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# Report to those charged with governance (ISA 260) 2012/13

London Borough of Hammersmith and  
Fulham Council

13 September 2013



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This report is addressed to 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. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.auditcommission.gov.uk](http://www.auditcommission.gov.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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Michael McDonagh, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3<sup>rd</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 03034448330.

**This report summarises:**

- the key issues identified during our audit of London Borough of Hammersmith and Fulham Council's (the Authority's) financial statements for the year ended 31 March 2013; and
- our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.

**Financial statements**

Our *External Audit Plan 2012/13* presented to you in February 2013 set out the four stages of our financial statements audit process.



This report focuses on the second and third stages of the process: control evaluation, substantive procedures and completion. Our on site work for these took place in two tranches during March 2013 (interim audit) and July 2013 (year end audit). We carried out the following work:

Control Evaluation	<ul style="list-style-type: none"> <li>■ Evaluate and test selected controls over key financial systems.</li> <li>■ Review internal audit function.</li> <li>■ Review accounts production process.</li> <li>■ Review progress on critical accounting matters.</li> </ul>
Substantive Procedures	<ul style="list-style-type: none"> <li>■ Planning and performing substantive audit procedures.</li> <li>■ Concluding on critical accounting matters.</li> <li>■ Identifying audit adjustments.</li> <li>■ Reviewing the Annual Governance Statement.</li> </ul>

We are now in the final phase of the audit. Some aspects are also discharged through this report:

Completion	<ul style="list-style-type: none"> <li>■ Declaring our independence and objectivity.</li> <li>■ Obtaining management representations.</li> <li>■ Reporting matters of governance interest.</li> <li>■ Forming our audit opinion.</li> </ul>
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**VFM conclusion**

Our *External Audit Plan 2012/13* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed our work to support our 2012/13 VFM conclusion.

**Structure of this report**

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2012/13 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1.

**Acknowledgements**

This is our first year as the Council's external auditor following our appointment by the Audit Commission. We would like to take this opportunity to thank all the officers and Members for their help and co-operation since our appointment and throughout the audit work.

This table summarises the headline messages. The remainder of this report provides further details on each area.

<p><b>Proposed audit opinion</b></p>	<p>We anticipate issuing an unqualified audit opinion by 30 September 2013. We will also report that the wording of your Annual Governance Statement accords with our understanding.</p> <p>It should be noted that the audit is substantially complete with the exception of final partner review and completion of our final audit procedures.</p>
<p><b>Audit adjustments</b></p>	<p>We are pleased to report that our audit of your financial statements did not identify any material adjustments. The Authority made three non-trivial adjustments, all of which were of a presentational nature. There was no impact on the General Fund. The draft accounts included a non-material prior year adjustment relating to a number of property disposals which took place during accounting period 2011/12. Accounting for a prior year adjustment is a technical point and open to interpretation. It has been concluded that this adjustment should be made in the 2012/13 financial statements, rather than as a prior year adjustment. An appropriate adjustment to remove the prior year adjustment has been made, this is in addition to the three non-trivial adjustments above. There was no impact on the General Fund.</p> <p>We have raised two recommendations arising from our work in respect of asset management and opportunity for efficiencies in the treasury management system.</p>
<p><b>Accounts production and audit process</b></p>	<p>The Authority has good processes in place for the production of the accounts and excellent quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>We have worked with Officers throughout the year to discuss both specific risks and disclosure clarification such as disclosure of the Senior Officers Remuneration and HRA non dwelling depreciation. Early resolution of these points has led to a more efficient audit process.</p>
<p><b>Control environment</b></p>	<p>The Authority's organisation and control environment is effective, and controls over the key financial systems are sound.</p> <p>We are satisfied that internal audit complied with the Code of Practice for Internal Audit in Local Government and have been able to place reliance on their work using this to inform our risk assessment.</p>
<p><b>Completion</b></p>	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> <li>■ Post balance sheet events review;</li> <li>■ Final review of financial statements; and</li> <li>■ Review of the final Annual Governance Statement.</li> </ul> <p>Before we can issue our opinion we require a signed management representation letter. Our proposed wording for this is included in Appendix 3.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements. A full statement is included in Appendix 2.</p>

VFM conclusion and risk areas

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We identified one significant risk to our VFM conclusion and considered the arrangements you have put in place to mitigate this risk.

Our work identified the following significant matter:

- Saving Plans – The Authority estimates it needs to deliver £21.4m in savings during 2013/14 and a further £20.9m in 2014/15 to address reductions to local authority funding. We have reviewed the arrangements the Authority has put in place and are satisfied it has taken appropriate steps to achieve the required savings whilst continuing to deliver services to its constituents.

Our main accounts work has confirmed that the Authority has achieved its £23m savings plans for 2012-13.

The Authority continues to maintain strong reserves. The general fund remains above the minimum reserve level set by the Authority and earmarked reserves are strong.

We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2013, following completion of our closing procedures and final Partner review.

**We have identified no issues in the course of the audit that are considered to be material.**

**The wording of your Annual Governance Statement accords with our understanding.**

### Proposed audit opinion

We anticipate issuing an unqualified audit opinion by 30 September 2013, following completion of our final closing procedures.

### Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements.

The draft accounts included a prior period adjustment which has been amended to an in year adjustment in the final version of the financial statements. We concur with the Council that this represents a technical accounting adjustment on which we agree with the Authority's conclusion. There is no impact on the bottom line in respect of the General Fund, working balance of the HRA or on the Statement of Financial position.

In addition, we identified three presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2012/13 ('the Code')*. The Authority has addressed these making the necessary adjustments.

### Annual Governance Statement

We have reviewed the Annual Governance Statement and subject to final review confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have worked with Officers throughout the year to discuss the focus of our audit and these significant areas.

In our External Audit Plan 2012/13, presented to you in February 2013, we identified the significant areas affecting the Authority's 2012/13 financial statements. The table below sets out our findings in respect of these areas:

Key audit risk	Issue	Audit Work Performed
	<p>The Council has a significant asset base primarily relating to Council dwellings and Investment property. The potential for impairment/valuation changes makes this balance inherently risky due to the high level of judgement and uncertainty.</p>	<p>To seek assurance property, plant and equipment is reasonably stated we have performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>• Reviewed management's assessment of property valuations and impairment calculations to gain assurance they are reasonably stated;</li> <li>• Considered the valuer's report and tested to confirm the valuation and accounting entries of the assets valued are correctly stated;</li> <li>• Compared the assumptions made by the valuer to benchmarks for consistency; and</li> <li>• Substantively tested capital additions and disposals for accuracy and completeness.</li> </ul>
	<p>Cash has a pervasive impact on the financial statements and provides comfort for other areas of the financial statements.</p>	<p>We have performed the following audit procedures to confirm cash is correctly stated in the financial statements:</p> <ul style="list-style-type: none"> <li>• Obtained confirmations directly from the bank over the account balances; and</li> <li>• Reviewed and substantively tested the year end bank reconciliation.</li> </ul>
	<p>Pension valuations require a significant level of expertise, judgement and estimation and are therefore more susceptible to error. This is also a very complex accounting area increasing the risk of misstatement.</p>	<p>Assurance has been sought over the pensions costs expense and liability balance through:</p> <ul style="list-style-type: none"> <li>• A review of the information provided to the actuary from the Council;</li> <li>• A review of the actuarial valuation and consideration of the disclosure implications.</li> </ul>

No issues have been identified from our work in these areas.

The Authority has good processes in place for the production of the accounts and good quality supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented the recommendations in the *ISA 260 Report 2011/12*.

#### Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
<b>Accounting practices and financial reporting</b>	<p>The Authority has good financial reporting arrangements in place. In particular it is noted officers have identified technical or subjective areas throughout the year and liaised with us to consider the implications for financial reporting.</p> <p>We consider that accounting practices are appropriate.</p>
<b>Completeness of draft accounts</b>	<p>We received a complete set of draft accounts on 28 June 2013 in advance of the statutory deadline. We note that the draft accounts are 121 pages long and exceed the statutory disclosure requirements. Going forward officers should review the accounts to ensure that sufficient prominence is given to key areas and to identify whether supplementary information can be removed.</p>
<b>Quality of supporting working papers</b>	<p>Our <i>Accounts Audit Protocol</i>, which we issued on 18 February 2013 and discussed with Christopher Harris Head of Corporate Accountancy and Capital and Maria Campagna Finance Manager - Closing &amp; Accountancy, set out our working paper requirements for the audit.</p> <p>The quality of working papers provided was excellent and met the standards specified in our <i>Accounts Audit Protocol</i>.</p>

Element	Commentary
<b>Critical accounting matters (key audit risks)</b>	<p>We have discussed with officers throughout the year the areas of specific audit risk and undertaken specific audit procedures. There are no matters to draw to your attention.</p>
<b>Response to audit queries</b>	<p>Officers resolved audit queries promptly. The quality and timeliness of officers' responses were of a good standard.</p>

#### Prior year recommendations

As part of our audit we have followed up the Authority's progress in addressing the recommendation in last year's ISA 260 report produced by the Audit Commission.

The Authority has fully implemented the recommendations in the Audit Commission's *ISA 260 Report 2011/12*.



**The Authority's organisational and control environment is effective, and controls over the key financial systems are sound.**

**We are satisfied that internal audit complied with the Code of Practice for Internal Audit in Local Government and have been able to place reliance on their work where this was relevant to our work.**

During March 2013 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. However, we issued a letter to Jane West Executive Director of Finance and Corporate Governance. For completeness we reflect on key findings from this work.

#### **Organisational control environment**

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We therefore obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.

We found that your organisational control environment is effective overall and through testing were able to place reliance on a number of core financial systems.

#### **Review of Internal Audit**

We reviewed the work of internal audit to inform our risk assessment, provide additional assurance over a number of core financial systems and internal processes as well as identify any areas whereby we need to alter our audit strategy as a result of their findings.

Since April 2013, the United Kingdom Public Sector Internal Audit Standards (PSIAS) apply across the whole of the public sector, including local government. These standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

Internal Audit has prepared for the adoption of the new PSIAS. The Bi-Borough Risk Manager prepared a briefing for the Audit Pensions and Standards Committee in June 2013 this included the Bi-borough audit strategy and charter which has been updated to fully reflect the changes.

#### **Controls over key financial systems**

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within the financial systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Based on the work of your internal auditors, and our own work on controls over the year end process, the controls over the financial systems are sound. We note Internal Audit have made a number of recommendations based on their work throughout the year. We have also performed a review of the Council's response to the changes made in respect of the National Non Domestic Rates system and would actively encourage the Authority to implement all recommendations to continuously improve the control environment.

We identified a minor area for further improvement. Our testing over the treasury system identified instances whereby an additional sign off requirement for significant investments had not been complied with. Although the control had not been performed as designed, we noted no issues indicating the investments were otherwise outside the Authority's policy. In all cases dual sign off had been obtained. We identified a number of controls operating effectively over such investments and believe there is scope for efficiencies to be achieved through the removal of some elements of the control without impacting on the control environment. Details of the recommendation is included in Appendix 1.

## Completion

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

**Before we can issue our opinion we require a signed management representation letter.**

### **Declaration of independence and objectivity**

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of London Borough of Hammersmith and Fulham Council for the year ending 31 March 2013, we confirm that there were no relationships between KPMG LLP and London Borough of Hammersmith and Fulham Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 2 in accordance with ISA 260.

### **Management representations**

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to Jane West Executive Director of Finance and Corporate Governance, a draft of which is reproduced in Appendix 3. We require a signed copy of your management representations before we issue our audit opinion.

We are not asking for any specific representations from management for 2012/13.

### **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'.

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report relating to the audit of the Authority's 2012/13 financial statements.

## VFM conclusion

**Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.**

**We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

### Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority’s financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly. Our approach was set out in more detail in our *External Audit Plan 2012/13*.

### Risk assessment

Our initial risk assessment identified the following key business risk which is also relevant to our VFM conclusion:


- Saving Plans – The Authority estimates it needs to deliver £21.4m in savings during 2013/14 and a further £20.9m in 2014/15 to address reductions to local authority funding. The Authority will need to establish and maintain saving plans to secure longer term financial and operational sustainability.

We are satisfied that sufficient work had been carried out by the Authority and other inspectorates or review agencies to mitigate the audit risks for our VFM conclusion. We concluded that we did not need to carry out any specific additional work on other VFM matters.



We have worked with Officers throughout the year to discuss the focus of our audit and these significant areas.

In our External Audit Plan 2012/13, presented to you in March 2013, we identified the significant areas of focus for our VFM conclusion. The table below sets out our findings in respect of these areas.

Key audit area	Issue	Findings
	<p>The Authority estimates it needs to deliver £21.4m in savings during 2013/14 and a further £20.9m in 2014/15 to address reductions to local authority funding. These savings will in part come from the Tri borough working arrangements which makes them inherently more risky.</p> <p>The Authority will need to manage its savings plans to secure longer term financial and operational sustainability and ensure that any related liabilities are accounted for in the 2012/13 financial statements as appropriate</p>	<p>Our main accounts work has confirmed that the Authority has achieved its £23m savings plans for 2012-13.</p> <p>Based on the current plan, which covers the period 2013/14 – 2015/16, there is a significant savings requirement over the three year period in the region of £65m. The savings required for 2013/14 of £21.4m have been identified and early indications – including the 2012/13 achievements and under-spends are positive.</p> <p>The pressure mounts considerably in 2014/15 when there is a further £20.9m saving requirement and 2015/16 when an additional £24.2m needs to be found. Many of these savings requirements are due to be delivered via the Tri borough working arrangements. However, finding additional savings year after year will be a challenge. The Authority is currently working through how these additional savings can be achieved.</p> <p>The Authority continues to maintain strong reserves. The general fund remains above the minimum reserve level set by the Authority and earmarked reserves are strong.</p> <p>We will continue to focus our attention on this area as the programmes develop over the next year.</p>

#### Conclusion

Our work in this area is substantially complete. Subject to the completion of closing procedures and final Partner review, we anticipate concluding that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

We have given each recommendation a risk rating and agreed what action management will need to take.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
<p><b>1</b> <b>Priority one:</b> 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.</p>	<p><b>2</b> <b>Priority two:</b> 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.</p>	<p><b>3</b> <b>Priority three:</b> 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.</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	<b>2</b>	<p><b>Non-Current Asset Management</b></p> <p>The Authority has over 14,000 assets with a value of approx £1.35bn which are controlled and utilised by departments and divisions across the Council. An asset base of this scale and diversity poses a number of challenges, both from a technical perspective with differences in valuation treatments and in terms of maintaining up to date records. The Authority currently uses a number of spreadsheets as its asset database and to perform the required accounting calculations. This relies on a number of manual calculations and is both time consuming throughout the year and places significant time pressures of the Capital team during the year end closedown process.</p> <p>The Authority should consider implementing an asset management system with the required functionality to improve efficiency of officers throughout the year and increase accuracy in the financial reporting process reducing the risk of error.</p>	<p><b>Management Response:</b></p> <p>We accept the recommendation. The spread sheets have generally served the Authority well but as part of the transition to Managed Services an asset management system will be introduced. This is due to go live in April 2014 and it will form the basis of closing the accounts in 2014/15. In the meantime (year of account 2013/14) the Council will continue to use spread sheets which will be refined and improved where possible.</p> <p><b>Responsible Officer:</b> Bi-Borough Director of Finance</p> <p><b>Due Date:</b> April 2014</p>

## Appendix 1: Key issues and recommendations (cont.)

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	3	<p><b>Investments</b></p> <p>The Authority has an active treasury management function placing a number of investments throughout the year for significant sums. Our review of the control environment found it to be operating effectively and as designed with segregation of duties and a defined authorisation process for each investment placed. For individual investments over £10m the Council has an additional layer of approval, which requires review/authorisation by a third officer. Of the 12 investments greater than £10m tested within our sample we identified two that did not have the additional level of authorisation. Although the control had not been performed, we noted no issues indicating the investments were otherwise outside the Authority's policy.</p> <p>Whilst this represents a strong control environment, there is an opportunity to remove this additional layer of approval, to make the process more efficient and reducing the time officers spend processing each investment. A preparer and reviewer is sufficient to segregate duties and mitigate the risk of error and fraud.</p>	<p><b>Management Response:</b> We accept the recommendation. We will seek to make the authorisation process more efficient while continuing to ensure a sound control environment observes necessary segregation of duties.</p> <p><b>Responsible Officer:</b> Director of Corporate Finance &amp; Investment</p> <p><b>Due Date:</b> September 2013</p>

**The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.**

### Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

*“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s Standing guidance for local government auditors (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (Ethical Standards).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK & I) 260 Communication of *Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.
- The related safeguards that are in place.

- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit, Pensions and Standards Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

### General procedures to safeguard independence and objectivity

KPMG’s reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.



**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

#### **Auditor declaration**

In relation to the audit of the financial statements of London Borough of Hammersmith and Fulham Council for the financial year ending 31 March 2013, we confirm that there were no relationships between KPMG LLP and London Borough of Hammersmith and Fulham Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.



**We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.**

**The wording for these representations is prescribed by auditing standards.**

**We require a signed copy of your management representations before we issue our audit opinion.**

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of London Borough of Hammersmith and Fulham Council (“the Authority”), for the year ended 31 March 2013, for the purpose of expressing an opinion:

- i. as to whether these give a true and fair view of the financial position of London Borough of Hammersmith and Fulham Council as at 31 March 2013 and of its expenditure and income for the year then ended;
- ii. whether the Pension Fund financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2013 and the amount and disposition of the Fund’s assets and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- iii. whether the financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

These financial statements 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 and the Collection Fund and the related notes. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

**Financial statements**

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the

preparation of financial statements that:

- give a true and fair view of the financial position of the Authority as at 31 March 2013 and of the expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2013 and the amount and disposition of the Fund’s assets and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 require adjustment or disclosure have been adjusted or disclosed.

**Information provided**

4. The Authority has provided you with:
  - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - additional information that you have requested from the Authority for the purpose of the audit; and
  - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.

**We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.**

**The wording for these representations is prescribed by auditing standards.**

**We require a signed copy of your management representations before we issue our audit opinion.**

6. The Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

7. The Authority has disclosed to you all information in relation to:
- a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements; and
  - b) allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you the identity of the related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been

appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Authority understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

11. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that:
  - are statutory, contractual or implicit in the employer's actions;
  - arise in the UK and the Republic of Ireland or overseas;
  - are funded or unfunded; and
  - are approved or unapproved,
 have been identified and properly accounted for; and
- b) all settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit, Pensions and Standards Committee on 26 September 2013.

Yours faithfully,

Chair of the Audit, Pensions and Standards Committee and Executive Director of Finance and Corporate Governance



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