DRAFT: External Audit Report 2016/17

London Borough of Ealing

27 July 2017

Content

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This report is addressed to London Borough of Ealing (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 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 (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

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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 London Borough of Ealing (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 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 Committee meeting. Aspects of the following work is ongoing:

- Financial statements audit including Comprehensive Income and Expenditure Account and related notes, Property Plant and Equipment, Pension liability, Debtors, Creditors and notes to the accounts and aspects of the Pension Fund.
- Initial work on the local elector objection to confirm that the matter raised does not have a material effect on the financial statements or on our value for money conclusion.

We will also have to complete the senior manager and partner reviews and final review processes including receiving the management representation letter.

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 prior to the deadline of 30 September 2017, following the Audit Committee adopting them and receipt of the management representations letter.

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

Subject to the matters 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 is one unadjusted audit difference and two adjusted audit difference, explained in section 2 and appendix 2.
- We agreed minor presentational changes to the accounts with officers,
- In additional to our routine requests we are asking for one management representation, that there have been no contract variations to the PFI Schemes during the year, this is 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 received one objection from local electors this year to date

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 recently issued its guidance for completing the Whole of Government Accounts (WGA) and issued the consolidation packs that authorities need to complete. The deadline for the Authority to prepare the consolidation pack was 7 July with an audit deadline of 29 September 2017. We are aiming to complete the work in August 2017.

— The Authority provided us with a draft Pension Fund Annual Report on 14 July 2017. The deadline for the Authority to publish this is 1 December 2017 but we expect to be able to issue our audit report for the Pension Fund Annual Report in August 2017 to allow early publication.

— We received on 19 July 2017 a notice of objection from a member of the public which we are now considering.

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 prior to the deadline of 30 September 2017.

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..

The National Audit Office Code of Audit Practice (the Code) requires that auditors should consider:

- whether, in the public interest, they should report on any matter that comes to their notice so that it is brought to the attention of the audited body and the public; and
- whether to use powers under the Local Audit and Accountability Act 2014 to make written recommendations to the audited body which need to be considered by the body and responded to publicly.

We have issued no such reports or recommendations.

We are satisfied that the Authority has addressed the recommendations raised in our ISA260 report in 2015/16. We have made four new recommendation as a result of our 2016/17 work. The recommendations relates to IT controls and overall financial planning and monitoring and are shown in appendix 1.

We undertake the audit of the Teachers’ Pension Return and the Pooling of Housing Capital Receipts Grant that does not fall under the PSAA arrangements. These have not yet been started and the deadlines are 30 November and 31 October respectively. The fees for this work is explained in section two.

Financial statements audit

We audit your financial statements by undertaking the following:

	Accounts production stage		
Work Performed	**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 have made one recommendation relating to the financial controls which relates to IT controls and access. We believe that the recommendation (see appendix 1) will strengthen your control environment. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work. As part of our work for the Pension Fund, we have considered the matters set out in "BNY Mellon Asset Servicing Custody and Securities Lending Services" ISAE *3402 report.* : There are no issues from this work that we wish to raise with you.
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 officers and this was issued as a final document to the finance team. Following a slight delay in the timetable for preparing the draft financial statements, this had a slight knock on effect for the timeliness of some working papers. The working papers were generally of a good standard.

Financial statements audit

4. Accounting standards	We work with you to understand changes to accounting standards and other technical issues. For 2016/17 these changes related to: • Updates to the presentation of the Comprehensive Income and Expenditure Statement and the Movements in Reserves Statement and the introduction of the new Expenditure and Funding Analysis: • Amended guidance on the Annual Governance Statement: and • Changes in the format of the Pension Fund accounts. There were no issues arising from these changes that we need to report to you
5. Accounts Production	We received complete draft financial statements on 7 June 2017, seven days after the Authority's deadline although over three weeks in advance of the statutory 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 Finance to share views on the final accounts audit which hopefully will lead to further efficiencies in the 2017/18 audit process. While the Authority did not achieve its deadline this year, it is in a good position to meet the new 2017/18 statutory deadline publishing the financial statements by 31 May 2018, building on this years experience. We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.
6. Testing	We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. We identified one adjusted audit difference to the Pension Fund that overstated investments by £1.7 million, one to the main financial statements that overstated Property Plant and Equipment by £44 million and one unadjusted audit difference of £1.9 million for the Authority which understated debtors and interest receivable by £1.9 million. Details of these are shown in Appendix 2. We also identified a number of presentational changes to the accounts which the Authority adjusted.
7. Representations	You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Executive Director of Corporate Resources on 13 July 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 asking Management to provide specific representations that there have been no variations to PFI contracts this year.

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 following areas which were identified as significant risks within our audit plan;
  - LGPS Triennial Valuation (Authority and Pension Fund) and annual IAS 19 valuation (Authority only);
  - Property, Plant and Equipment: Council dwellings and Other Land and Buildings valuations (Authority only); and
  - Restatement of CIES, EFA and MIRS (disclosure, Authority only)
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Background and summary of findings
Risk : LGPS Triennial Valuation (Authority and Pension Fund) and annual IAS 19 valuation (Authority only)	Authority – pension liability at 31 March 2017 £570 million Pension Fund – disclosures on the triennial valuation including net liabilities of £238 million	The triennial valuation at 31 March 2016 forms the basis for contributions to the Pension Fund for the three years from 1 April 2017 and the baseline assumptions for the Authority's annual IAS 19 valuation. We reviewed the approach to the valuation, the qualifications, actuarial assumptions and reports by the Authority's actuary and data submitted for the whole Pension Fund. Our review did not identify any issues to bring to your attention. For the annual IAS 19 valuation we completed a similar review on the data provided and actuarial assumptions made for the Authority and confirmed that the figures are accurately reflected in the Authority's financial statements. Our review did not identify any issues to bring to your attention.
Risk; Property, Plant and Equipment: Valuation of Council dwellings and Other Land and Buildings (Authority only)	Council dwellings £800 million Other Land and Buildings £677 million	The Authority values all Council dwellings on an annual basis and other land and buildings have to be valued at least every five years. Local authorities exercise judgement in determining the fair value of the these assets and the methods used to ensure the carrying values recorded each year reflect those fair values. We 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. This included having our property expert review the report from the valuers in respect of other land and buildings and test checking the Authority had correctly accounted for the updated valuations. We identified that the Authority had overstated Council dwellings by £44 million due to accounting errors made following the annual revaluation exercise. Our review did not identify any others issues to bring to your attention.
Risk: Restatement of CIES, EFA and MIRS (Authority only)	CIES gross expenditure £1,103 million	Changes to the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 were made to the presentation of the Comprehensive Income and Expenditure Account and Movement in Reserves Statement (MiRS) together with a new Expenditure and Funding Analysis (EFA). We reviewed the layout of the revised statements and the approach to the restatement of the prior year figures comparing them to how figures are reported throughout the year. We confirmed that expenditure and income was being recorded correctly. Our review did not identify any issues to bring to your attention.

Financial statements audit

Other areas of audit focus

We identified 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
Cash (Authority and Pension Fund)	Cash £38 million (Authority) Cash not held by fund managers £6 million (Pension Fund)	We reviewed the controls relating to bank accounts, agreed bank balances to external confirmations requested from the banks and checked a sample of bank reconciliations. Our review did not identify any issues to bring to your attention.
Payroll (Authority only)	Payroll £130 million	We have document the controls in place and substantively tested payroll to ensure that amounts paid out are materially correct. We have also reviewed the year end payroll reconciliations for PAYE and National insurance to ensure amounts due to HMCE are not materially misstated. Our review did not identify any issues to bring to your attention.
Non-pay expenditure (Authority only)	Non pay expenditure £471 million)	We have completed analytical reviews and substantively tested non pay expenditure through selecting a sample and tracing back to invoices or source documents. Our review did not identify any issues to bring to your attention.
Housing Benefit (Authority only)	Housing Benefit £280 million	We have reviewed the Northgate Housing Benefit system to ensure correct parameters are being used and the software release is the latest version, completed reconciliations between the housing benefit system and accounts and how the housing benefit claim has been compiled. Our review did not identify any issues to bring to your attention.
Investments (Pension Fund only)	Investments £1,147 million	We have obtained direct confirmations from the Fund managers and the Custodian and reconciled these to the financial statements, We have also reviewed the ISAE3402 compliance reports for the custodian to give us assurance over their controls. Our review did not identify any issues to bring to your attention.

Financial statements audit

Other areas of audit focus	Account balances effected	Summary of findings
Contributions receivable (Pension Fund only)	Contributions £48 million	We have reviewed the controls in place for the collection of contributions and completed substantive analytical reviews on the amounts received. Our review did not identify any issues to bring to your attention.
Benefits payable (Pension Fund only)	Pensions £44 million	We have reviewed the controls in place for the payment of pensions and completed substantive analytical reviews on the amounts paid. We have also substantively tested a sample of lump sum payments to supporting documentation.

Financial statements audit

Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
Fraud risk from revenue recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. We do not consider this to be a significant risk for the majority of the Authority's 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 and social services income 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.	There are no matters arising from this work that we need to bring to your attention.
Fraud risk from management override of controls	Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. We have not identified any specific additional risks of management override relating to this audit.	There are no matters arising from this work that we need to bring to your attention.

Judgements in your financial statements

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

Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Provisions	3	3	£13 million *(PY: £12 million)*	We consider the provisions to be proportionate. The main provisions on insurance and business rates appeals are consistent with the prior year and in line with our expectations. We consider the provisions to be proportionate.
Creditors including accruals	3	3	£133 million *(PY: £147 million)*	The main creditors are consistent with the prior year and in line with our expectations. We consider the provisions to be proportionate.
Debtors	3	3	£87 million *(PY: £94 million)*	Debtors consist of gross debtors of £140 million (2015:16 £145 million) with provision for impairment made of £53 million (2015/16: £51 million). The main categories of impairments are for overpaid housing benefits, business rates and Council Tax. We consider the provisions to be proportionate.
Pensions liability	3	3	£570 million *(PY: £377 million)*	The Authority uses Mercers as an actuarial expert to assist them in calculating the pension liability. We reviewed the discount rate, inflation, discount rate, salary growth and life expectancy rates used by the Authority and these are in line with the range expected. The increase in the liability is mainly due to a decrease in the discount rate.

Financial statements audit

Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Property, Plant and Equipment (valuations / asset lives)	❷	❸	£1,869 million *(PY: £1,786 million)*	The Authority 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. The valuer has considered a range of different valuation indices and the value used is not unreasonable. The detailed revaluation of the 20% of the Council dwellings using the beacon completed this year for prices at 31 March 2016 showed that the estimate used at 31 March 2016 differed to the final detailed review by about £34 million (4.7%) This indicates the Authority may be slightly prudent in the indices they use to value their Council dwellings. For the current year end the Council's property expert has estimated that Council dwellings increased by 0.25% over the financial year after considering various property indices. This does not seem unreasonable.

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 was completed alongside the main audit. We have reported our finding against the significant risks and areas of audit concern alongside the main Authority on page 10 and 11. There are no specific matters to bring to your attention relating to this.

Pension Fund Annual Report

We received the Pension Fund Annual Report on 14 July 2017.We anticipate completing our review on the Report and issuing our opinion on the Pension Fund Annual Report during August.

Queries from local electors

We received on 19 July 2017 an objection from a member of the public this year that we are currently considering. The final date for any further questions or objections to the accounts is 20 July 2017.

Financial statements audit

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 recently issued its guidance for completing the Whole of Government Accounts (WGA) and issued the consolidation packs that authorities need to complete. The deadline for the Authority to prepare the consolidation pack was 7 July with an audit deadline of 29 September 2017. We are aiming to complete the work in August 2017.
- The Authority provided us with a draft Pension Fund Annual Report on 14 July 2017. The deadline for the Authority to publish this is 1 December 2016 but we expect to issue our audit report for the Pension Fund Annual Report in August 2016 to allow early publication.
- We have received an objection from a local elector that we need to consider and follow the legislative process.

Until we have completed our consideration of these, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014..

Whole of Government Accounts (WGA)

We have not yet received your WGA consolidation pack but anticipate completing the work in August 2017, in advance of the 29 September 2017 audited deadline.

Other grants and claims work

We undertake the audit of the Teachers' Pension Return and the Pooling of Housing Capital Receipts Grant that does not fall under the PSAA arrangements. These have not yet been started as the deadlines are 30 November and 31 October respectively.

Audit fees

Our fee for the audit was £166,583 excluding VAT (£166,583 excluding VAT in 2015/16). This fee was in line with that highlighted in our audit plan approved by the Audit Committee in February 2017.

Our work on the certification of Housing Benefits (BEN01) is planned for August 2017. The planned scale fee for this is £22,080 excluding VAT (£27,321 excluding VAT in 2015/16).

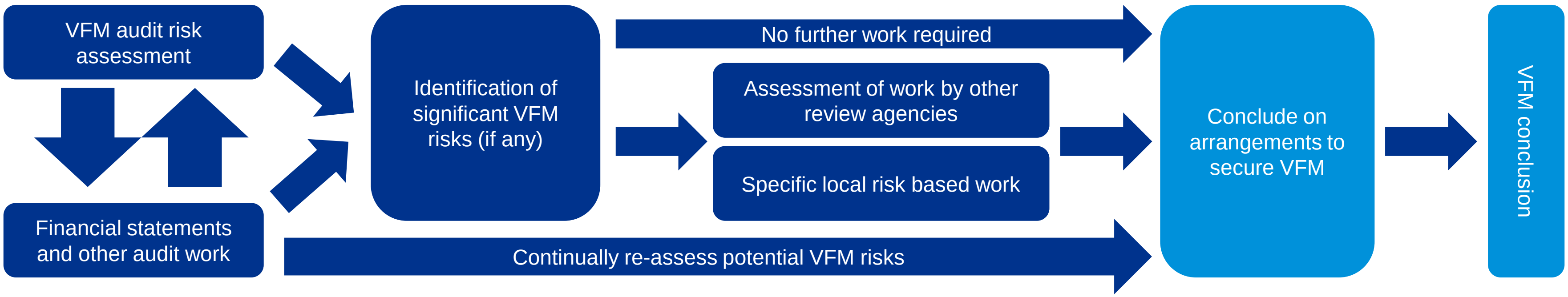
The estimated fees for our audit of the Teachers' Pension Return and the Pooling of Housing Capital Receipts Grant is £6,000.

We have not completed any non-audit work at the Authority in year.

In 2015/16 we provided the external audit service to the Authority's subsidiary company Broadway Living Limited. The fee charged was £5,750. The external audit arrangements for 2016/17 have yet to be agreed. We also provided taxation services to Broadway Living Limited in 2015/16 and the fee charged was £10,063. No non audit services have been provided to Broadway Living Limited this year.

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. We did not identify any significant VFM risks but we identified financial resilience as an area for audit focus where we would keep a watching brief. 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.



Other areas of audit focus

Below we set on page 17 the detailed findings against other areas of audit focus for our VFM work.

Value for money

VFM: other area of audit focus	Our audit response and findings
Financial resilience	**Review of financial position and medium term financial plans** The Authority's outturn for 2016/17 showed that it achieved budget but this included the net use of approximately £10 million of reserves that hadn't been budgeted for at the start of the year. The key areas where budget was not achieved was in Adult Social Care (£22m over budget) and Children's Services (£9m over budget before use of £4 million of departmental reserves). One of the key reasons for reserves needing to be used to support the in year position was that £9 million of the £29 million General Fund savings signed off as being deliverable in the year, hadn't been achieved including £4.3 million in Adult Social Care and £3.2 million in Children's Services. The budget for 2017/18 was agreed by the Authority in February 2017 with an additional £11 million put into Adult Social Care to assist in meeting the demand pressures. However, by the end of May 2017, the Authority is predicting an overspend of £10 million after allocating the in year contingency which would be funded from reserves. The key areas over budget are Adult Social Care (£19 million), Children's Services (£5 million) and Corporate Resources (£5 million). At 31 May 2017, of the £26 million General Fund savings planned, £10 million were red rated, £4 million in Corporate Resources – due to delays in Perceval House redevelopment, £3 million Children's Services and £2.5 million in Adult Social Care. The current outlook for 2018/19 is that £35 million of savings need to be identified to set a balanced budget. It is noted that earmarked reserves are estimated at £90 million at the 31 March 2018 following the expected use of a further £10 million of reserves to support the 2017/18 budget, but after removing service budgets or initiatives that are committed and reserves that are specifically required eg schools, insurance and PFI reserves any spending over budget would need to come from the General Fund reserve. The s151 officer has deemed £15 million, which at the moment is the current General Fund balance, is the minimum level it should be. The Authority cannot afford to continue the level of overspending in 2016/17 and forecast for 2017/18 on Adult Social Care and Children's Services. Savings plans that are signed off at the start of the year need to be delivered and budget holders need to closely monitor their budgets and take appropriate action as soon as it is anticipated that they will not be able to deliver the budget set by Members. The £35 million of savings that are required for 2018/19 will require saving plans or service reductions that are ready to start on 1 April 2018. Increased scrutiny on the saving plans or service reductions will need to be put in place to ensure that all savings that are signed off will be delivered, given the expected reduction in reserves in 2017/18. This will be a major challenge to both officers and Members.

Value for money

VFM: other area of audit focus	Our audit response and findings
Financial resilience	**Future Ealing** The Authority is changing the approach to budget setting with a focus on outcomes to be delivered. The Future Ealing initiative set up has identified nine priority outcomes: • A growing economy creates jobs and opportunities for Ealing residents to reduce poverty and increase incomes and skills; • Children and young people achieve educationally and fulfil their potential; • Children and young people grow up safe from harm; • Residents are physically and mentally healthy, active and independent; • Ealing has an increasing supply of quality and affordable housing; • Crime is down and Ealing residents feel safe; • The borough has the smallest environmental footprint possible; • Ealing is a clean borough and a high quality place where people want to live; and • Ealing is a strong community that promotes diversity with inequality and discrimination reduced. and three distinct cross cutting transformational work streams: • Digital, data and Customer • Commercialisation and Assets • Modern Council A reporting framework has been agreed by Cabinet but it will be vital that there are appropriate links between the nine outcomes and three work streams to ensure that there is not any duplication of effort, given the cross cutting nature of the streams, or work streams concentrating on the same areas for savings. Good practice would be that there is a strong project board and programme team to ensure that this does not occur.

Appendix 1

Recommendations raised and followed up

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

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

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
1	❷	Our testing of IT controls identified: 16 staff who had left the Authority were still shown as active users on Agresso; One member of staff who had left the Authority still had access to the Northgate Housing Benefit system; and For staff who reset passwords for the Northgate Housing Benefit system, superusers will set them up on the system but there is no audit trail to support the need to set them up. We recommend that management review the controls around removing staff from systems and consider hard audit trails for staff being allowed access.	The IT applications team has recently moved to using the service manager system for the logging and tracking of customer queries, new customer requests and for leaver notifications. This new system will lead to improved controls covering leavers and provide an audit trail for password resets. The applications team covers the Northgate and Agresso systems. The actions are in place now and will be fully implemented by 31 October 2017. Officer responsible: Applications Manager, ICT.

Appendix 1

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
Value for Money			
1	2	**Cost pressures** The Authority used in 2016/17 approximately £10 million of reserves to support the in year expenditure, primarily due to Adult Social Care and Children's Services being overspent. After two months of the 2017/18, the Authority is forecasting an overspend against budget of £10 million with Adult Social Care forecasting a £19 million overspend. Given the size of the forecast changes that have occurred after just two months of the current year, we recommend that if current measures put in place to control expenditure in these areas do not deliver in the short term, urgent action is taken to control expenditure in these areas.	Agreed. Work is already underway to enhance scrutiny of cost pressures and future savings plans. Plans are being developed in terms of creating a stronger project board and programme office as part of the 2018/19 budget approach and medium term financial planning. Work continues to ensure there is sufficient spend restrictions and measures in place to reduce budget pressures within Adults and Children's predominantly but also council wide. Executive Director of Corporate Resources January 2018
2	2	**Medium term financial plan** The Authority has identified that the level of savings required to achieve financial balance in 2018/19 is now estimated at £35 million with a further £16 million required in 2019/20. Given the expected reductions in earmarked reserves in 2017/18 to address the forecast overspend, effectively leaving no uncommitted earmarked reserves, it is recommended that enhanced scrutiny is given to all saving plans to ensure that they are fully deliverable in 2018/19, come from recurring revenue expenditure and that this is closely monitored with any potential slippage reported immediately.	
3	3	**2018/19 budget approach** Future Ealing is the name for a programme of work intended to define the long term, outcome led, vision and prioritise the Authority's work as it moves towards an outcome based approach to budget setting for 2018/19. Future Ealing has nine priority outcomes and three cross cutting work streams which report to the Corporate Board but given the nature of the cross cutting schemes, with risks of efforts being targeted in the same area, best practice would be that a Project Board supported by a programme team is set up to co-ordinate the work.	

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):
2	2	0

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2017
Financial statements				
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	Implemented and ongoing monitoring in place. The finance department reports to Ross Brown (Director of Finance) and SMT on a monthly basis the percentage of key reconciliations that have been completed and the percentage that have been formally signed off. Reconciliations are not signed off by management if unexplained differences exist at the deadline. For the main bank reconciliation, officers have continued to strengthen the reconciliation process and while in December and January 2017 reconciliations were prepared, management were still not satisfied with the level of differences. By March 2017 management were satisfied by the level of differences and the explanations behind them.

Appendix 1

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2017
Financial statements				
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.	Implemented From our testing of journals, we were satisfied with the controls in place.

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 on 28 February 2017.

Materiality for the Authority's accounts was set at £15 million which equates to around 1.4% of gross expenditure.

Materiality for the Pension Fund was set at £10 million which equates to around 0.9% of gross assets.

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

Reporting to 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 and less than £500,000 for the Pension Fund.

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

Audit differences

Unadjusted audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit 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. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit Committee, details of all adjustments greater than £750,000 for the Authority and £500,000 for the Pension Fund are shown below.

Authority unadjusted audit differences (£'000)						
#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
1	Cr Interest receivable £1,887					Interest on the loan to WLWA that has not been accrued
2			Dr Debtors £1,887			Interest on the loan to WLWA that has not been accrued
	Cr £1,887		**Dr £1,887**			**Total impact of uncorrected audit differences**

There are no unadjusted audit differences for the Pension Fund.

Appendix 3

Audit differences

Adjusted audit differences

To assist the Audit Committee in fulfilling its governance responsibilities we present in the tables below a summary of non trivial adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Authority adjusted audit differences (£'000)

#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
1			Cr PPE £44,021			Adjustment reducing the value of Council dwellings due to incorrect accounting entries made surrounding the valuation.
2					Dr Capital Adjustment Account £44,021	
3	Dr loss on disposal £8,272					
4	Dr Revaluation loss £35,749					
5		Cr MIRs adjs £44,021				
	Dr £44,021	**Cr £44,021**	**Cr £44,021**		**Dr £44,021**	**Total impact of corrected audit differences**

Pension fund adjusted audit differences (£'000)

#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
1			Cr Investments £1,723			Year end accrued interest overstated
2	Dr Investment income £1,723					Year end accrued interest overstated
	Dr £1,723		**Cr £1,723**			**Total impact of corrected audit differences**

There were also a number of minor presentational adjustments but none that require reporting to the Audit Committee

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;

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 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 London Borough of Ealing and London Borough of Ealing Pension Fund for the financial year ending 31 March 2017 we confirm that there were no relationships between KPMG LLP and London Borough of Ealing and London Borough of Ealing 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.

Appendix 5

Audit quality framework

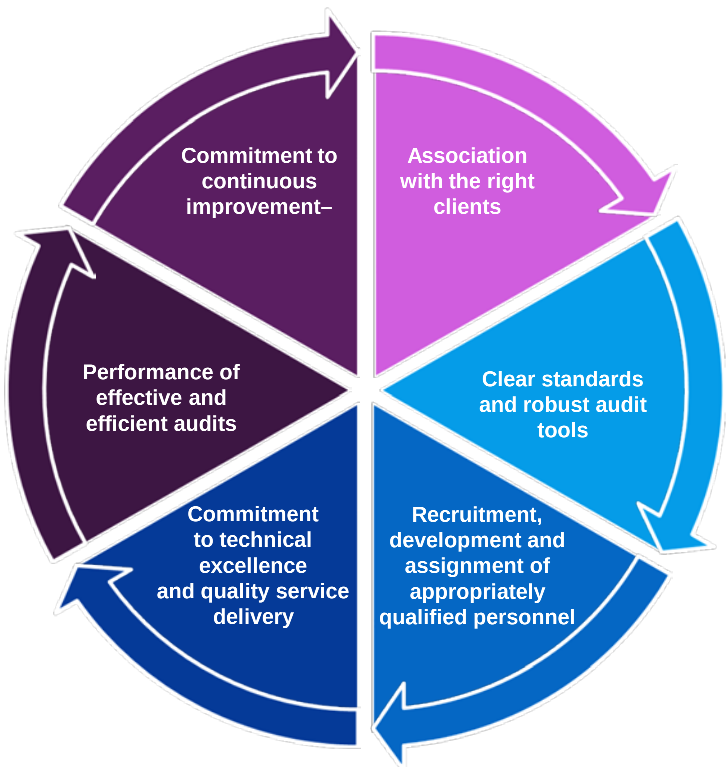
DRAFT

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

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

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

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



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

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

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

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