Report to those charged with governance

London Borough of Ealing

20 July 2016

Contents

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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 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 Public Sector Audit Appointment'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 (Neil Thomas), the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981), or by email to 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 3HZ.

Section one: Introduction

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for both the Authority and its pension fund; and**
- **Our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- Our audit work at London Borough of Ealing ('the Authority') in relation to the Authority's 2015/16 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you on 15 March 2016, set out the four stages of our financial statements audit process.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during June and July 2016. However reference is also made where relevant to other stages of our audit.

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

VFM conclusion

Our *External Audit Plan 2015/16* explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority and the Fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations and this is detailed in Appendix 2.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Section two: Headlines

Headlines

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's Statement of Accounts on 29 July 2016. We also anticipate reporting that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE in June 2007. We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's accounts as contained in the Authority's Statement of Accounts on 29 July 2016.
Audit adjustments	Our review identified one non material audit adjustment of £801,000 relating to the classification of creditors due within one and more than one year. The impact of the adjustment has nil effect on the net worth of the Authority and the Council has decided not to adjust the Statement of Accounts due to the nature of the difference and the amount involved. Full details are included in Appendix 3. We identified a number of other minor audit differences which either related to the disclosure notes or were presentational. These include adjustments to the presentation of audit fee and revising the split of receipts and payments for long term creditors The Authority has adjusted for these differences. We have raised two recommendations in relation to our work which are summarised in Appendix 1.
Key financial statements audit risks	We review risks to the financial statements on an ongoing basis. In addition to the two standard audit risks relating to management override of controls and fraudulent revenue recognition, we identified two additional financial statements audit risks in our 2015/16 External Audit Plan. — The valuation of Land and buildings including council dwellings; and — The valuation of the Pension liability. We have worked with officers throughout the year to discuss these key risks and our detailed findings are reported in Section 3 of this report. There are no matters of any significance arising as a result of our audit work in these areas.
Accounts production and audit process	The Authority delivered to their accelerated closedown timetable. The draft Statement of Accounts were prepared and published on 1 June 2016, four weeks before the statutory deadline and eight days earlier than 2014/15 and were of a high standard. We were provided with a majority of working papers on 6 June 2016, the day we started the audit. The working papers were of a good standard.

Headlines (cont.)

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

Completion	At the date of this report our audit of the Statement of Accounts is substantially complete, subject to completion of the following areas: — Obtaining outstanding investments confirmation; — Obtaining reconciliations of payroll and accounts payable downloads with cost codes in the general ledger; — Review of the final accounts; — Minor outstanding audit queries; — Receipt of signed representation letter; and — Final overall review and closing processes by Neil Thomas, KPMG Partner. Before we can issue our opinion, we require a signed management representation letter which covers the financial statements of both the Authority and the Pension Fund. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's Statements of Accounts.
VFM conclusion and risk areas	We did not identify any significant VFM risks specific to the Authority in our 2015/16 external audit plan. We have substantially completed our VFM work programme and there are no matters of any significance arising as result of our audit work. We anticipate that we will conclude that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion on 29 July 2016.
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. We are not in a position to issue our audit certificate with the audit opinion as: — HM Treasury has recently issued its guidance for completing the Whole of Government Accounts (WGA) and issued the consolidation packs that authorities need to complete in early July 2016. The deadline for the Authority to prepare the consolidation pack is 12 August 2016 with an audit deadline of 21 October 2016. We are aiming to complete the work in early September 2016. — The Authority provided us with a draft Pension Fund Annual Report on 15 July 2016 which we are in the process of reviewing. The deadline for the Authority to publish this is 1 December 2016 but we expect to be able to issue our audit report for the Pension Fund Annual Report in August 2016 to allow early publication. We have not received any objections to the accounts from local electors, therefore we expect to issue our audit certificate in September following completion of the above work.

Section three: Financial Statements

Proposed opinion and audit differences

We have not identified any issues in the course of the audit of the Fund that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Authority and the Pension Fund's financial statements.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

Proposed audit opinion

Subject to all outstanding queries being resolved, we anticipate issuing an unqualified audit opinion on the Authority and Pension Fund financial statements following approval of the Statement of Accounts by the Audit Committee.

Audit Differences - Authority

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

The final materiality (see Appendix 5 for more information on materiality) level for this year's audit was set at £15m. Audit differences below £750,000 are considered trivial. Our audit identified one non trivial audit difference, relating to the classification of creditors due within one and more than one year, details of which we set out in Appendix 3. This has not been adjusted by the Authority due to the nature of it and the value.

During the audit, the Authority identified that it had double counted part of the public health grant which meant that gross income and gross expenditure were overstated by £10.3 million. This had no impact on net cost of services. This has been adjusted and further details are included in Appendix 3.

In addition, we identified a number of minor audit differences which either related to the disclosure notes or were presentational. The Authority has adjusted for these.

Audit Differences - Pension Fund

Our audit of the Fund did not identify any significant audit differences.

For the audit of the Fund we used a lower materiality level of £8m. Audit differences below £400,000 are considered trivial.

Subject to all outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit Committee on 28 July 2016.

Annual Governance Statement

We have reviewed the Annual Governance Statement and 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.

Narrative statement

We have reviewed the Narrative Statement and not identified any inconsistencies with the Statement of Accounts.

Significant risks and key areas of audit focus

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our External Audit Plan 2015/16, we identified the significant risks affecting the Authority and the Fund's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work. The table below sets out our findings for each of these risks.

Significant audit risk	Issue
Management override of control. *Risk impacts Authority and Pension Fund only*	Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit. In line with our methodology, we carried 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. There are no matters arising from this work that we need to bring to your attention.
Fraudulent revenue recognition. *Risk impacts Authority and Pension Fund*	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as the majority of the authorities income as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebutted this risk for Council Tax, Business Rates, Housing rents and annual central government grants, as well as the Pension Fund, and did not incorporate specific work into our audit plan in these areas over and above our standard fraud procedures. However, we did consider it for income relating to s106 monies and grants that span financial years. For s106 monies the Council had a closing balance of £19.7 million, having received £6.8 million end spent £6.0 million during the year. We reviewed a sample of receipt and expenditures to ensure they were being correctly accounted for and used. For capital grants and contributions of £36 million credited to the income and expenditure account we reviewed the transactions to and from the capital grants unapplied account and tested a sample of receipts. There are no matters arising from this work that we need to bring to your attention.

Significant risks and key areas of audit focus

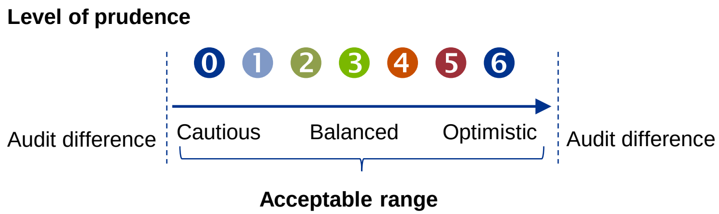
Area of risk	Issue
Land and Buildings valuation *Risk impacts Authority only*	In 2015/16 the Authority reported Property, Plant and Equipment of £1,787 million of which £1,573 million related to land and buildings, including Council dwellings. Local authorities exercise judgement in determining the fair value of the assets held and the methods used to ensure the carrying values recorded each year reflect those fair values. Given the materiality in value and the judgement involved in determining the carrying amounts of assets we considered this to be an area of significant audit risk. We have reviewed the approach to valuation, the qualifications and reports by the Authority's valuers and the judgements made by the Authority in response to the information received. Where valuations are made other than at the year end, we have reviewed the Authority's judgement in assessing movements from the valuation date. For Council dwellings there was an overall decrease in the valuation of approximately £40 million although approximately £36 million related to the Social Discount Factor of 25% being applied to new builds and capital works. For other Land and Buildings there was a £2m decrease in value charged to the provision of services and £29 million increase in valuations credited to the revaluation reserve. The valuer this year revalued properties with a value at 31 March 2016 of £382 million out of the total value of other land and buildings at the year end of £646 million Our review did not identify any issues to bring to your attention.
Pension Fund Liability *Risk impacts Authority only*	In 2015/16 the Authority reported a net pension liability of £377m. The liability is calculated by the Authority's external actuary using figures provided by the Authority and their professional judgements. Given the materiality in value and the estimates involved in determining the liabilities we consider this to be an area of significant audit risk. We have reviewed the approach to valuation, the qualifications and reports by the Authority's actuary and the judgements made by the Authority in response to the information received. We have used our experts to evaluate the assumptions used to determine whether they are reasonable, check figures provided by the Authority and confirm that the figures are accurately reflected in the financial statements. Our review did not identify any issues to bring to your attention.

Other areas of audit focus

In our External Audit Plan 2015/16 we also identified payroll, housing benefits expenditure, non pay expenditure and minimum revenue provision as areas of audit focus for the Authority and investments for the Pension Fund. Our review of these areas did not identify any issues to bring to your attention.

Judgements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:



Assessment of subjective areas				
Asset/liability class	**15/16**	**14/15**	**Balance (£m)**	**KPMG comment**
Provisions	3	3	£10.0 million *(PY: £10.8 million)*	We consider the related disclosures to be proportionate. The main provisions on insurance and business rates appeals are consistent with the prior year and in line with our expectations.
Creditors including accruals	3	3	£147 million *(PY: £158 million)*	We consider the related disclosures to be proportionate. The main creditors are consistent with the prior year and in line with our expectations.
Debtors	3	2	£94 million *(PY: £72 million)*	Debtors consist of gross debtors of £145 million with provision for impairment made of £51 million. The main categories of impairments are for overpaid housing benefits, business rates and Council Tax. The Authority has reduced the percentage impairment applied to business rates that are between one and three years old and changed the method for calculating Council Tax provisions. This has lead to a decrease of about £3 million in the overall impairment but the figures appear reasonable.
Property, Plant and Equipment (valuations / asset lives)	3	3	£1,786 million *(PY: £1,730 million)*	The Council has followed the valuation and asset lives supplied by the valuers for other land and buildings. Council dwellings are revalued at the start of the year and revalued at the year end using valuation indices provided by the valuer.
Pensions liability	3	3	£377 million *(PY: £410 million)*	The discount rate, inflation, discount rate, salary growth and life expectancy rates used are in line with the range expected. The decrease in the liability is mainly due to an increase in the discount rate but offset in a loss in assets.

Accounts production and audit process

The Authority has a well established and sound accounts production process. This operated well in 2015/16, and the standard of accounts and supporting working papers was good.

Officers generally dealt promptly and efficiently with audit queries and the audit process was completed within the planned timescales.

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
Accounting practices and financial reporting	The Authority continues to maintain a strong financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate.
Completeness of draft accounts	The Authority signed off a complete set of draft Statement of Accounts on 1 June 2016, four weeks ahead of the statutory deadline. This was in line with the Authority's timetable. The draft accounts were produced eight days earlier than in 2015.and were produced to a good quality.
Quality of supporting working papers	We issued our *Accounts Audit Protocol* including our required working papers for the audit on 8 April 2016. The main working papers were available for the start of the on site visit on 6 June 2016, The working papers to support the draft Statement of Accounts was of a good standard.
Response to audit queries	Officers resolved audit queries in a timely manner.
Pension Fund Audit	The audit of the Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

Systems – control weakness

The Authority has redesigned its bank reconciliation processes during the year to improve the efficiency of the process. However, while this work was in progress, the Authority's main bank account was not reconciled on a monthly basis and the first monthly bank reconciliation for the financial year was prepared in January 2016. Other monitoring controls relating to the bank account such as daily reconciliation of cash receipts were operating during this period. The initial bank reconciliation in January 2016 identified a variance of £846,215 and officers completed further work and reduced this difference to £36,741 by 31 March 2016. Bank account reconciliations are now being prepared and reviewed monthly. (See recommendation one).

Conclusion

The Authority delivered to their accelerated closedown timetable this year. The draft Statement of Accounts were prepared and published on 1 June 2016, four weeks before the statutory deadline and eight days earlier than last year. The draft Statement of Accounts and working papers were prepared to a good standard..

Prior year recommendations

As part of our audit, we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report. The Authority has implemented three of the five recommendations in our 2014/15 ISA 260 report. Appendix 2 provides further details.

Completion

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

Before we can issue our audit opinion, we require a signed management representation letter from you.

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 the London Borough of Ealing and London Borough of Ealing Pension Fund for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and London Borough of Ealing and London Borough of Ealing Pension Fund, 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 Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 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 the Executive Director of Corporate Resources for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

We have requested specific management representations on there being no contract variations to the Private Finance Initiative (PFI) schemes.

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 others matters which we wish to draw to your attention in addition to those highlighted in this report.

Section four: Value for Money

VFM Conclusion

Our VFM conclusion considers whether Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

Background

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

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

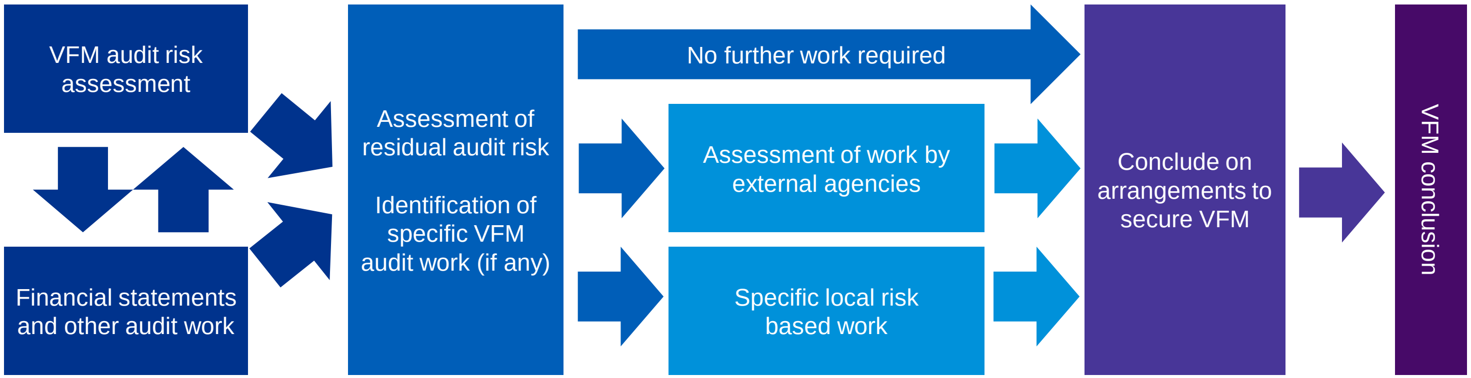
The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.

Conclusion

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

Sub criterion	Met
Informed decision making	✓
Sustainable resource deployment	✓
Working with partners and third parties	✓



Specific VFM Risks

We did not identify any specific VFM risks.

We did though identify financial resilience as an area of audit focus.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- Assessed the Authority's key business risks which are relevant to our VFM conclusion;
- Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and
- Identified financial resilience as an area of audit focus.

Key findings

Below we set out the findings in respect of our work on financial resilience. For all other areas we concluded that we did not need to carry out additional work as there was sufficient relevant work that had completed by the Authority, inspectorates and review agencies in relation to the key business risks which are relevant to our VFM conclusion.

Area of audit focus	Risk description and link to VFM conclusion	Assessment
Financial Resilience	Since 2010 the Council has faced both funding reductions from central Government and increased cost pressures in many of its services such as adult social care. As a result, savings totalling £87 million were delivered in the four year to 31 March 2015 and a further £96 million of savings were identified in the Medium Term Financial Plan 2015/16 that required to be delivered by 31 March 2019. Identifying and delivering this level of savings, while continuing to deliver quality services, has meant that we have highlighted financial resilience as an area of audit focus. This is relevant to all three of the sub-criteria of the VFM conclusion.	The Authority has historically had strong financial planning and management arrangements which have continued this year. The budget process is ongoing throughout the year with future years savings agreed by Members as they are identified. In the Medium Term Financial Plan to 2019/20 agreed as part of the 2016/17 budget process in February 2016, £20 million of the estimated £25 million of savings required for 2017/18 had already been identified and agreed by Members. In 2015/16, the budget set required £43 million of savings. The budget was closely monitored throughout the year, with actions taken to address cost pressures such as adult social care placements, and was delivered, leaving a General fund reserve of £15 million. Earmarked reserves increased by £6 million during the year to £93 million excluding schools reserves. A balanced budget for 2016/17 has been set with savings included of £27 million and no increase in the Council Tax. Our overall view is that you continue to respond to the financial challenges you face, plan thoroughly in advance and deliver the budget.

Appendices

Appendix 1: Key issues and recommendations

We have given all recommendations a risk rating and agreed the action management should take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will follow up these recommendations formally next year.

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.

No	Risk	Issue and recommendation	Management response / responsible officer / due date
1	2	**Overall control environment** The Finance Department has undergone a restructuring and implemented a number of changes in accounting processes during the financial year. As noted on page 13, the main bank account was not reconciled or reviewed for the first nine months of the year although this is now being completed on a monthly basis with the Director of Finance getting assurance it has been completed. . There are a number of fundamental controls in any authority that management need to be assured are operating as expected. These include bank reconciliations being completed, controls over authorisation of payment of invoices, review of payroll payments and compliance with Treasury Management investment policies. Many organisations have identified fundamental controls and introduced monthly positive reporting to give assurance to Directors of Finance that these controls are operating as expected. The Authority introduced from June 2016 a key performance indicator on reconciliations to strengthen its finance monitoring arrangements. On a monthly basis, the percentage of key reconciliations, including the bank reconciliations, that are prepared and authorised are reported at a detailed level to the Director of Finance and at a higher level to the Corporate Resources Departmental Management Team to give positive assurance to senior officers.. Building on this, we recommend that the Authority identifies what it considers to be all key fundamental controls and introduces a formal system, with appropriate evidence, for reporting to the Director of Finance that fundamental controls have and are operating.	The monitoring and reporting of key controls will continue and be reviewed and enhanced as part of the department's continuous improvement process. Strategic Finance Partner – Corporate Already In Place

Appendix 1: Key issues and recommendations (cont.)

We have given all recommendations a risk rating and agreed the action management should take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will follow up these recommendations formally next year.

No	Risk	Issue and recommendation	Management response / responsible officer / due date
2	3	**Journals processing and authorisation** The Authority changed the processes for raising journals during the year from a paper based system to an electronic process through the use of an email to an inbox. The change in the process also meant that some journals are now entered by finance staff without a review being required. The mitigating control that the Authority has is that revenue budgets are monitored closely by budget holders and control accounts are regularly reconciled and these would identify any material errors. Our testing identified that journals were posted under both processes during the first six months of the financial year. We understand that relevant staff were informed via team meetings or one to one discussions. We have not been provided with any documentation as to who signed off the new approach, when it would be introduced, how staff would be informed or the period for dual running. The Authority is updating its Agresso system in October 2016 and this will include a control that requires all journals to be electronically authorised prior to being posted. We recommend: 1) When decisions are taken to introduce major changes to financial systems, these are appropriately documented and approved by a relevant officer; 2) The changes are clearly communicated to all the relevant staff including details of when the old processes will be ended; and 3) While journals can be prepared and processed without being reviewed, a monthly listing of journals is obtained and reviewed to confirm they are in line with expectations.	Communication procedures for significant changes to financial systems will be reviewed and amended for future system or process changes. The journal process has recently been re-communicated to all Finance staff. Strategic Finance Partner – Corporate October 2016.

Appendix 2: Follow up of prior year recommendations

The Authority has implemented three of the five recommendations agreed in our *ISA 260 Report 2014/15.*

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

Number of recommendations that:	
Were included in original report	5
Were implemented in year or superseded	3
Remain outstanding	2

No	Risk	Issue and recommendations	Management response/ Officer responsible and due date	Status as at July 2016
1	3	**Bank reconciliations** Bank reconciliations were prepared electronically each month. The Authority's control to evidence the person who has prepared them, and that someone more senior has reviewed it in a timely manner is to print off the reconciliation and sign them. The Authority could not evidence that this print and sign process had occurred for the two months we tested (November 2014 and March 2015). IT applications can be used to electronically evidence the review and approval of financial records that reduces the need to print and retain paper records. Deploying such an application would help efficiency, assist in maintaining a strong audit trail and reduce the need for storage of such paper records.	Evidence of review and sign off will be stored electronically. Officers will investigate the most appropriate method of achieving this. Finance Manager – Financial Control September 2015	**Not implemented** See Appendix 1 for updated bank reconciliation recommendation. There is no evidence bank reconciliations were prepared or reviewed for the first nine months of the year. The Authority is looking to move the review of bank reconciliations to an electronic basis over the next few months.

Appendix 2: Follow up of prior year recommendations (cont.)

No	Risk	Issue and recommendations	Management response/ Officer responsible and due date	Status as at July 2016
2	3	**Salary adjustments** We selected and reviewed a sample of amendments made by managers on the iTrent payroll system. We found that while managers were authorised to make amendments to hours and pay, the authorisation process of these amendment is electronic and evidence of the electronic authorisation that occurs is only retained for three months. Evidence of the approval process of changes to salaries and hours should be retained.	The system for retaining the approvals will be changed to ensure these are archived at the end of the three month period and retained for six years. Head of Payroll and iTrent October 2015	**Implemented** The Authority retains appropriate supporting documentation for approvals for changes to salaries and hours. Our sample testing of salary amendments did not identify any exceptions to bring to your attention.
3	3	**Detailed review** The Authority has worked hard and brought forwards its accounts production timetable this year, at a time when it was also undergoing a major reorganisation in the finance function. There were three adjustments as a result of our audit that may have been identified through a detailed review of the working papers. Ensure sufficient time is built into the process for a detailed review of working papers to be completed.	A review of the 2014/15 closedown process will be undertaken, incorporating feedback from KPMG. This will form the basis of the planning for the 2015/16 financial year end with a focus on ensuring that a detailed quality review of working papers occurs Strategic Finance Partner – Corporate October 2015	**Implemented** The Statement of Accounts were reviewed by officers and there are no significant adjustments required to the draft Statement of Accounts.

Appendix 2: Follow up of prior year recommendations (cont.)

No	Risk	Issue and recommendations	Management response/ Officer responsible and due date	Status as at July 2016
4	3	**Finance changes** The finance function has undergone a reorganisation to achieve efficiency savings and to prepare itself for the challenges ahead for Local Government. During periods of change, it is vital that authorisation levels and controls are kept up to date. We found during our bank confirmation work that two of the four signatures on the bank mandate relating to the Lloyds Pension Fund account had left the Authority. Review authorisation levels and controls for items such as bank mandates, journals and reconciliation responsibilities to ensure they remain valid and up to date.	All authorisation lists will be updated to reflect the new structure and will subsequently be updated to reflect any changes. Finance Manager – Financial Control September 2015	**Partially implemented** While we could see that changes to bank mandates had been made during the year, our review of the bank mandate list at 31 March 2016 identified one former member of staff who had left the Authority approximately nine months earlier This we understand was due to an oversight
5	3	**Fixed Asset values** The local government SORP requires authorities to revalue assets on a “not more than every five years basis”. The Authority correctly applies this through completing a valuation of 20% of non-housing assets per year but is also required to confirm that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. The Authority instructed GVA to carry out a desktop review of other land and buildings assets with a value greater than £1m which were last revalued in 2011/12 or 2012/13 and then used this to calculate the percentage increase for all assets revalued in this period. The Authority was able to satisfy itself that the values of these assets were still materially correct. This leaves approximately £274m of assets (out of a total assets of £1,730m) revalued in 2013/14 which may have changed in value since they were revalued. The Authority should consider whether an alternative approach, for example full valuations every five years (supported by more frequent desktop valuations), to this valuation method would result in a clearer set of asset values and streamline element of the accounts production process in future period.	A review will be undertaken of alternative approaches to identify if there is a cost-effective approach that provides an improved valuation method. Strategic Finance Partner – Corporate December 2015	**Implemented** The Authority reviewed the timing and valuations of its portfolio and included all properties over £2m that had not been revalued in the current or previous year as part of the valuation exercise – those which had not been valued in the current or previous financial year having a desktop revaluation. We discussed this approach and supporting evidence with the Authority in February 2016 and were satisfied with the process.

Appendix 3: Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2016.

We are reporting all audit differences over £750,000.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

We identified one uncorrected audit difference that related to the split between short and long term creditors which is a presentational issue on the balance sheet with no impact on the Comprehensive Income and Expenditure Account or General Fund reserves. In line with ISA (UK&I) 450 we request that you correct uncorrected audit differences. However, it will have no effect on the opinion in our auditor's report, individually or in aggregate.

No.	Impact Gross expenditure	Gross income	Assets	Liabilities	Basis of audit difference
1				Dr Long term creditors £801k Cr Short term creditors £801k	Incorrect split of amounts owed in respect of the PFI creditor between short and long term creditor.

Corrected audit differences

There were no significant audit differences that needed to be corrected. The Authority identified during the audit one significant adjustment that was made.

No.	Impact Gross expenditure	Gross income	Assets	Liabilities	Basis of audit difference
1	Cr Net cost of services £10,270k	Dr Net cost of services £10,270k			Double counting of part of the public health grant being split across services. Main service lines impacted for both income and expenditure were Children's £6.6 million and Adult Social Care £3.3 million

We did identify a number of minor audit differences which either related to the disclosure notes or were presentational. The Authority has adjusted for these differences.

Appendix 4: Declaration of independence and objectivity

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the Authority.

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

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd 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 Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd 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. Public Sector Audit Appointments Ltd 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.

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 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 Engagement Lead 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.

Appendix 4: Declaration of independence and objectivity (cont.)

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. To facilitate this, a hard copy of the Manual is provided to everyone annually. 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 Ealing and London Borough of Ealing Pension Fund for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and London Borough of Ealing and London Borough of Ealing Pension Fund, 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 Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Audit Fees

Our scale fee for the audit as set by Public Sector Audit Appointments Limited was £166,583 (2014/15: £222,110) plus VAT. This fee is in line with that highlighted within our audit plan agreed by the Audit Committee in March 2015. However due to additional work required on the bank account we are proposing an additional fee of approximately £2,000. We will discuss and agree the final figure with officers when the audit is complete and then this will ultimately be approved by Public Sector Audit Appointments Limited

Our scale fee for certification for the HBCOUNT was £27,369 (2014/15: £29,440) plus VAT, and fees for the Teachers' Pension Return and Pooling of Housing Capital Receipts is £6,000 (2014/15: £6,000) plus VAT.

The scale fee for the Pension fund was £21,000 (2015/16 £21,000) plus VAT. The fee is in line with that highlighted in our audit plan agreed by the Audit Committee in March 2015.

Non-audit services

We have not provided any non-audit services to the Authority this year. We have though provided services to Broadway Living Limited for tax services with a value of £10,063 plus VAT. We have considered the risks to our audit independence on the next page.

Appendix 4: Declaration of independence and objectivity (cont.)

We have considered the potential threats to auditor independence.

Potential threat to auditor independence and associated safeguards in place

Self interest – This engagement is entirely separate from the audit through a separate contract, engagement team and lead partner. In addition, the audit fee scale rates were set independently to KPMG by the PSAA (previously Audit Commission). Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit.

Self review – The nature of this work is to review the assumptions and provide insight into areas where tax issues have not been considered for Broadway Living Limited. Therefore, it does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors. The existence of a separate team for this work is a further safeguard. Consequently, we consider we have appropriately managed this threat.

Management threat – This work will be advice and support only – all decisions will be made by Broadway Living Limited.

Familiarity – This threat is limited given the scale, nature and timing of the work. The existence of the separate team for this work is the key safeguard.

Advocacy – We will not act as advocates for the Authority or Broadway Living Limited in any aspect of this work. We will draw on our experience in such roles to provide Broadway Living Limited with a range of approaches but the scope of this work falls well short of any advocacy role.

Intimidation – not applicable

Appendix 5: Materiality and reporting of audit differences

For 2015/16 our materiality is £15m for the Authority's accounts. For the Pension Fund it is £8m.

We have reported all audit differences over £750,000 for the Authority's accounts and £400,000 for the Pension Fund, to the Audit Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

— 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.

— 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 2015/16, presented in March 2016.

Materiality for the Authority's accounts was set at £15m which equates to around 1.7% of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit 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 Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £750,000 for the Authority.

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 Committee to assist it in fulfilling its governance responsibilities.

Materiality – pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £8m which is approximately 1.7% of gross assets.

We design our procedures to detect errors at a lower level of precision set at £400,000 for 2015/16.

Appendices

Appendix 6: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

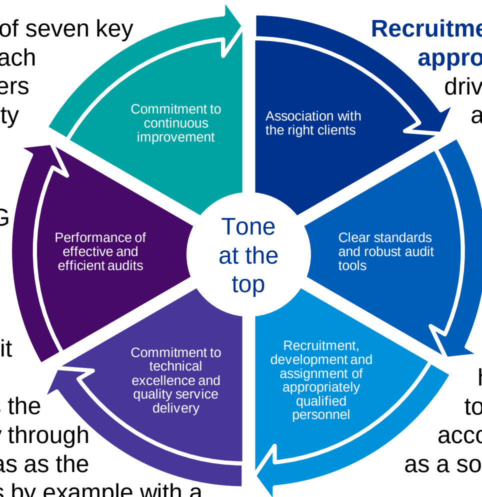
This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.



We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Neil Thomas as the partner sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

Recruitment, development and assignment of appropriately qualified personnel: One of the drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take care to assign the right people to the right clients based on a number of factors including their skill set, capacity relevant experience.

We have a well developed technical network across the firm that puts us in a strong position to deal with emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.
- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's Code of Audit Practice.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

Appendix 6: KPMG Audit Quality Framework

Commitment to technical excellence and quality service delivery: Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviours in the performance of effective and efficient audits. The key behaviours that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy..

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (http://www.psaa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/).

The latest Annual Regulatory Compliance and Quality Report issued June 2014 showed that we are meeting the overall audit quality and regulatory compliance requirements.