External Audit Report 2017/18

London Borough of Hammersmith and Fulham

—

July 2018

Content

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This report is addressed to the London Borough of Hammersmith and Fulham (the Authority) and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. PSAA issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on PSAA's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, you should contact Andrew Sayers (0207 694 8981, andrew.sayers@kpmg.co.uk), the engagement lead to the Authority and the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited (PSAA). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Important notice

This report is presented in accordance with our PSAA engagement. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to the London Borough of Hammersmith and Fulham (the Authority) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Authority. External auditors do not act as a substitute for the Authority's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Basis of preparation: We have prepared this External Audit Report (Report) in accordance with our responsibilities under the National Audit Office Code of Audit Practice (the Code) and the terms of our Public Sector Audit Appointments Ltd (PSAA) engagement.

Purpose of this report: This Report is made to the Authority's Audit, Pensions and Standards Committee in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland) and other matters coming to our attention during our audit work that we consider might be of interest and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report or for the opinions we have formed in respect of this Report.

Limitations on work performed: This Report is separate from our audit opinion and does not provide an additional opinion on the Authority's financial statements nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit: Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Audit, Pensions and Standards Committee meeting. The following work is ongoing:

- **Financial statements audit and pension fund:** Finalisation of our work on valuation office agency data feeding into the collection fund, review of contract management process for 2 contracts, creditors sampling, review of final accounts.
- **Whole of Government accounts pack:** Work ongoing.

Summary

Financial statements audit – see section 2 for further details

Subject to a small number of queries and procedures being satisfactorily resolved we intend to issue an unqualified audit opinion on the Authority's financial statements for the deadline of 31 July 2018, following the Audit, Pensions and Standards Committee adopting them and receipt of the management representations letter.

We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements for the deadline of 31 July 2018.

We have completed our audit of the financial statements. We have read the Narrative Report and reviewed the Annual Governance Statement (AGS). Our key findings are:

- There are no unadjusted audit differences.
- We agreed presentational changes to the accounts with Finance, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- We are requesting the routine management requests which are consistent with those requested in previous years.
- We will report that your AGS complies with delivering Good Governance guidance issued by CIPFA / SOLACE in April 2016.
- We did not receive any queries or objections from local electors this year.

We are now in the completion stage of the audit and anticipate issuing our completion certificate on 31 July 2018. We also intend to issue our 2017/18 Annual Audit Letter in August/September 2018.

Value for money – see section 3 for further details

Based on the findings of our work, we have concluded that the Authority has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion for the deadline of 31 July 2018.

Summary

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions / objections, opening balances, etc.).

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017/18 financial statements.

We identified 4 prior year recommendations that require further action by Management. We have made 1 new low priority recommendation as a result of our 2017/18 work. The recommendations relates to the completion of schools year end bank reconciliations. All recommendations are shown in appendix 1.

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements. The status of our grants and claim work is summarised below:

- Teachers Pensions: The reporting accountant assurance deadline is the 30 November 2018. We will complete the fieldwork in relation to this in October 2018;
- Pooling of Housing Receipts: The reporting accountant assurance deadline is the 30 November 2018. We will complete the fieldwork in relation to this in October 2018; and
- Housing Benefits: The reporting accountant assurance deadline is the 30 November 2018. We will complete the fieldwork in relation to this in August and September 2018.
- We complete the audit of the Wormwood Scrubs Charitable Trust.

The fees for this work is explained in section two.

Financial statements audit

We audit your financial statements by undertaking the following:

Work Performed	Accounts production stage: Before	During	After
1. Business understanding: review your operations	✓	✓	–
2. Controls: assess the control framework	✓	–	–
3. Prepared by Client Request (PBC): issue our prepared by client request	✓	–	–
4. Accounting standards: agree the impact of any new accounting standards	✓	✓	–
5. Accounts production: review the accounts production process	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures	–	✓	✓
7. Representations and opinions: seek and provide representations before issuing our opinions	✓	✓	✓

We have completed the first six stages and report our key findings below:

1. Business understanding	In our 2017/18 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section.
2. Assessment of the control environment	We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work. We have chosen not to place reliance on their work due to the approach we adopted for the financial statements audit.
3. Prepared by client request (PBC)	We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with the Chief Accountant and this was issued as a final document to the finance team. We are pleased to report that this has resulted in generally good-quality working papers with clear audit trails maintained on the KPMG sharepoint database. Minor areas for refinement were noted and discussed with the finance team.

Financial statements audit

4. Accounts Production	We received complete draft accounts on 15 May 2018, ahead of the publication deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. The Authority incorporated measures into its closedown plan to manage this complex process. The Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to yearend to proactively address issues as they emerged. We consider that the overall process for the preparation of your financial statements is adequate. We would highlight that as the timetable for the accounts production tightens, increased scrutiny and documentation around areas requiring estimate and any change at the year end, should be documented. We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.
5. Testing	We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. During the audit we identified only presentational issues which have been adjusted, none had a material impact on the financial statements.
6. Representations	You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Strategic Director of Finance and Governance on 12 July 2018. We draw attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us.

ISA 260 requires us to communicate to you by exception ‘audit matters of governance interest that arise from the audit of the financial statements’ which include:

— Significant difficulties encountered during the audit;

— Significant matters arising from the audit that were discussed, or subject to correspondence with Management;

— Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

— Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, opening balances, public interest reporting, questions/objections, etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority’s 2017/18 financial statements.

To ensure that we provide a comprehensive summary of our work, we have over the next pages set out:

- The results of the procedures we performed over the valuation of land and buildings, the valuation of the pension liability, managed services operation and faster close which were identified as significant risks within our audit plan and which will form a part of our audit opinion;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.

Financial statements audit

Authority significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Valuation of land and buildings The Authority held land and buildings with a value of £1,628 million at 31 March 2018. The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees land and buildings revalued over a five year cycle unless it is thought that the value may have changed materially where they are revalued more frequently. As a result individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.	**Note 9: PPE** £1,770 million PY £1,746 million (NBV)	The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end. We have: • reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach; • reviewed management's assessment of property valuations and impairment calculations; • confirmed the information provided to the valuer (Wilks Head Eves) from the Authority; • compared the assumptions made by your valuer to benchmarks and to the assumptions used for 2016/17 for consistency; • completed testing over new capital additions in year to confirm these are appropriately capitalised and that Authority ownership is evidenced; and • reviewed disposals made in year and confirm appropriate removal from the PPE balance in 2017/18. **There are no issues that we need to bring to your attention.**

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Pension: Valuation of assets and liabilities The net pension liability at 31 March 2018 of £665 million represents a material element of the Authority's balance sheet. The Authority is a scheduled body of the London Borough of Hammersmith and Fulham Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. Valuation of the Local Government Pension Scheme relies on assumptions, most notably actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.	**Note 19: Long Term Liabilities** Long Term Liabilities: £673 million, £665 million relates to the Pension Fund Liability. PY: Long Term Liabilities: £701 million, £692 million relates to the Pension Fund Liability.	The net pension liability represents a material element of the Authority's balance sheet. The Authority is a scheduled body of the London Borough of Hammersmith and Fulham Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements. As part of our work we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary, including the Authority's process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of the external actuary. We reviewed the appropriateness of the key assumptions included within the valuation and compared them to expected ranges. We involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by the external actuary. In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements. The initial actuarial valuation included an assessment of the estimated return on assets. We requested that this be updated for actual return on assets. This acted to increase the return on assets and reduce the deficit on the fund. The detail of this is set out in Appendix 3. In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. As part of our audit of the Pension Fund we gained assurance over the overall value of fund assets. We then liaised with the actuary to understand how these assets are allocated across participating bodies and reperformed this allocation. **There are no other issues that we need to bring to your attention.**

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Managed Services The Tri-borough councils implemented a new financial system on 1 April 2015 through a managed service partnership with BT. There have been a number of difficulties with the implementation since 1 April 2015, which, whilst progress has been made, have not yet been fully resolved. This continues to give rise to a risk in relation to the completeness and accuracy of the balances in the financial statements. Since 2015 there have been difficulties in implementation and day to day processing that represent a risk to the completeness and accuracy of the balances within the financial statements. Whilst we note that work has been done to rectify many issues and progress has been made, a risk remains in relation to the outsourced services.	n/a	We have reviewed the processes and controls linked to BT managed services including bank reconciliations, journal controls (including cross entity journals), payroll and pensions controls, debtors and creditors reconciliations, income and debt management, non pay expenditure controls together with general IT controls for super users, disaster recovery and back up. On a sample basis, we tested the design and implementation of the controls surrounding the key financial systems, including payroll, debtors, creditors and cash. We also tested the operation of key IT controls, for example system password access controls together with those controls surrounding the set up/removal of users to the system. We documented and tested the General IT Controls (GITC) in place which support the safe storage and access to/from financial records. **We did not identify significant areas of weakness following our work which would impact on the material accuracy of the financial statements.**
Faster Close In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 revised deadlines apply which require draft financial statements by 31 May and final signed financial statements by 31 July.	n/a	We have liaised with officers in preparation for our audit to understand the steps the Authority had taken to meet the revised deadlines. We undertook additional early testing at our interim audit around those areas of higher volume testing to help streamline the year end audit work.

Financial statements audit

Authority other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Other areas of audit focus	Account balances effected	Summary of findings
Note 20: NNDR appeals provision	£7 million PY £4.7 million	The Authority use an independent body to calculate the appeals provision. We have: • gained an understanding over controls related to business rates income and specifically the appeals process; • reviewed the methodology applied in determining the appeal provision including whether this reflects a balanced, cautious or optimistic assessment; and • ensured the report is complete by agreeing data back the Valuation Office Agency (VOA) data. **There are no issues that we need to bring to your attention.**
Note 30: Conditional grant income	£260 million PY £269 million	We have: • reviewed the controls in place to ensure that grants are recognised only when there is reasonable assurance that the Authority will comply with any conditions attached to the grant; • ensured for a sample of grants, that they have been applied over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis; and • ensured that the accounting policy adopted for grants, including method of balance sheet presentation, nature and extent of grants recognised in the financial statements and any unfulfilled conditions and contingencies attached to recognised grants has been disclosed within the accounts. **There are no issues that we need to bring to your attention.**
EFA: Payroll	£178 million PY£ 175 million	We have: • tested reconciliations for gross pay and deductions (e.g. pensions, tax and national insurance); and • Substantively tested the payroll balance using statistical sampling. We statistically tested basis pay, agency pay, schools payroll and key deductions. **No issues were noted as a result of these procedures.**

Financial statements audit

Other areas of audit focus	Account balances effected	Summary of findings
Note 17: Cash & cash equivalents	£83 million PY: £53 million	We have: • reviewed the year end bank reconciliation; • confirmed cash balances with external third parties; and • reviewed, on a sample basis, school cash balances held by the Authority. We noted that at the year end, Schools had forecast the month 12 position, but had not completed a year end reconciliation to reconcile the final position. The final schools cash balance held within the accounts represent the forecast position, which is not materially different to the final actual position. We would recommend that where estimates are used (to facilitate early close) that a clear audit trail is maintained of the movement to the 'actual' position. **We have raised one low priority recommendation in relation to this area.**
EFA: Non-Payroll Expenditure **Note 18: Short term creditors**	£573 million PY: £605 million £173 million PY: £162 million	We have: • agreed a statistical sample of non pay expenditure to third party documentation to confirm classification per the Code; • undertaken cut-off testing, whereby we test a sample of transactions in the period between the 31 March 2018 and the ledger close to ensure these are recorded in the correct period; and • statistically selected a sample of short term creditors and confirmed classification to source documentation. **There are no issues that we need to bring to your attention.**
HRA: HRA Rental Income and Repairs and Maintenance and Management Expenditure	£16 million PY: R&M £15.7 million £33 million PY: S&M: £30 million	We have: • gained an understanding over controls related to HRA expenditure; and • completed substantive analytical review of expenditures. We have also linked our work to that over payroll and non-payroll expenditure. **There are no issues that we need to bring to your attention.**

Financial statements audit

Pension Fund significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Pension Fund.

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Pension Fund Net Asset Statement Valuation of hard to price investments	Net assets: £1,010 million PY: £1,002 million	The Pension Fund invests 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. In the prior year financial statements, £69 million out of a total of £994 million of investments, or 7%, were in this harder to price category. For year ended 31 March 2018, £55 million out of a total of £998 million of investments, or 5.5%, 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. The initial actuarial valuation included an assessment of the estimated return on assets. We requested that this be updated for actual return on assets. This acted to increase the return on assets and reduce the deficit on the fund. The detail of this is set out in Appendix 3. **There are no issues that we need to bring to your attention.**

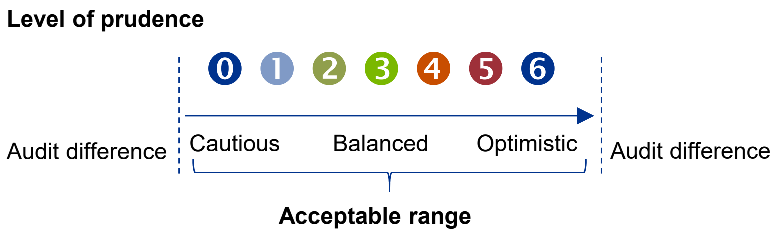
Financial statements audit

Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
Fraud risk from revenue recognition **Authority & Pension Fund**	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. We do not consider this to be a significant risk for the majority of the Authority's and Pension Fund income as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk for council tax, business rates, housing rents, annual central government grants, social services income and pension fund contributions and do not incorporate specific work into our audit plan in these areas over and above our standard fraud procedures. However, we do consider it for income relating to s106 monies that span financial years and often have to be used on specific projects.	For other income, we obtained a breakdown of Cost of Services and removed Grant income credited to services. We removed the conditional grant element and tested this as below: • We classified conditional grant income as an area of audit focus for 2017/18 and have outlined above the audit work we undertook which also fulfilled our responsibilities for this objective. Other income was tested as an other account within our audit work. • Other areas of income, for example taxation and precepts were tested for completeness. **There are no matters arising from this work that we need to bring to your attention.**
Fraud risk from management override of controls **Authority & Pension Fund**	Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. We have not identified any specific additional risks of management override relating to this audit.	Our procedures, including testing of journal entries, accounting estimates and significant transactions outside the normal course of business, no instances of fraud were identified. We have performed specific procedures to: • review accounting judgements which are impacting the reported outturn position; • review of controls associated with, and undertaken, sample testing of manual journals; • reconciled the year end performance to in year financial report to ensure that divergence in performance can be understood and justified; and • reviewed the year end cut off process to ensure that revenue and expenditure items have been reflected within the correct period. **We would note that cross-entity journals do still occur and there have been two instances during the year. However, management and BT have developed a more robust process of addressing them. These instances were identified and remedied prior to audit.**

Financial statements audit

Judgements in your financial statements

We consider the level of prudence in key judgements in your financial statements. We summarise our view below using the following scale:



Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Note 20: NNDR provisions	3	3	£7M (PY:£4.7M)	In 2013/14, local authority funding arrangements meant that the Authority is now responsible for a proportion of successful rateable value appeals. The Authority use an external specialist ‘Analyse Local’ to inform their NNDR appeals provision. The Authority provides for a fixed percentage of outstanding appeals in accounting for the potential liability, based on historical appeals success rates. Based on the above work, we believe the Authority has represented a balanced view of provisions, within the acceptable range of estimates.
Note 9: PPE OLB Valuation	4	3	£356M (PY:£294M)	Other land and buildings have been subject to a revaluation in the year. This has led to an increase in the valuation fro, £294M to £356M. This is largely due to a reinterpretation of RICS guidance, which has led to changes in the estimation techniques used to arrive at depreciated replacement cost (DRC). We have used our KPMG valuation specialist to review the assumptions. Based on the above work, we believe the Authority has adopted a slightly optimistic view of OLB valuations, but is well within the acceptable range of estimates.

Financial statements audit

Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Note 9: PPE: HRA assets	3	3	£1,272M (PY:£1,304M)	The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The Authority has utilised their external valuation expert to provide valuation estimates. Our KPMG valuation specialist had discussed the valuation process with the Authority specialist and reviewed the valuation approach. We deem that the valuation exercise is in line with the instructions. Overall we have concluded the Authority has made a balanced estimate and that the judgements represent a valid assessment of asset usage.
Note 9 (ii): PPE: asset lives	3	3	N/A	We have reviewed management's assessment of property valuations and impairment calculations; confirmed the information provided to the valuer from the Authority; and compared the assumptions made by your valuer to benchmarks and to the assumptions used for 2016/17 for consistency. Overall we have concluded the Authority has made a balanced estimate and that the judgements represent a valid assessment of asset usage.
Note 18: Pension liability	3	3	£665M (PY:£692M)	The Authority continues to use Barnett Waddingham to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. The actual assumptions adopted by the actuary fell within our expected ranges as set our below: • 3 Discount Rate: 2.55%, past service liability 19 years • 4 Inflation: 1% PA below RPI, i.e 2.3% • 3 Net Discount Rate: 0.25% • 3 Salaries assumed to increase at 1.5% above CPI

Financial statements audit

Assessment of subjective areas

Asset / liability class	Current year	Prior year	Balance (£m)	KPMG comment
Note 38: Accounting policies	3	3	n/a	We have reviewed the Authority's accounting policies contained in the financial statements to ensure consistency with the relevant accounting standards and the CIPFA Code. We have also analysed any changes in accounting policy from the previous period. We have determined that the Authority's accounting policies are consistent with those set out in the CIPFA Code, with prior year accounting policies, and are consistent with our understanding of the Authority's application of them.
Note 4: Earmarked Reserves	3	3	£95M (PY:£83M)	We have reviewed the Earmarked Reserves disclosure for reasonableness and agreed all significant movements between reserves to confirm they are appropriate and have been authorised by the relevant individual. We believe the Authority's judgement to be balanced.

Financial statements audit

Narrative report and Annual Governance Statement of the Authority

We have reviewed the Authority's narrative report and Annual Governance Statement and have confirmed that it is consistent with the financial statements, guidance and our understanding of the Authority.

Pension fund audit

The audit of the pension fund and the Pension Fund Annual Report was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

Pension fund annual report

We reviewed the consistency of the Fund's financial statements in the Fund's Annual Report and the financial statements included in the London Borough of Hammersmith and Fulham's financial statements. We confirm that the Fund's financial statements are consistent with the pension fund financial statements included in the accounts of the London Borough of Hammersmith and Fulham. We read the information in the Fund's Annual Report to identify material inconsistencies with the Fund's financial statements. We can confirm it is not inconsistent with the financial information contained in the audited financial statements. As such we anticipate issuing an unqualified consistency opinion on the pension fund financial statements.

Queries from local electors

We did not receive any questions or objections from members of the public this year.

Financial statements audit

Audit certificate

We anticipate completing all our responsibilities in relation to the audit of the accounts for the year end 31 March 2018 and anticipate issuing our audit certificate with our audit opinion.

We have not received any objections to the accounts from local electors, therefore we expect to issue our audit certificate in July 2018 following completion of the above.

Whole of Government Accounts (WGA)

We received your WGA consolidation pack and work is ongoing in relation to this. We anticipate issuing an unqualified consistency report.

Other grants and claims work

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements. The status of our grants and claim work is presented below:

— Teachers Pensions: The reporting accountant assurance deadline is the 30 November 2018. We will complete the fieldwork in relation to this in October 2018; and

— Pooling of Housing Receipts: The reporting accountant assurance deadline is the 30 November 2018. We will complete the fieldwork in relation to this in October 2018.

— Our work on the certification of Housing Benefits (BEN01) is planned for August 2018. The planned scale fee for this is £23,756 excluding VAT (£ 23,790 excluding VAT in 2016/17). Planned fees for other grants and claims which do not fall under the PSAA arrangements is £7,250 excluding VAT (£7,000 excluding VAT in 2016/17).

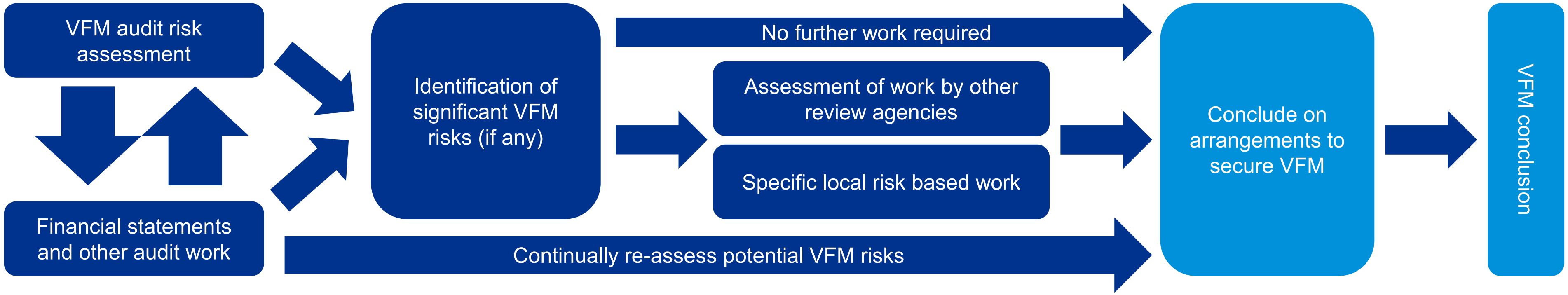
— We complete the audit of the Wormwood Scrubs Charitable Trust. We have not yet received the accounts in relation to this entity. The agreed fee for this work is: £9,900 (excluding VAT).

Value for money

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk as summarised below:



We did not identify any significant VFM risks and provide a summary below of the other areas of audit focus arising from our VFM work. We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.

Value for money

VFM audit work

As reported within our Audit Plan, we did not identify any significant risks for the VfM conclusion. However we identified two areas of audit focus. Our findings in relation to these are outlined below.

VFM area of focus	Why this risk is significant	Our audit response and findings
Medium Term Financial Planning	**Risk:** In 2017/18 the Council had budgeted general fund expenditure of c.£622 million on services including: Adult Social Care, Children's Services, Housing, Environmental Services, Libraries and Public Health.	We have reviewed the controls the Authority has in place to ensure financial resilience, including how the Authority identifies, approves, and monitors savings plans and how budgets are managed throughout the year. We have also reviewed the Medium Term Financial Plan to ensure that it has taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors. 2017/18 has been a challenging year for the Authority. Significant areas of financial pressure have included Childrens Services (£3.2m outturn overspend) and Corporate Services (£0.5M outturn overspend). There is ongoing pressures on Dedicated Schools Grant funding, a pressure which will continue into 2018/19. General Fund earmarked reserves have moved from £83M to £95M, with HRA earmarked reserves moving from £25M to £42M. The Council held c£332M of cash and short term investments at the start of the year. This stood at £321M at the 31 March 2018. No new long term borrowing was taken in 2017/18. To support the outturn position, additional s106 funding has been used in year to relieve specific cost pressures. Linked to the s106 funding, the Planning Act (2008) introduced the Community Infrastructure Levy (CIL), but also acted to tighten the controls around the use of s106 funding as well as moving developers contributions away from s106. Total capital spend for 2017/18 was £74M against a budget of £93M and was split £50M to the General fund and £24m to the HRA, against a budget of £33M. Specific allocations have been ring fenced for fire safety and associated works. Risk management controls are in place to manage large scale and complex schemes. The 2018/19 budget is more challenging. The budget was approved in February 2018 and included c£15M of savings together with the decision to freeze the Hammersmith & Fulham element of the council tax charge, and to not apply the "social care precept" levy of 3% as modelled by the Government. Linked to this, the Council has agreed a challenging business plan 2018-22 which includes the ambition to build 1,500 affordable homes.

Value for money

VFM area of focus	Why this risk is significant	Our audit response and findings
Contract Monitoring and Managed Services	**Risk:** The Authority continues to work closely with partners and third parties, either through joint agreements or the more standard commercial contract with the third party providing the service. Having gone through competitive tendering processes in line with the Authority's regulations, it is vital that contract terms and agreed performance indicators are monitored closely to ensure that the Authority obtains maximum value for money from these contracts.	We select a sample of contracts to review and to obtain an understanding of the controls that are in place to monitor the contract, both from a financial viewpoint but also that the quality of the service provided meets the contract specification. We have tested that these controls are operating as expected. With regards to the Managed Services Contract we also considered the ongoing local controls surrounding the operation of the managed services, including local performance management and the ongoing wider scrutiny of the contract. Whilst work is ongoing in this area, we would note that the Authority has continued to focus increased resources to refine contract management services, specifically through the Commercial Management Initiative Programme.

Appendix 1

Recommendations raised and followed up

Recommendations raised as a result of our work in the current year are as follows:

Priority rating for recommendations					
❶	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
1	❸	**Schools year end bank account reconciliation** To support the early close of the financial statements, schools were required to forecast their year end cash balances based on their M11 position. Whilst this was done in many cases with a great dal of accuracy, there were a number of cases where final year end estimates did not agree to actuals. The year end difference was £410k. Schools should complete a year end bank account reconciliation. This should agree to the cash balances reflected in the financial statements.	**Agreed** This has been discussed with the Schools Finance Team and a process will be put in place for the closure of accounts 2018/19. Officer: Chief Accountant/Head of Finance for Children's Services and Education By when: March 2019

Appendix 1

Recommendations raised and followed up

Recommendations raised as a result of our work in 2016/17 were as follows:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
7	3	4

Priority rating for recommendations					
❶	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
1	❷	**Approval of Exit Payments** During our testing, we identified two individuals for which the documentation of the adjudication panel approving their redundancy could not be located. Moreover, receiving redundancy letters for a number of individuals proved difficulty as there was no central co-ordination and storage of key documents. There is a risk currently that the Authority is unable to demonstrate that the controls surrounding the approval of exit payments are operating effectively. **Recommendation:** A central storage of important documents relating to exit packages and other sensitive matters should be developed and the importance of using this central storage should be reaffirmed to key officers. The monitoring officer could act in an oversight role for this.	**Original Management Response** **Agreed** We will review our arrangements for filing and storing important documents relating to exit packages and other sensitive matters. We will ensure that the correct procedure is reaffirmed to key officers. Officer: Interim Director for HR By when: December 2017	**Implemented** All HR Business Partners, Consultants and Advisors have been made aware of the exit payment approval process. All paperwork comes through HR Business & Performance Manager who stores this on a shared folder who Director of Corporate Services and HR Heads of Service have access to. HR and Finance now conduct a quarterly review of records to ensure their records match.

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
2	2	**Accruals identification/calculation** During our testing of creditor accruals, we identified two accruals which had been made even though the expense had not yet been incurred by the Authority. The values in question were not material to the financial statements Moreover, the backing for accruals submitted by the services was not always accompanied by detailed supporting evidence of working, making obtaining audit evidence together with the internal scrutiny of the corporate finance team, challenging. **Recommendation:** Detailed guidance should be issued to the services regarding what expenditure should be accrued and the level of evidence required to support these accruals.	**Original Management Response** **Agreed** Existing guidance for raising accruals will be reviewed, updated as necessary and re-issued to the services. This guidance will specify the level of evidence required to support accruals. Corporate Finance will monitor compliance by the services with this guidance. Officer: Strategic Director, Finance & Governance By when: December 2017	**Partially Implemented** Further analytical controls will be introduced to manage the identification and accounting of accruals. This will comprise analytical procedures such as detecting duplicates and signage checks. Officer: Chief Accountant By when: March 2019
3	2	**IT Control Deficiencies- Leavers and User Access** During our audit of the IT environment at BT Managed Services, we identified a large number of leavers who had not been removed from the IT system promptly after the leaving date. Similarly, the majority of new users, who are not on temporary contracts, to the system are entered with an expiry date of 2099, rather than a fixed end date, meaning many user access rights will continue indefinitely. Whilst further testing identified that none of these individuals accessed the ledger inappropriately after their leaving date, there is a risk to the Authority that leavers can inappropriately access the ledger after they have left the Authority. The lack of end date means that there is no fixed process whereby BT is encouraged to monitor user access regularly. **Recommendation:** The importance of removing leavers from the IT system should be reaffirmed to BT Managed Services and a routine check is developed to identify any leavers who might still inappropriately have access to Agresso. New users should be given an expiry date after 12 months so that user access does not continue indefinitely where this is not appropriate.	**Original Management Response** **Agreed** The shortfall in required practices will be notified to BT and supported by the issue of the appropriate contract warning notices. The Council will work with BT to increase the performance monitoring in this area, and will introduce checks and controls to confirm resolution by BT. Officer: Interim Director for HR By when: March 2018	**Implemented** This matter has been raised with BT who have responded that there was an issue with the trigger process which alerted the team to revoke system access for leavers. This issue has now been fixed and alerts are now visible. Furthermore, leavers will not be able to access the system after leaving as they will have been removed from the Council's IT system. Users cannot access Agresso without logging into their LBHF account and accessing their PKI certificate.

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
4	❸	**IT Control Deficiency- Change Documentation** During our testing of changes to the IT environment, we identified that there was one instance where the relevant change request and approval minutes could not be located. The reason for this is that the change was relatively old and the contractor who processed it had left BT's employment. Whilst a description of the change did not indicate that the change to the IT environment was inappropriate, there is a risk that the council cannot gain comfort over the appropriateness of its change control procedure if sufficient documentation is not held. **Recommendation:** Storage of change documents related to IT change requests should be reinforced to key officers.	**Original Management Response** **Agreed** The shortfall in required practices will be notified to BT and supported by the issue of the appropriate contract warning notices. The Council will work with BT to increase the performance monitoring in this area, and will introduce checks and controls to confirm resolution by BT. Officer: Strategic Director, Finance & Governance By when: March 2018	**Partially Implemented** This matter has been raised with BT however it should be noted that change requests are now only being raised in exceptional circumstances in the run up to the transition to new provider.
5	❸	**Monitoring of Savings Plans** The approach for monitoring the performance of savings plans in the MTFS is generally via the in-month budgetary control processes, where the performance on each cost centre is monitored, rather than the performance of the individual savings plans. Due to the size of savings plans in 2016/17, this level of monitoring was appropriate. However, many of the savings plans for 2017/18 are of a much larger size and strong performance in one saving plan could heavily distort the reporting of others meaning poor performance of certain savings plans is not identified. **Recommendation:** As savings plans increase in size, reporting should be developed such that there is a more granular approach to monitoring savings plans. This would allow performance of individual savings plans to be more closely monitored and expedient mitigating actions taken where under performance identified.	**Original Management Response** **Agreed** In 2016/17 departments provided a monthly summary of performance against their savings performance with exception reporting on those that were 'red' rated. This was captured as part of the monthly Corporate Revenue Monitoring reports. For 2017/18 a separate report has been produced which focuses on the delivery of each individual saving. Officer: Strategic Director, Finance & Governance By when: Completed	**Implemented**

Appendix 1

Recommendations raised and followed up

We have followed up the recommendations from 2015/16 audit, in summary:

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
6	❶	**Transactions processed by service organisation** During our testwork over journal transactions, we were unable to view supporting evidence or verify segregation of duties for transactions initiated at BT. During other areas of our testwork, including debtors and pensions, we noted several instances of transactions that were originally posted incorrectly by BT and detected/corrected by local finance staff. Typically, service organisations provide an assurance report on controls at the service organisation (ISAE 3402). The report would be issued by a third party and provide an assessment of the financial control environment. This was not provided (or commissioned) by BT. **Recommendation** The Council should consider how to obtain assurance over the control environment at BT. This can be achieved through the commissioning of an ISAE 3402 as noted above or specific internal audit work undertaken at BT. The resulting report should be reviewed by management and any areas for local consideration should be actioned accordingly.	**Original Management Response** We will investigate and consider options as to how we can obtain increased assurance over the control environment at BT. This may include an internal review of controls, an externally certified review, or a combination of both. Management will review any findings and ensure that any areas for local consideration are actioned accordingly. **Strategic Director, Finance & Governance** **March 2017**	**Status at July 2018** **Partially Implemented** Unchanged from status as at September 2017. Arrangements are now well underway to move to a new provider. **Status at September 2017** **Partially Implemented** There is still no segregation of duties of transactions initiated at BT. However, Internal Audit have undertaken a series of reviews at BT Managed Services and have raised a number of recommendations to management. In order to gain more assurance also the KPMG audit team has also conducted a visit of the managed service provider to gain an understanding of the control environment at BT

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
7	❶	**Pension Fund membership data** Pension fund data integrity has been impacted by both the transfer of administering responsibilities from Capita to Surrey County Council (SCC), and through the introduction of a new financial ledger through the managed services program. We undertake a number of analytical procedures within the pension fund audit. As part of this, we need to gain assurance over the pension fund membership data through detailed sample testing. During our initial testing of membership data on contributions and pension benefits, we found a number of issues which required us to expand our sample in order to be able to reach an opinion on the financial statements The Council is aware of the issues encountered with the handover of data from Capita to SCC both in terms of technical difficulties and completeness/accuracy of data held; and also the lack of a direct interface between BT managed services systems and SCCs pensions administration systems. Consequently, there is a comprehensive plan to ensure all membership data is complete and accurate within the next 6-12 months. **Recommendation** Once the cleansing of membership data is complete and all parties are agreed that this is the case, LBH&F should ensure that a detailed assurance exercise is undertaken. This exercise will need to be more detailed than an audit and could be externally procured or completed by Internal Audit. LBH&F should also ensure that it is able to routinely reconcile appropriate information between BT managed services systems and SCCs pensions administration systems. This would provide assurance throughout the year that all contributions are being collected by LBH&F and passed to the Pension Fund.	**Original Management Response** The Council will ensure that a detailed assurance exercise is put in place to tackle the historical casework backlog inherited from Capita as well as the proposals for cleansing inherited data on the pensions administration system where required. The aim will be to complete the work within a one year period starting on 1 October 2016, although it is recognised that some aspects could take longer if any complicating factors arise. The Council agrees that the reconciliation of pension contributions between BT Managed Services and the Pension Fund needs to be more robust and transparent. The Pensions and Treasury Service is leading on the review of the current processes and will put satisfactory arrangements in place before the end of the current financial year. The Council will commence a reconciliation of appropriate scheme member information between BT Managed Services and Surrey County Council before the end of the current financial year. **Responsible Officer:** Debbie Morris, Bi-Borough Director of HR **Due dates:** Reconciliation processes will be place by 31 March 2017 with the majority of the casework to be cleared by 30 September 2017”	**Status at July 2018** **Partially Implemented** All high-priority casework has been resolved. A review of lower priority areas remains underway and is anticipated to be completed by December 2018. **September 2017** **Ongoing** The data cleanse process of information inherited from Surrey County Council is still ongoing and is expected to be completed in September 2017. There are still delays in receiving timely information from BT, including a delay in receiving the membership data for the year end accounts which has still not been received. Management at Surrey County Council are continuing to work with BT to develop a live interface between the Altair System used at Surrey and Agresso but the live interface is not yet fully operational.

Appendix 2

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects:

- Material errors by **value** are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements;
- Errors which are material by **nature** may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff; and
- Errors that are material by **context** are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2017/18.

Materiality for the Authority's accounts was set at £12 million which equates to around 1.7% of gross expenditure.

Materiality for the Pension Fund was set at £17 million which equates to around 1.7% of net assets.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to Audit, Pensions and Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Pensions and Standards Committee any misstatements of lesser amounts to the extent that these are identified by our audit work. Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. *ISA 450* requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £600k for both the Authority and for the Pension Fund.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Pensions and Standards Committee to assist it in fulfilling its governance responsibilities.

Appendix 3

Audit differences

Unadjusted audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit, Pensions and Standards Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are ‘clearly trivial’, which are not reflected in the financial statements. There are no unadjusted differences in relation to the Authority or Pension Fund financial statements.

Adjusted audit differences

Minor presentations adjustments were identified. The largest of these related to the senior officers remuneration note where remuneration in relation election roles had been omitted from total remuneration. This has been amended in the final statements.

The impact of the updated IAS19 Pension Fund valuation on the Authority accounts is set out below:

Note 27. Defined Benefit Schemes

Original IAS 19 data

Original Net liability in the balance sheet: £665,238k

Original return on assets less interest: (£19,087k)

Original Administration expenses: £614k

Total return on fund assets: £3,769,000 on total assets of £842,232k. The employers share of assets of the Fund is approximately 85%

Updated IAS 19 data

Updated Net liability in the balance sheet: £649,170k

Updated return on assets (estimated) (3,272k)

Updated Administration expenses: (£344k)

Total return on fund assets: £19,584,000 on total assets of £858,300k. The employers share of assets of the Fund is approximately 85%

Pension Fund

There are no uncorrected audit differences to the pension fund as at the date of this report.

Audit independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF THE LONDON BOROUGH OF HAMMERSMITH AND FULHAM

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: general procedures to safeguard independence and objectivity; breaches of applicable ethical standards; independence and objectivity considerations relating to the provision of non-audit services; and independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Appendix 4

Audit independence

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	163,950	163,950
Audit of the Pension Fund	21,000	21,000
Total audit services	**184,950**	**184,950**
Allowable non-audit services	9,900*	16,900
Audit related assurance services	7,250	7,000
Mandatory assurance services (Housing Benefits Grant Claim)	23,756	23,790
Total Non Audit Services	**40,906**	**47,690**

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The percentage of non-audit fees to audit fees for the year was 22%. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

* Wormwood Scrubs Charitable Trust

Appendix 4

Audit independence

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the table below:

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Allowable non-audit services				
Audit of the Wormwood Scrubs Charitable Trust	The nature of these audit-related services is to provide independent assurance on the financial services of the Trust. This is not a consolidated entity and as such we do not consider them to create any independence threats.	Fixed Fee	9,900	9,900
Audit-related assurance services				
Grant Certification – Teachers Pensions Return and Pooling of Housing Capital Receipts Return	The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats.	Fixed Fee	7,250	7,250
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	23,756	23,756

Contingent fees

We have not agreed any contingent fees with the Authority.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit, Pensions and Standards Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Partner and audit staff is not impaired.

This report is intended solely for the information of the Audit, Pensions and Standards Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

Appendix 5

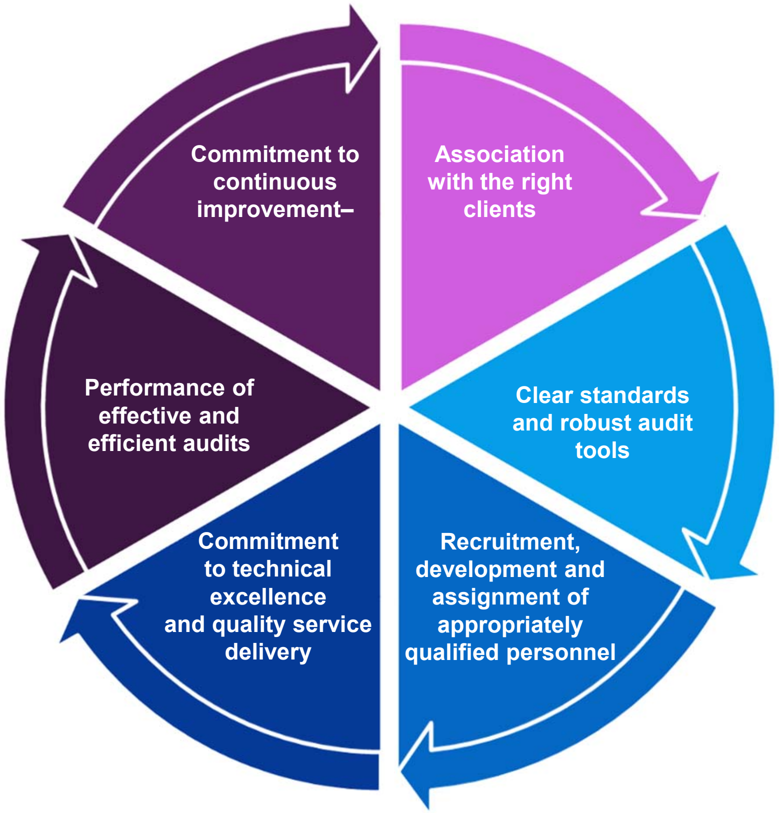
Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

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