WGA consolidation procedures

Pension Fund

- receipt and review of supporting documentation for a sample of contributions
- responses to variance queries on analytical review on employer contributions
- receipt and review of Invesco internal control report
- receipt and review of supporting documentation for a sample of admitted bodies
- management responses to adjustments and disclosure queries(A1a/disclosure checklist)
- final quality checks and senior personnel reviews of the audit work performed; and
- review of the final, approved set of financial statements

Action plan - Council

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Issue and risk	Recommendations	Assessment
<p>New System Transition (SAP)</p> <p>Bank Reconciliation</p> <p>The Council has provided a full bank reconciliation at 31 March 2019. Due to the transition to SAP and the need to improve the bank reconciliation process with the Hampshire IBC, the Council needs to develop its bank reconciliation process to ensure that this is completed promptly on a monthly basis.</p>	<p>Bank Reconciliation</p> <p>The Council should review the bank reconciliation process with Hampshire IBC to ensure the bank reconciliation process can be performed promptly.</p> <p>Management response</p> <p>A new bank reconciliation process including documenting the respective roles and responsibilities of the Council and the Hampshire IBC is being agreed with the Hampshire IBC and further work is being undertaken on our Income Management system to address issues identified and automate and speed up the process wherever possible. This will ensure that a monthly bank reconciliation can be completed promptly.</p>	
<p>Debtors</p> <p>We found receipts received that have not been matched against invoices in a timely manner due to the configuration of the new system.</p>	<p>Debtors and Creditors</p> <p>Creditors and debtors should be reviewed regularly to consider whether any unmatched amounts should be written off or reclassified.</p> <p>Management response</p>	
<p>Creditors</p> <p>We found credit notes that have not been matched against invoices in a timely manner due to the configuration of the new system.</p>	<p>During 2019/20 the Council will undertake an exercise to review unmatched items. This will include work on our Income Management system and with Hampshire IBC to reduce the volume of items which are unmatched and a review of any historical items.</p>	
<p>Impairment Allowance for Doubtful Debts</p> <p>We found outstanding debts which should be matched against receipts or written off if they exceed Council's debt write off policies.</p>	<p>Impairment Allowance for Doubtful Debts</p> <p>A review of all historic balances should be conducted to determine the appropriate treatment</p> <p>Management response</p> <p>During 2019/20 the Council will undertake an exercise to review debt policies and aged debts. This will include the review of unmatched items per the above point raised about unmatched amounts before any write off is considered.</p>	

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Action plan - Council

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Issue and risk	Recommendations	Assessment
<p>New System Transition (SAP) contd.</p> <p>IT Control - Insufficient details from SOC report demonstrated that the controls are designed adequately for SAP.</p> <p>We noted that there were insufficient details to demonstrate that the controls listed below were designed adequately:</p> <ul style="list-style-type: none"> • Duties of security personnel do not include programming or IT management • User IDs required to be unique • Passwords are encrypted • Unauthorised access attempts are logged, investigated and follow-up actions documented. <p>The risk would be that management would not have complete assurance over the design adequacy of the controls</p>	<p>We recommend that management confirm the arrangements that HCC have implemented on behalf of LBHF with respect to the following controls to ensure that:</p> <ul style="list-style-type: none"> • Duties of security personnel do not include programming or IT management. • User ids are unique. • Passwords are encrypted. • Unauthorised access attempts are logged, investigated and follow-up actions documented. <p>Management response</p> <p>We will ensure that the audit findings are fed back to the Hampshire partnership and request further details to ensure the necessary controls are in place.</p>	<p>●</p> <p>●</p>
<p>IT Control - SAP Password Controls</p> <p>Weak password controls could give rise to compromise of accounts through password guessing or cracking.</p> <p>The risk would be that weak password controls could give rise to compromise of accounts through password guessing or cracking.</p>	<p>We recommend that management review the adequacy of the current password criteria regarding length in light of NCSC advice to strengthen those passwords that are not changed by business users.</p> <p>Management response</p> <p>We will ensure that the audit findings are fed back to the Hampshire partnership and request further details to ensure the necessary controls are in place.</p>	<p>●</p>

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Action plan - Council

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Issue and risk	Recommendations	Assessment
<p>Financial Sustainability</p> <p>The Council is using its reserves to meet ongoing pressures on Dedicated Schools Grant funding and to invest in regeneration projects. Whilst the Council's reserves are currently sufficient, this will not be sustainable in the medium term.</p>	<p>The Council needs to manage reserves carefully to ensure that they remain sufficient. We would strongly recommend that use of reserves for new projects is limited in future years other than for specifically earmarked schemes. In addition, the Council needs to identify sustainable solutions to address the ongoing pressures on Dedicated Schools Grant funding.</p> <p>Management response</p> <p>The Council is undertaking a detailed review and forecasting of reserves which will include a realignment of reserves against current and expected future commitments. The Council's High Needs Block Board is working to identify savings and funding options.</p>	●
<p>Employee Contracts</p> <p>We reviewed, on a sample basis, employee contracts held by the Council. Contracts were on file for the sample of employees reviewed but they were not signed by the respective employees.</p>	<p>We recommend that the Council's HR team reviews the documentation on file to ensure each employee has a signed contract. There is a risk that the Council could end up in litigation if complaints/cases are filed by employees against the Council. In addition, HR teams to ensure that a review of all new starters are checked on a monthly basis to ensure they have obtained a signed copy of the contracts.</p> <p>Management response</p> <p>The Council will discuss with Hampshire IBC the process roles and responsibilities around the documentation for new starters.</p>	●

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Action plan – Pension Fund

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Issue and risk	Recommendations	Assessment
<p>Third party Confirmation from Fund Manager- Invesco UK Limited</p> <p>The external confirmation received from Invesco UK Limited had provided a balance as at 31 December 2018 as opposed to 31 March 2019 which is the Pension Fund's year end.</p>	<p>We would recommend that management ensures that fund managers are aware that data and balances should be provided and kept on hand for the Pension Fund's reporting date which is the 31 March.</p> <p>Management response</p> <p>Management will ensure this this message is reiterated to all fund managers.</p>	

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Bank reconciliation – Council			
After the implementation of SAP, the Council encountered some difficulties performing the bank reconciliation and identified the following issues through additional review :			
<ul style="list-style-type: none"> Misallocations of of £1,316k were incorrectly uploaded in the general ledger in-year. The Council have agreed to amend for this as follows: 			
Dr Unallocated Receipts Suspense Account		1,316	
Cr Cash		(1,316)	
<ul style="list-style-type: none"> An error in a system feeder file meant that NDR cash refund payments recognised in the Council's Income Manager module were not transferred appropriately to the general ledger. We are satisfied that this issue had no impact on the Council's income and expenditure. The Council have agreed to amend for this as follows: 			
Dr NDR Creditors		6,347	
Cr Cash		(6,347)	
Overall impact	£0	£0	£0

Work is still in progress but no adjusted audit misstatements have been identified in relation to the Pension Fund to date.

Audit Adjustments

Misclassification and disclosure changes

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

Disclosure Reference	Relates to	Detail	Adjusted?
Useful Economic Lives	Council	<p>Incorrect disclosures in Note 9 (ii) of the financial statements:</p> <ul style="list-style-type: none"> • Council Dwellings should be 46-53 years • Other land & buildings should be 38-50 years • Add Surplus Assets (Building element only - land not depreciated) with UEL of 41-46 years 	TBC
Expenditure and Income Analysed by Nature	Council	<p>Additional disclosure detailing Prior Year restatements of:</p> <ul style="list-style-type: none"> • Employee benefits • Other Service expenses • Support service recharges 	TBC
Dedicated Schools Grants	Council	A narrative to be added to show that there was a difference in accounting treatment for the deficit. The PY deficit was shown as a debtor and the current year the cumulative deficit is being drawn down from a reserve	TBC
Movement in Reserves	Council	Negative Ear Marked reserve - The Code has not allowed for negative reserves. The amendment of this will consolidate reserves 31a and 31b. The consolidated reserve will reflect a movement in year of the cumulative DSG deficit from the Efficiency Project Reserve so that the reserve nets to nil and is in line with the code	TBC
Financial Instruments	Council	<ul style="list-style-type: none"> • The current year's current debtors amount of £ 31,314 is currently being shown under the Loans and Receivable, should this not be under Financial Assets at amortised cost per the new classification under IFRS 9 • The categories for financial assets are not in line with the new standards. Note to be revised in line with IFRS 9 • New disclosures relating to the introduction of iFRS 9 to be included. 	TBC
Collection Fund Balance Note	Council	Within Note 3 – The Prior Year figures disclosed are 2016/17 figures	TBC
Housing Revenue Account	Council	<ul style="list-style-type: none"> • Major repair reserves and earmarked reserves lines for PY out of order • Number of council dwellings reflecting 67 hostels should be 5 hostels 	TBC
Financing and Investment Income and Expenditure	Council	Income and expenditure in relation to investment properties and Net (gains)/losses from fair value adjustments on investment properties figures not consistent with PY	TBC

Audit Adjustments

Misclassification and disclosure changes

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

Disclosure Reference	Relates to	Detail	Adjusted?
Assumptions made about the future and other major sources of uncertainty	Pension Fund	Note is incomplete – Actuarial present value of promised retirement benefits uncertainties and effect if actual results differ from assumptions	TBC
Additional Voluntary Contributions	Pension Fund	Current year figures to be updated as PY figures currently reflected in disclosure	TBC
Fund Account	Pension Fund	Fund account disclosure on restatements to be revised for clarity	TBC
Management Expenses	Pension Fund	More context to be added to the accounts for higher management fees reported in 18/19	TBC
Financial Instruments	Pension Fund	The categories for financial assets are not in line with the new standards. Note to be revised in line with IFRS 9.	TBC
Fund account and net assets statements	Pension Fund	Additional subtotal for the fund account required. Also, consolidate Cash into current assets.	TBC
Related Parties	Pension Fund	Figures within the related parties note to be updated for correct figures.	TBC
Pooled Investments	Pension Fund	In Note 12 of the Pension Fund financial statements, further analysis of pooled investments to be made.	TBC

Unadjusted items

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management

The Audit , Pension and Standards Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Relates to	Reason for not adjusting
Potential impact of the McCloud judgement	Council	The figures provided by the actuary are an estimate, and not a formal actuarial valuation. Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we are satisfied that the differences are not likely to be material. This issue will be considered as part of the next actuarial valuation exercise in 2019/20.
<p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented.</p> <p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £6,642k (0.5% of pension liabilities) for the 2019/20 year.</p> <p>We have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</p>		
Potential impact of the McCloud judgement	Fund	<p>The figures provided by the actuary are an estimate, and not a formal actuarial valuation.</p> <p>The Pension Fund Statement of Accounts does not record Pension Fund Liabilities in the main statements, it is only reflected in a disclosure note, as such there are no direct impact to the main statements from the omission of this adjustment. This issue will be considered as part of the next actuarial valuation exercise in 2019/20.</p>
<p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented.</p> <p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £9,543k (0.6% of pension liabilities), for the 2019/20 year.</p> <p>We have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Pension Fund's liability.</p>		

Unadjusted items

Impact of unadjusted misstatements

Detail	Relates to	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Investment Fund Month 11 Balances used	Fund				.The adjustment is not material and management have decided not to adjust the financial statements .
Audit work performed on investment balances noted that the custodian reported the valuation as at Month 11 for one of the investments, Partners Infrastructures. The Month 12 balances were subsequently £1.1m higher (which would be 0.1% of total Investments) than the balances disclosed in the financial statements.					This is well below performance materiality, therefore, we are satisfied that the impact on the accounts is immaterial
Dr Investments Assets – Private Equity and Infrastructure			1,069	1,069	
Cr Profit and losses on disposal of investments		(1,069)			
Overall impact		(£1,069)	£1,069	£1,069	

Appendix D

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	126,242	TBC
Pension Fund Audit	16,170	TBC
Total audit fees (excluding VAT)	£142,412	TBC

The final fee for the Council and Pension Fund audits is to be confirmed.

Non-audit fees

Fees for other services	Fees £'000
Audit related services	21,000
• Certification of Pooling Capital Receipts Return	4,500
• Certification of Teachers' Pension return	3,500
• Certification of Housing Benefits Claim	13,000
Non-audit services	17,950
• CFO Insights	12,500
• HSF (JV entity of Council) –Tax Compliance	3,700
• HSF 2 Developments (JV of Council) – Accounts Compilation	1,750
• HSF 2 Developments (JV of Council) – Audit	TBC
Total non-audit fees (excluding VAT)	£33,500

Audit opinion

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of London Borough of Hammersmith and Fulham Council and Pension Fund Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of [name of client] (the 'Authority') for the year ended 31 March 2019 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the EFA, Notes to the Core Statements, Policies and Judgements, Notes to the Housing Revenue Account Statement and Notes to the Collection Fund Statement. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Other information

The Section 151 Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, [the Narrative Report, the Annual Governance Statement and the Annual Report, other than the financial statements and, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority 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.

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

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit.

Audit opinion

We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report, the Annual Governance Statement and the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

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

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

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

As explained more fully in the Statement of Responsibilities set out on page 16, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director of Finance and Governance. The Strategic Director of Finance and Governance 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director of Finance and Governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the Strategic Director of Finance and Governance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided. The Audit, Pension and Standards Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

www.frc.org.uk/auditorsresponsibilities.

This description forms part of our auditor's report.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Audit opinion

Responsibilities of the Authority

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

