



External Audit Report 2016/17

London Borough of Hammersmith and Fulham

—

12 September 2017

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, in the first instance you should contact Andrew Sayers, 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, Andrew Sayers (0207 694 8981, andrew.sayers@kpmg.co.uk). 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:** Finalisation of our work on exit packages, pension fund membership data testing, pension fund journals, investment levelling review and the management expenses note.
- **Whole of Government accounts pack:** Work ongoing.
- **Pension Fund: Administering Authority:** Within our audit opinion on the financial statements, we are required to give an opinion on the consistency of the pension fund information included in the Pension Fund Annual Report with the pension fund accounts included in the financial statements. We have still to finalise our review of the pension fund annual report.

Section One

Summary

Financial statements audit – see section 2 for further details

Subject to all outstanding queries and procedures being satisfactorily resolved we intend to issue an unqualified audit opinion on the Authority's financial statements by the 30 September 2017 following the Audit, Pensions and Standards Committee adopting them, receipt of the management representations letter and finalisation of our completion procedures including post balance sheet event review.

We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements, within the deadline of 30 September 2017.

Subject to the matters noted on page 3 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. There are three adjusted differences. These are explained in section 2 and appendix 3.
- We agreed presentational changes to the accounts with the finance team. These related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 together with minor changes focussed on streamlining and refining the existing notes to the financial statements. These are set out in Appendix 3.
- The requests we are seeking through management representations are explained in section 2.
- We will report that your AGS complies with delivering Good Governance guidance issued by CIPFA / SOLACE in April 2016.
- We reviewed the Narrative Report and have no matters to raise with you.
- We have not received a formal elector objection.

We intend to issue our 2016/17 Annual Audit Letter in November 2017.

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 aligned to the timeline for financial statements outlined above.

Section One

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.).

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 2016/17 financial statements.

We are satisfied that the Authority has made steps towards addressing the four recommendations raised in our ISA260 report in 2015/16, although two recommendations have been identified as not fully implemented. We have made five recommendations as a result of our 2016/17 work.

We undertake work on the Housing Benefits grant claim under the PSAA arrangements, this work will be undertaken in September/October and completed by the 30 November 2017 deadline. We also 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 that does not fall under the PSAA arrangements is summarised below:

- Teachers Pensions: The reporting accountant assurance deadline is the 30 November 2017. We will complete the fieldwork in relation to this in October 2017; and
- Pooling of Housing Receipts: The reporting accountant assurance deadline is the 30 November 2017. We will complete the fieldwork in relation to this in October 2017.

The fees for this work are explained in section two.

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 2016/17 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 good-quality working papers with clear audit trails maintained on the KPMG sharepoint database.

Section Two

Financial statements audit

4. Accounting standards	<p>We work with you to understand changes to accounting standards and other technical issues. For 2016/17 these changes related to:</p> <ul style="list-style-type: none">• Updates to the presentation of the Comprehensive Income and Expenditure Statement (CIES) to better reflect local reporting and the Authorities own Directorate structure, changes to the presentation of the Movements in Reserves Statement (MIRS) and the introduction of the new Expenditure and Funding Analysis (EFA). The changes to the EFA are aimed at demonstrating to stakeholders how the funding available to the Authority for the year has been used in providing services, in comparison with those resources consumed or earned by the Authority in accordance with generally accepted accounting practices;• Amended guidance on the Annual Governance Statement (AGS) based on the changes to the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; and• Changes in the format of the Pension Fund accounts which includes updates to the format of the Fund Account and the Net Asset Statement to be consistent with the new 2015 Pensions SORP and recommendations for a new disclosure on investment management transaction costs (Note 8) <p>No issues were noted with regards to the above.</p>
5. Accounts Production	<p>We received complete draft accounts by 2 June 2017 with minor changes made prior to publication on the 30 June 2017 in accordance with the 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 2016/17. We will debrief with Corporate Finance to share views on the final accounts audit which hopefully will lead to further efficiencies in the 2017/18 audit process.</p> <p>We would note that the timetable for the year ended 31 March 2018, formally comes forward to 31 July 2018. We will work with the council to ensure that all elements of both the financial statement and pension fund audit are refined to this deadline to be achieved for both the financial statements and the Pension Fund and associated Pension Fund annual report.</p> <p>We thank Corporate Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.</p>
6. Testing	<p>We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. There are no unadjusted audit difference (explained in section 2 and appendix 3). The remaining items identified related to presentational issues which have been adjusted.</p>
7. Representations	<p>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 Director of Finance on 11 September 2017. 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. We are not seeking any specific management representations.</p>

Section Two

Financial statements audit

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 2016/17 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 property, plant and equipment (Authority), significant changes in the pension liability due to LGPS triennial valuation (Authority) , valuation of pension fund assets (Pension Fund) and conditional grant income (Authority) which were identified as significant risks within our audit plan;
- 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.

Section Two

Financial statements audit

Significant audit risk	Account balances effected	Summary of findings
<p>Valuation of Property, Plant, and Equipment (PPE)</p> <p>As at 31 March 2017 the value of the Authority's PPE was £1,746 million. Local authorities exercise judgement in determining the current value of different classes of assets held and the methods used to ensure the carrying values recorded each year reflect those current values. The Authority is responsible for ensuring that the valuation of PPE is appropriate at each financial year end and for conducting impairment reviews that confirm the condition of these assets. We have assessed that the inherent uncertainty in valuation and high value of assets held by the Authority creates a significant risk to the financial statements for 2016/17.</p>	<p>Note 13: PPE</p> <p>£1,746 million</p> <p>PY £1,778 million (NBV)</p>	<p>We have:</p> <ul style="list-style-type: none"> • reviewed management's assessment of property valuations and impairment calculations; • confirmed the information provided to the valuer from the Authority; • compared the assumptions made by your valuer to benchmarks and to the assumptions used for 2015/16 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 2016/17. <p>There are no issues that we need to bring to your attention.</p>
<p>Conditional Grant Income</p> <p>The Authority receives grants containing certain conditions. Each grant is awarded on the basis that it will be drawn down at a service level once the specific conditions of the grant have been met. The grant cannot be credited to the comprehensive income & expenditure account until the conditions attached to the grant have been satisfied.</p>	<p>Note 11: Grant Income</p> <p>£269 million</p> <p>PY £288 million</p>	<p>We have:</p> <ul style="list-style-type: none"> • 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. <p>There are no issues that we need to bring to your attention.</p>

Section Two

Financial statements audit

Significant audit risk	Account balances effected	Summary of findings
<p>Managed Services</p> <ul style="list-style-type: none"> ■ 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. ■ Moving into 2016/17, the service provision and associated controls within the managed service program have become more embedded. From an external audit perspective, this allows us to reflect the increased effectiveness of control at the service organisation, within our annual audit approach. In 2016/17 we undertook an additional on-site audit at the service organisation, considering IT and transactional finance controls. The objective of this review was to provide additional assurance over the balances included within the financial statements 	<p>n/a</p>	<ul style="list-style-type: none"> ■ Our onsite review aimed to provide assurance over the financial controls and processes in place at the service organisation, reflecting the significant financial throughput of the service organisation; and acknowledge the interdependency between the local controls at the Authority and the operational transactional system at the service organisation. ■ Specific processes and controls considered included, 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 systems 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 access controls together with those controls surrounding the set up/removal of users to the system. ■ We assessed the design of controls in place at the service organisation to support the production of accurate and timely underlying financial records and tested the operation of key controls over the financial systems. We also documented and tested the General IT Controls (GITC) in place which support the safe storage and access to/from financial records. (Recommendation 3 and 4) ■ Whilst there are a number of bespoke work arounds and additional local compensating controls in place, we did not identify significant areas of weakness following our work which would impact on the material accuracy of the financial statements.

Section Two

Financial statements audit

Significant audit risk	Account balances effected	Summary of findings
<p>Pension liability including assumptions and having regard to the potential for significant changes arising from the LGPS Triennial Valuation</p> <p>In accordance with the Code, the Authority is required to include a liability within the net assets on its balance sheet in respect of the Hammersmith and Fulham and LPFA Pension Funds. This shows an increase in the liability of £155 million to a net total liability of £722 million. The associated costs have been included within the CIES. The impact of this has been mitigated by a net transfer from the Pensions Reserve.</p> <p>During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.</p> <p>The pension numbers to be included in the financial statements for 2016/17 are based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017-18 and 2018-19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There are significant judgments made in relation to the assumptions to be adopted when calculating the pension liability.</p>	<p>Balance sheet:</p> <p>Long Term Liabilities: £701 million, £692 million relates to the Pension Fund Liability.</p> <p>PY: Long Term Liabilities: £499 million, £490 million related to the Pension Fund liability.</p>	<p>As part of our audit of the Pension Fund Liability, we have undertaken work on a test basis to agree the data provided to the actuary back to the systems and reports from which it was derived and to understand the controls in place to ensure the accuracy of this data. This work focussed on the data relating to the Authority itself as largest member of the Pension Fund.</p> <p>We also reviewed the assumptions adopted in calculating the pension liability using the work of independent experts engaged by the NAO, together with a review by the KPMG Pensions team.</p> <p>There are no issues that we need to bring to your attention.</p>

Section Two

Financial statements audit

Significant audit risk	Account balances effected	Summary of findings
<p>Valuation of Pension Fund Assets (Pension Fund)</p> <p>At 31 March 2017 the Pension Fund had investment assets totalling £1,002 million. The investment portfolio includes contracts which can be complex to value, those being level 1 (£620 million) assets, level 2 (£212 million) and level 3 (£170M) assets. Given the size and potential for complexity in the investment portfolio we consider this to be a significant audit risk for 2016/17.</p>	<p>Pension Fund Net Asset Statement</p> <p>Net Assets: £1,002 million</p> <p>PY: £856 million</p>	<p>We have:</p> <ul style="list-style-type: none"> • undertaken detailed testing of investments including assessing the design and operation of controls in place; • obtained independent confirmations from the Custodian (and Fund Managers as necessary) to verify year end balances; • undertaken substantive testing over sales and purchases made in the year, reviewing year on year movements, and comparing performance to known benchmarks. <p>There are no issues that we need to bring to your attention.</p>

Section Two

Financial statements audit

Other areas of audit focus

We identified seven other areas of audit focus. These are not considered to be significant risks as they are less likely to give rise to a material error. Nonetheless these are areas of importance where we carry out audit procedures to ensure that there is no material misstatement.

Other areas of audit focus	Account balances effected	Summary of findings
Disclosures associated with restatement of CIES, EFA and MiRS	N/A	<p>We have:</p> <ul style="list-style-type: none"> assessed how the Authority has actioned the revised disclosure requirements for the CIES, MiRS and the new EFA statement as required by the Code; and checked the restated numbers and associated disclosures for accuracy, correct presentation and compliance with applicable Accounting Standards and Code guidance. <p>There are no issues that we need to bring to your attention.</p>
Note 28: Payroll	<p>£175 million</p> <p>PY £178 million</p>	<p>We have:</p> <ul style="list-style-type: none"> tested reconciliations for gross pay and deductions (e.g. pensions, tax and national insurance); and Substantively tested the payroll balance using statistical sampling. We tested 38 items (35 positive values and 3 negative values), with a value of £6,825k and £6k respectively. Additionally, we tested a sample of schools payroll journal entries. <p>No issues were noted as a result of these procedures.</p>
Note 19: Cash & cash equivalents	<p>£53 million</p> <p>PY £101 million</p>	<p>We have:</p> <ul style="list-style-type: none"> 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. <p>No issues were noted as a result of these procedures.</p>

Section Two

Financial statements audit

Other areas of audit focus	Account balances effected	Summary of findings
Note 28: Non-Payroll Expenditure	£693 million PY: £649 million	<p>We have:</p> <ul style="list-style-type: none"> 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 2017 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. <p>We have raised a recommendation regarding the calculation of accruals. (Recommendation 2)</p>
Note 22: Creditors	£162 million PY: £175 million	
Note 21: NNDR appeals provision	£4.7 million PY: £10.1 million	<p>The Authority use an independent body to calculate the appeals provision. We have:</p> <ul style="list-style-type: none"> 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 the total on the summary tab to the VOA data submitted by the Authority. <p>There are no issues that we need to bring to your attention.</p>
HRA: Rental Income	£71 million PY £71 million	<p>We have:</p> <ul style="list-style-type: none"> gained an understanding over controls related to HRA rental income; tested the operating effectiveness of relevant controls; and completed substantive analytical review of dwelling rent income and reconciled HRA amounts to the Authority's CIES. <p>There are no issues that we need to bring to your attention.</p>

Section Two

Financial statements audit

Other areas of audit focus	Account balances effected	Summary of findings
HRA: Repairs and Maintenance and Management Expenditure & Supervision and Management	R&M £16 million PY £14 million S&M: £30 million £26 million	We have: <ul style="list-style-type: none">• 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.

Section Two

Financial statements audit

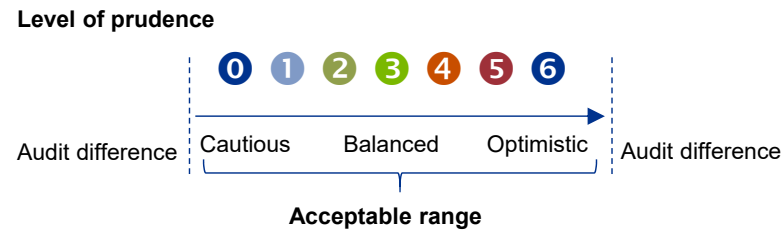
Significant risks that ISAs require us to assess in all cases	Why	Our findings from the audit
<p>Fraud risk from revenue recognition</p>	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>We do not consider 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.</p>	<p>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:</p> <ul style="list-style-type: none"> • We classified conditional grant income as a significant audit risk for 2016/17 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. <p>There are no matters arising from this work that we need to bring to your attention.</p>
<p>Fraud risk from management override of controls</p>	<p>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.</p> <p>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.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	<p>Our procedures, including testing of journal entries, accounting estimates and significant transactions outside the normal course of business, no instances of fraud were identified.</p> <p>We have performed specific procedures to:</p> <ul style="list-style-type: none"> • 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. <p>There are no matters arising from this work that we need to bring to your attention. We note at the time of writing we are completing our work on the pension fund journals.</p>

Section Two

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	KPMG comment
Note 20: NDR provisions	3	3	£10.1 million (PY:£4.7. million)	<p>In 2013/14, local authority funding arrangements meant that the Authority is now responsible for a proportion of successful rateable value appeals. The Authority has provided for a fixed percentage of outstanding appeals in accounting for the potential liability, based on historical appeals success rates.</p> <p>Based on the above work, we believe the Authority has represented a balanced view of provisions, within the acceptable range of estimates.</p>

Section Two

Financial statements audit

Assessment of subjective areas				
Asset / liability class	Current year	Prior year	Balance	KPMG comment
Note 9 PPE: HRA assets	3	3	£1,304 million (PY: £1,296 million)	<p>The Authority continues its use of the beacon methodology in line with the DCLG's <i>Stock Valuation for Resource Accounting</i> 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.</p> <p>Overall we have concluded the Authority has made a balanced estimate and that the judgements represent a valid assessment of asset usage.</p>
Note 9 PPE: asset lives	3	3	n/a	<p>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 2015/16 for consistency.</p> <p>Overall we have concluded the Authority has made a balanced estimate and that the judgements represent a valid assessment of asset usage.</p>
Note 38: Accounting policies	3	3	n/a	<p>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.</p> <p>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.</p>
Note 4: Earmarked Reserves	3	3	GF: £83.0 million PY 90.1 million HRA: £25.3 million PY £22.8 million	<p>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.</p> <p>We believe the Authority's judgement to be balanced.</p>

Section Two

Financial statements audit

Narrative report of the Authority

We have reviewed the Authority's narrative report and have confirmed that it is consistent with the financial statements 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 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. The pension fund annual report is not required to be published by December 2017.

Queries from local electors

We did not receive any questions or formal objections from members of the public this year at the time this report was issued.

Audit certificate

In order for us to issue an audit certificate, we are required to have completed all our responsibilities relating to the financial year. As we have not received any objections to the accounts from local electors, therefore we expect to issue our audit certificate in September 2017 following completion of the final audit procedures.

Section Two

Financial statements audit

Other grants and claims work

We undertake other grants and claims work for the Authority. The status of our grants and claim work is presented below:

- Housing Benefit grant claim: This work will commence in September 2017 to ensure sign off via the 30 November 2017;
- Teacher pensions contribution return: This work will commence in October 2017 to ensure sign off via the 30 November 2017; and
- Pooled housing capital receipts: This work will commence in October 2017 to ensure sign off via the 30 November 2017.

Audit fees

Our fee for the audit was £163,950 excluding VAT (£163,950 excluding VAT in 2015/16). This fee was in line with that highlighted in our audit plan approved by the Audit, Pensions and Standards Committee on 21 March 2017.

Our work on the certification of Housing Benefits (BEN01) is planned for September 2017. The planned scale fee for this is £23,790 excluding VAT (£23,756) excluding VAT in 2015/16). Planned fees for other grants and claims which do not fall under the PSAA arrangements is £7,000 excluding VAT (£7,000 excluding VAT in 2015/16). There was one piece of non audit work related to the audit of the controls in place at BT Managed services which totals £7,000.

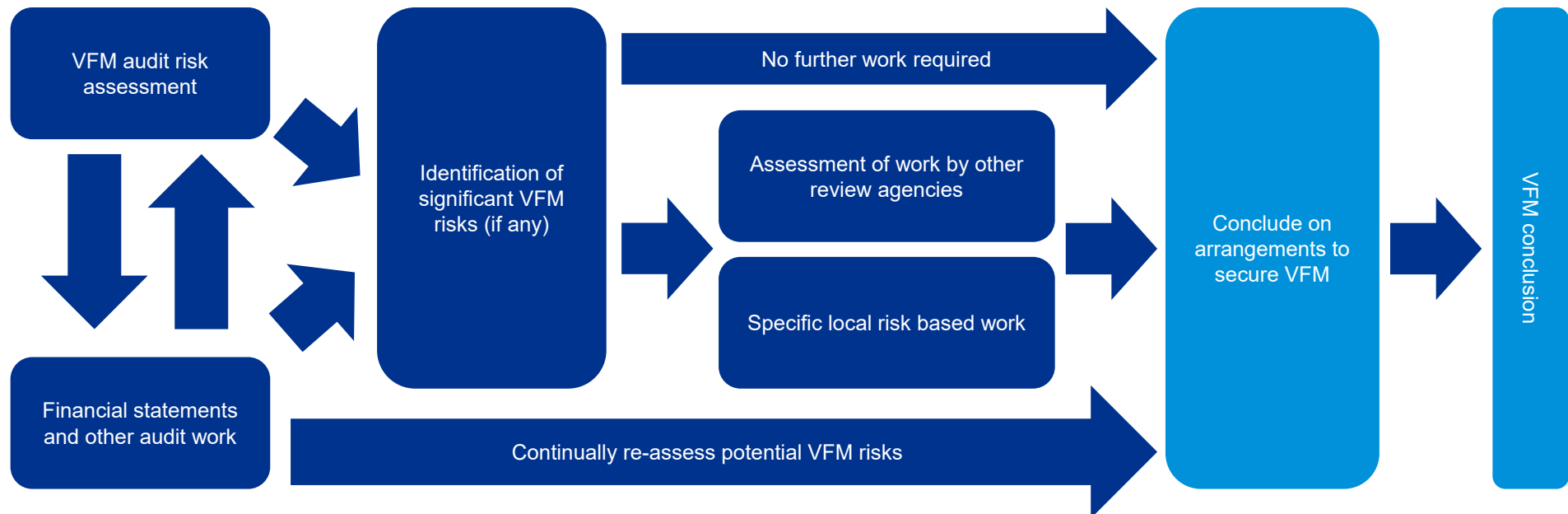
We have included in appendix 4 confirmation of the safeguards that have been put in place to preserve our independence.

Section Three

Value for money

For 2016/17 our value for money (VfM) work follows the NAO's guidance. It is risk based and targets audit effort on the areas of greatest audit risk. Our methodology is summarised below. Per our audit plan, we have not identified any significant VfM risks. The risk assessment process is dynamic, and we are alert throughout the audit to the possibility that risks may have emerged. Those areas on which our VfM work focussed are detailed below.

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 2017, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.



Section Three

Value for money

VFM: other area of audit focus	Our audit response and findings
<p>Working with partners and third parties: Procurement and Contract Management</p> <p>Procurement and contracting are a key mechanism through which improved services are delivered by the authority. Contracts are managed by the Procurement team, which, during 2016/17 has sought to embed improved consistency in the application of procurement and contracting controls.</p>	<ul style="list-style-type: none"> ■ We considered the process for managing contracts entered into by the Authority to ensure that performance objectives are being achieved and any delivery issues are being managed in accordance with agreed governance requirements. ■ We reviewed the Contract Standing Orders 2016, effective as of 1 July 2016, which set out the Authority governance requirements surrounding the procurement, agreement and management of contracts. ■ We met with key officers to understand the key development in the procurements process implemented during 2016/17. ■ We selected two contracts and reviewed them against both the requirements of the contract standing orders and also against wider contract management best practice. The contracts considered were with Pertemps for the provision of Agency Staff (annual contract value of £12 million) together with the BT Managed services contract. ■ For the BT Managed services contracts we also completed a review of the Strategic Framework Board minutes, the principle forum through which the contract is managed and ongoing issues resolved. <p>There are no matters arising from this work that we need to bring to your attention.</p>
<p>Sustainable resource deployment: Medium Term Financial Planning</p> <p>The Authority faces an increasingly challenging financial outlook. In 2016/17 there has been a freeze in the authority element of the council tax charge, this has been despite government funding cuts.</p> <p>The Authority delivered a general fund under spend of £0.2 million against its revenue budget. This was against a backdrop of reduced funding and increased savings requirements. General fund and earmarked reserves totalled £83 million as at 31 March 2017.</p> <p>The capital expenditure outturn for 2016/17 is £70.6 million. The Council plan to spend over £253 million on capital projects over the next five years.</p>	<ul style="list-style-type: none"> ■ We have reviewed the controls and governance surrounding the budget setting and in year monitoring. ■ We selected a sample of 5 cost savings measures and reviewed these to ensure that proper arrangements have been implemented to ensure that resources are deployed to achieve planned and sustainable outcomes. We considered how the plans were originally identified, who owned the plans, the extent to which delivery was routinely monitored throughout the year and the effectiveness of corrective action (where required). For the schemes selected, we also considered the extent to which these were identified as a recurring saving and/or whether additional plans had been identified to deliver future financial savings. ■ 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. ■ As savings plans increase in size (£14.5 million in 2017/18 accompanied by a council tax freeze), 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. (Recommendation 5) <p>There are no other matters arising from this work that we need to bring to your attention.</p>

Section Three

Value for money

VFM: other area of audit focus	Our audit response and findings
<p data-bbox="141 387 701 480">Informed decision making, sustainable resource deployment, and working with partners and third parties: Managed Services</p> <ul data-bbox="141 499 730 715" style="list-style-type: none"><li data-bbox="141 499 730 715">■ The Tri-borough councils implemented a new managed service partnership with BT on 1 April 2015. There have been a number of difficulties with the implementation which gives rise to a risk over management's ability to make informed decision making and has an impact on forward planning and budget monitoring.	<ul data-bbox="752 387 2139 590" style="list-style-type: none"><li data-bbox="752 387 2139 480">■ We have considered the control environment surrounding the monitoring and management of the managed services contract to ensure that informed decisions have been taken to support the delivery of planned and sustainable outcomes.<li data-bbox="752 499 2139 590">■ We considered the ongoing controls surrounding the managed services implementation, including the operation of the Intelligent Client Function (ICF), review and consideration of issue resolution actions, reviewed the Operational Framework Board (OFB) and Managed Services Sponsors meetings to track progress against targets. <p data-bbox="752 609 1771 639">There are no matters arising from this work that we need to bring to your attention.</p>

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		
1	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.	2
		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.
		3
		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	2	<p>Approval of Exit Payments</p> <p>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 difficult as there was no central co-ordination and storage of key documents.</p> <p>There is a risk currently that the Authority is unable to demonstrate that the controls surrounding the approval of exit payments are operating effectively.</p> <p>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.</p>	<p>Agreed</p> <p>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.</p> <p>Officer: Interim Director for HR</p> <p>By when: December 2017</p>

Appendix 1

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
2	2	<p>Accruals identification/calculation</p> <p>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</p> <p>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.</p> <p>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.</p>	<p>Agreed</p> <p>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.</p> <p>Officer: Strategic Finance Director</p> <p>By when: December 2017</p>
3	2	<p>IT Control Deficiencies- Leavers and User Access</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Agreed</p> <p>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.</p> <p>Officer: Interim Director for HR</p> <p>By when: March 2018</p>

Appendix 1

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
4	3	<p>IT Control Deficiency- Change Documentation</p> <p>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.</p> <p>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.</p> <p>Recommendation: Storage of change documents related to IT change requests should be reinforced to key officers.</p>	<p>Agreed</p> <p>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.</p> <p>Officer: Strategic Finance Director</p> <p>By when: March 2018</p>
Value for Money			
5	3	<p>Monitoring of Savings Plans</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Agreed</p> <p>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.</p> <p>Officer: Strategic Finance Director</p> <p>By when: Completed</p>

Appendix 1

Recommendations raised and followed up

We have followed up the recommendations from the prior year's audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
4	2	2

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at September 2017
Financial statements				
1	1	<p>Transactions processed by service organisation</p> <p>During our testwork over journal transactions, we were unable to view supporting evidence or verify segregation of duties for transactions initiated at BT.</p> <p>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.</p> <p>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.</p> <p>Recommendation</p> <p>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.</p>	<p>Original Management Response</p> <p>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.</p> <p>Strategic Finance Director March 2017</p>	<p>Partially Implemented</p> <p>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.</p>

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at September 2017
Financial statements				
2	1	<p>Pension Fund membership data</p> <p>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.</p> <p>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.</p> <p>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</p> <p>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.</p> <p>Recommendation</p> <p>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.</p> <p>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.</p>	<p>Original Management Response</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Responsible Officer: Debbie Morris, Bi-Borough Director of HR</p> <p>Due dates: Reconciliation processes will be place by 31 March 2017 with the majority of the casework to be cleared by 30 September 2017”</p>	<p>Ongoing</p> <p>The data cleanse process of information inherited from Surrey County Council is still ongoing and is expected to be completed in September 2017.</p> <p>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.</p>

Appendix 1

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at September 2017
Financial statements				
3	2	<p>Cross-Entity Journal Entries</p> <p>During our test work over journals transactions, we identified four cross-entity journals which were inappropriately posted by local finance staff who should not have had the ability to do so. These journals resulted from the use of the pre-approved journal template, which was designed and brought into use as a work around due to technical issues with the Agresso system. BT and the Council have mitigating controls in place to detect out of balance entries, including the daily trial balance download. In all instances, the transactions above were detected and corrected. However, the Council is currently lacking a control to prevent these entries from occurring.</p> <p>Recommendation BT and LBHF should work to resolve technical issues with Agresso and reduce the number of spreadsheet journals processed in order to prevent the posting of cross-entity journals.</p>	<p>Original Management Response</p> <p>LBHF will review the mapping of debtors and creditors and will also review the use of the chart of accounts. Corporate Finance will undertake more detailed analysis of debtors and creditors at year end to identify specific items or areas that would be appropriate to net against each other.</p> <p>LBHF will work with BT to minimise the risk of posting cross-entity journals and enhance preventative controls. We will continue to operate robust detective controls in this area.</p> <p>Strategic Finance Director December 2016</p>	<p>Implemented</p> <p>Cross-entity journals do still occur and there have been instances during the year. However, management and BT have developed a more robust process of addressing them. BT send a daily trial balance update which will identify any cross-entity transactions. Cross-entity transactions which do occur are tracked and their cause monitored with the view of creating a lasting solution to stop the same instance re-occurring.</p>
4	2	<p>Matching of debtors and creditors</p> <p>During our current Debtor and current Creditor testing, we noted several instances where debtors and creditors had not been netted off against each other properly. In two instances, these amounts were significant and required audit adjustment (See appendix two).</p> <p>Recommendation We recommend that the Council undergo a remapping exercise to ensure that the TB mapping to debtors and creditors is accurate (i.e. that debtor contra accounts are not mistakenly mapped to creditors and vice versa). In addition, the finance team should consider performing an analysis of debtors and creditors at year end to identify specific items or areas that would be appropriate to net against each other.</p>	<p>Original Management Response</p> <p>LBHF will review the mapping of debtors and creditors and will also review the use of the chart of accounts. Corporate Finance will undertake more detailed analysis of debtors and creditors at year end to identify specific items or areas that would be appropriate to net against each other.</p> <p>Strategic Finance Director December 2016</p>	<p>Implemented</p> <p>During the production of the year end financial statements, there was a detailed review of debtors and creditors to identify transactions that should or should not net against each other.</p> <p>During our testing of debtors and creditors, we did not identify any transactions which inappropriately netted off against one another.</p>

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 2016/17, presented to you in March 2017.

Materiality for the Authority's accounts was set at £12 million which equates to around 1.8% of gross expenditure.

Materiality for the Pension Fund was set at £17 million which equates to around 2% of gross 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 both the Authority and the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £600K.

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.

Appendix 3

Audit differences

Presentational improvements

Presentational adjustments have been made as follows: These differences related solely to disclosure notes within the accounts, and therefore these adjustments have no effect on the net assets of the Authority. The improvements below have been included in the financial statements.

- **Note 28: Audit Fees:** The fee for the Managed Service Visit has been moved from Audit Fees to Non Audit Fee.
- **Note 5: Material Transactions:** A note has been added to explain the link between note 5 and note 6.
- **Note 2: Expenditure and Income Analysed by Nature:** A note added to explain the link between this note and the CIES and the movement of items between income and expenditure, please see income and expenditure adjustment.
- **Note 25: Senior Officer Remuneration:** - The narrative supporting the chief executive backdated salary and bonus is to be updated.

There have also been minor amendments to the Narrative Report and the Annual Governance Statement.

Pension Fund

We are pleased to report that there are no uncorrected audit differences to the pension fund as at the date of this report. Corrected differences are detailed below.

Corrected Audit Differences

Pension Fund Levelling

Information from Investment Managers has confirmed that some of the Investment Levels disclosed in the draft financial accounts were not correct. The net change is that Level Three Investments have decreased by £101million whilst Level Two Investments have increased by the same amount

Presentational Improvements

- Note 12: Miscalculation in the percentage holding of certain key investment holdings.
- Note 19: Typographical error in the value of scheme assets, missing a zero from the disclosure.

Appendix 4

Audit independence

This appendix communicates all significant facts and matters that bear on KPMG LLP's independence and objectivity and informs you of the requirements of *ISA 260 (UK and Ireland) Communication of Audit Matters to Those Charged with Governance*.

Integrity, objectivity and independence

We are required to communicate to you 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 KPMG LLP's independence and the objectivity of the Engagement Lead and audit team. We have considered the fees paid to us by the Authority for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

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 audit partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings. Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. 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 would be happy to discuss any of these aspects of our procedures in more detail. There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed.

Audit matters

We are required to comply with *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance* when carrying out the audit. ISA 260 requires that we consider the following audit matters and formally communicate them to those charged with governance:

- Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement lead and audit staff;
- The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements;
- The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Authority's financial statements;
- The potential effect on the accounts of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements;
- Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the Authority's financial statements;
- Material uncertainties related to events and conditions that may cast significant doubt on the Authority's ability to continue as a going concern;
- Disagreements with Management about matters that, individually or in aggregate, could be significant to the Authority's financial statements or the auditor's report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter;
- Expected modifications to the auditor's report;

Appendix 4

Audit independence

- Other matters warranting attention by those charged with governance, such as material weaknesses in internal control, questions regarding management integrity, and fraud involving management; and
- Any other matters agreed upon in the terms of the audit engagement.

We continue to discharge these responsibilities through our attendance at Audit, Pensions and Standards Committees, commentary and reporting and, in the case of uncorrected misstatements, through our request for management representations.

Auditor declaration

In relation to the audit of the financial statements of the London Borough of Hammersmith and Fulham and the London Borough of Hammersmith and Fulham Pension Fund for the financial year ending 31 March 2017 we confirm that there were no relationships between KPMG LLP and the London Borough of Hammersmith and Fulham and the London Borough of Hammersmith and Fulham Pension Fund, their directors and senior management and their affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We summarise overleaf the non-audit services that we have provided, the fee, the potential threats to auditor independence and the associated safeguards in place.

Appendix 4

Audit independence

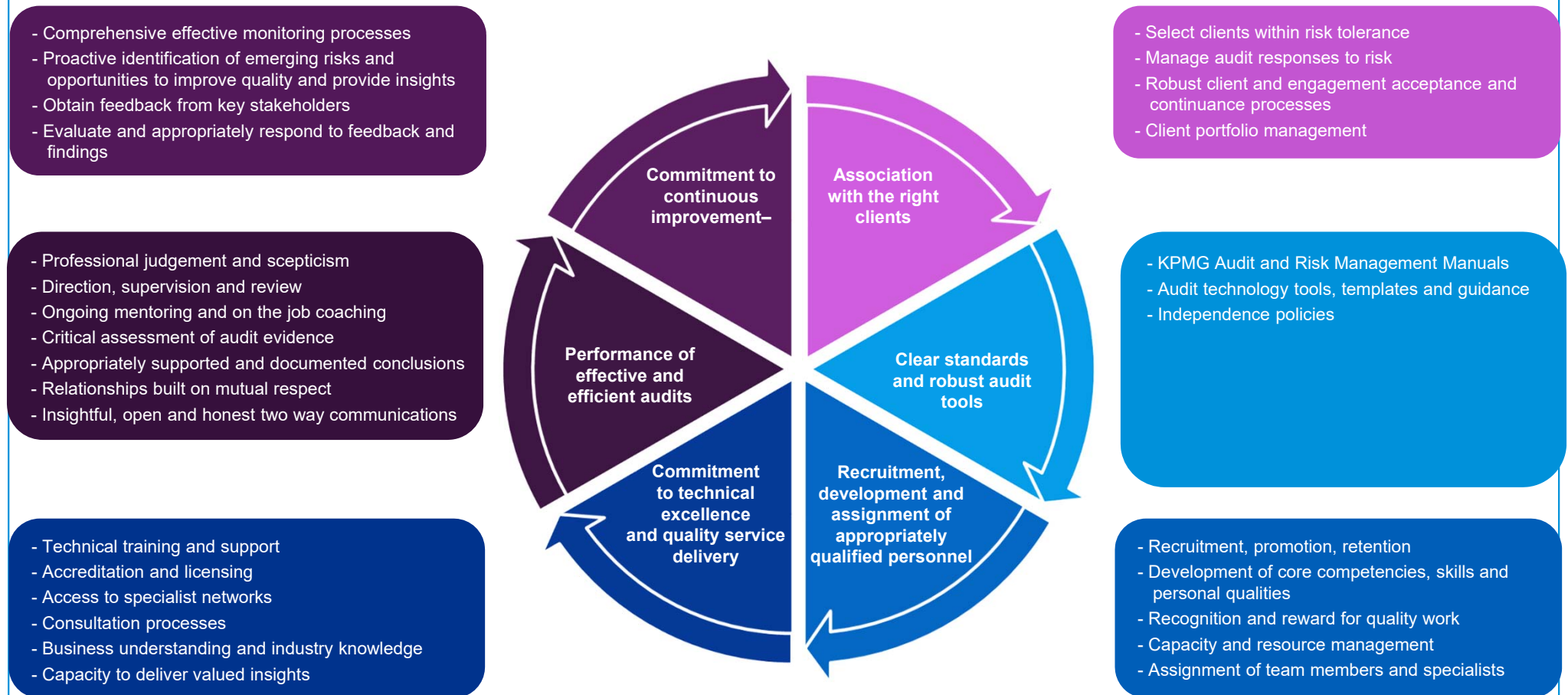
Description of non audit services	2016/17 fees	Potential threat to auditor independence	Associated safeguards in place
Non PSAA grant claims	£7,000 excluding VAT	No threats to auditor independence arise	This is a service typically performed by external auditors, no specific safeguards are necessary.
Managed services review	£7,000 excluding VAT	No threats to auditor independence arise, the work being aligned to the audit	
Total fees	£14,000 excluding VAT		
Total fees as a % of the external audit fees	8.5%		

We have considered the ratio of audit to non-audit fees and as required by the APB Ethical Standards. The principal threat which arises from fees from non-audit services which are large in absolute terms relative to the audit fee is the perception of self-interest and advocacy. In this regard, we do not consider that the above ratio creates such a self-interest or advocacy threat since the absolute level of non-audit fees is not significant to our firm as a whole and neither the audit partner nor members of the audit team are incentivised on, or rewarded in respect of, the provision of non-audit services to you. We believe that the question of perception is best addressed through appropriate disclosure as to use of the auditor for the provision of non-audit services in the Authority's annual report and accounts.

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





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