KPMG

cutting through complexity

Report to those charged with governance (ISA 260) 2014/15

London Borough of Ealing

26 August 2015

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, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@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

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2015 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 2014/15 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- the work to support our 2014/15 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 2014/15*, presented to you in March 2015, 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 2015. 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 2014/15* explained our risk-based approach to VFM work. We have now completed the work to support our 2014/15 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- 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 2014/15 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 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.

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 financial statements by 30 September 2015. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007. We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2015.
Audit adjustments and recommendations	Our audit has identified three significant audit adjustments. The impact of these adjustments is to decrease the net worth of the Authority as at 31 March 2015 by £17.2 million and related to: ▪ Property Plant and Equipment being overstated by £17.2 million due to Action Town swimming baths being included in both other land and buildings and Assets Under Construction; ▪ Balances relating to Non National Domestic Rates (NNDR) debtors, payments in advance and appeals shown as gross balances rather than them being allocated to the Department of Communities and Local Government and Greater London Authority (GLA) and misallocation of Council Tax balances with GLA; and ▪ Gross income and expenditure for central services to the public were both overstated by £65.8 million as a result of a recharge being incorrectly posted as a credit to income rather than a debit. We have included more details on the above audit adjustments at Appendix 3. All of these have been adjusted by the Authority. We have raised five 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 audits risk relating to management over ride of controls and fraudulent revenue recognition, we identified two additional key financial statements audit risks in our 2014/15 External audit plan issued in March 2015. ▪ Accounting for Local Authority Maintained Schools; and ▪ Local Government Pension Scheme reform which related to the Pension Fund. We have worked with officers throughout the year to discuss these key risks and our detail 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 key risk areas.
Accounts production and audit process	In addition to the restructure of the finance function, the Authority worked to an accelerated closedown timetable this year with draft financial statements prepared by 9 June 2015. This was a week quicker than 2013/14 and three weeks before the statutory deadline although it was eight days after the timetable the Authority had set itself. The draft financial statements issued for audit were of a high standard. We were provided with a majority of working papers on the 15 June 2015, the first day we were on site. There were though a few delays in obtaining some working papers. The quality of the working papers were of a good standard.

Headlines

Completion	At the date of this report our audit of the financial statements is substantially complete, subject to completion of the following areas: ▪ Obtaining outstanding bank confirmations; ▪ Completion of our work on the Whole of Government Accounting; and ▪ Final overall review and closing processes by Neil Thomas, Partner KPMG 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 financial statements.
VFM conclusion and risk areas	We did not identify any significant VFM risks specific to the Authority in our 2014/15 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 by 30 September 2015.
Audit Certificate	We are in the process of completing the work on the Whole of Government Accounts which we anticipate completing prior to the Audit Committee. We have not received any objections to the accounts from local electors and anticipate issuing our audit certificate by 30 September 2015.

Financial Statements

Our audit identified three audit adjustments. The impact of these adjustments is to decrease the net worth of the Authority as at 31 March 2015 by £17.2 million.

Proposed audit opinion

Subject to all outstanding queries being resolved, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 8 September 2015.

Audit differences

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 £20 million. Audit differences below £1 million are not considered significant.

Our audit identified three significant audit differences, which we set out in Appendix 3. These have been adjusted in the final version of the financial statements.

In addition, we identified a small number of minor differences and presentational adjustments. The Authority has adjusted for these.

The table on the right illustrates the total impact of audit differences on the Authority's balance sheet as at 31 March 2015. There was no impact on the General Fund, Housing Revenue Account or Collection Fund.

Balance Sheet as at 31 March 2015 (£' millions)

£m	Pre-audit	Post-audit	*Ref (App.3)**
Property, plant and equipment	1,747,798	1,730,583	*1*
Other long term assets	23,403	23,403	-
Current assets	314,873	315,149	*2*
Current liabilities	(188,648)	(188,924)	*2*
Long term liabilities	(1,042,045)	(1,042,045)	-
Net worth	**855,381**	**838,166**	**-**
Usable reserves	199,527	199,527	-
Unusable reserves	655,854	638,639	*1*
Total reserves	**855,381**	**838,166**	**-**

* The impact of the third audit difference was only within cost of services within the Comprehensive Income and Expenditure Account.

We have identified no 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 Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2015.

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

Pension fund audit

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 £17 million. Audit differences below £500,000 are not considered significant.

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 8 September 2015.

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.

Pension Fund Annual Report

We have reviewed the *Pension Fund Annual Report and Accounts* and confirmed that:

We anticipate issuing an unqualified opinion on the *Pension Fund Annual Report and Accounts* at the same time as our opinion on the Statement of Accounts.

Financial Statements

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 2014/15, we identified the significant risks affecting the Authority and the Fund's 2014/15 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	Findings
Local Authority Maintained Schools *Risk impacts Authority only*	LAAP Bulletin 101 *Accounting for School Assets used by Local Authority Maintained Schools* issued in December 2014 was published to assist practitioners with the application of the Code in this respect. The challenges relate to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. This includes assets used by Voluntary-Aided (VA) and Voluntary-Controlled (VC) Schools as well as Foundation Schools. Authorities needed to review the agreements under which assets are used by VA/VC and Foundation schools and apply the relevant tests of control in the case of assets made available free of charge, or risks and rewards of ownership in the case of assets made available under leases.	We have confirmed that the Authority has undertaken an exercise to identify all such schools and have sought confirmation from related parties as to the nature of the school in order to determine underlying ownership and control. Where appropriate, details from the land registry office has been obtained to support the accounting treatment. The Authority identified seven foundation schools where the legal title of land is held by the school but the Authority retains substantive rights over the land. In line with the guidance the Authority made a prior period adjustment and brought £68.7 million of assets onto the Balance sheet. We reviewed the process the Authority had followed and tested the seven schools which were brought onto the balance sheet and a sample of those that remained off balance sheet. We are satisfied with the accounting treatment and have no matters which we wish to report to you in this regard.
LGPS reform *Risk impacts Pension Fund and Authority*	From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members. While any errors in the system are unlikely to result in material misstatements in 14/15, the errors would cumulative over future years.	We have tested a sample of 25 new payments in the year to confirm that the changes in the benefits payable have been correctly applied. Our testing in this area found that the correct rates had been applied to new pensioners and we have not identified any matters to bring to your attention.

Financial Statements

In our *External Audit Plan 2014/15* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition. The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Area of risk	Issue
Management override of control	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	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 2014/15 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue. This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Financial Statements

The Authority has a well established and sound accounts production process. This operated well in 2014/15, and the standard of accounts and supporting working papers was good.

Officers 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 accounts on 9 June 2015, three weeks ahead of the statutory deadline. The Authority had set itself a target date of 1 June 2015 to complete the draft accounts, despite the restructuring of the finance department taking place during this period. The draft accounts were produced a week earlier than in 2014. The draft accounts were complete and produced to a good quality with a reduction in the number of minor presentational issues.
Quality of supporting working papers	We issued our *Accounts Audit Protocol* including our required working papers for the audit on 8 April 2015. The main working papers were available for the start of the on site visit on 15 June 2015, although some working papers were still being collated from the individual officers and departments. This lead to a few delays in receiving requested working papers. The quality of the working papers were 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.

Conclusion

The Authority brought forwards the timetable for preparing its financial statements during a major reorganisation in the finance department and, while not achieving the tight deadline it set itself, managed to reduce the time taken to produce draft accounts by a week. The draft accounts were prepared to a good standard although a few delays were incurred on working paper requests.

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 the recommendations in our ISA 260 Report 2013/14. Appendix 2 provides further details.

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

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

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

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 2015, 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.

VFM conclusion

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

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

Background

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

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

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Work completed

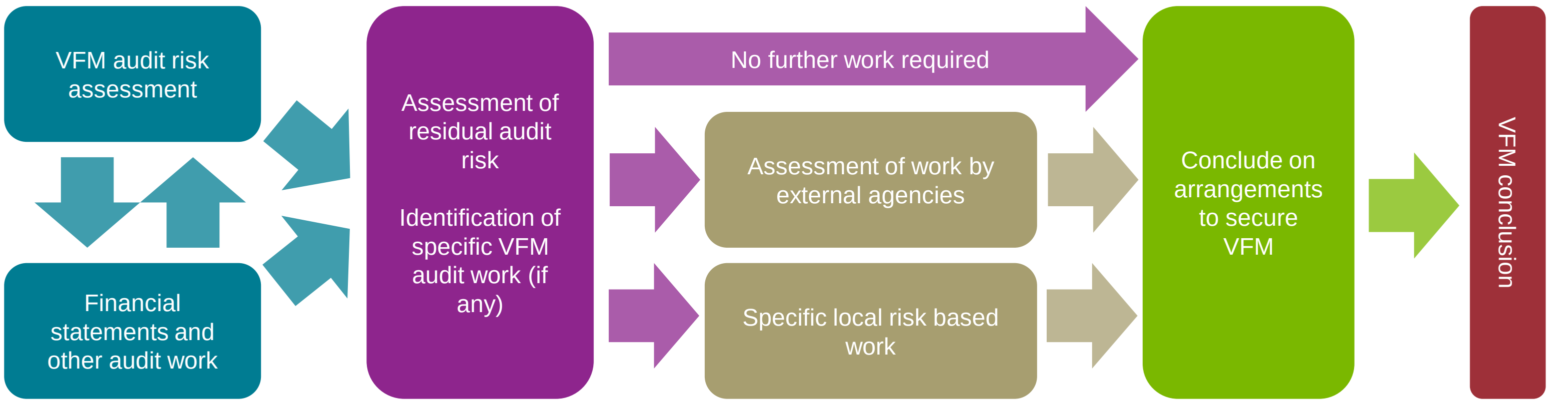
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

Conclusion

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

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



Appendix 1: Key issues and recommendations

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

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

We will formally follow up these recommendations next year.

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.

No	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❷	**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
2	❸	**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

Appendix 1: Key issues and recommendations

No	Risk	Issue and recommendation	Management response / responsible officer / due date
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
4	3	**Finance changes** The finance function has undergone a major 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 bank 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 future changes. Finance Manager – Financial Control September 2015

Appendix 1: Key issues and recommendations

No	Risk	Issue and recommendation	Management response / responsible officer / due date
5	❸	**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 £1 million 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 £274 million of assets (out of a total assets of £1,730 million) revalued in 2013/14 which may have changed in value since they were revalued. The Authority should consider whether an alternative approach, for example quinquennial full valuations (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

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2013/14.*

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2013/14* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	2
Implemented in year or superseded	2
Remain outstanding	-

No	Risk	Issue and recommendation	Officer responsible and due date	Status as at 26 August 2015
1	3	**Pooled funding arrangement** Our review of the pooled fund memorandum account for Ealing Community Equipment Services identified that the contract between NHS Ealing and the Authority expired on 31 March 2013. An extension for up to two additional years was available, however this required written consent to be documented between the two parties – the party for 2013-14 being Ealing Clinical Commissioning Group (CCG) as NHS Ealing ceased to exist on 31 March 2013. The lack of formal contract or agreement covering the 2013-14 financial period creates the risk that arrangements to manage the fund become out of date and/or inappropriate. Furthermore, there is a risk that disputes could arise over costs and contributions. We acknowledge that during the course of the audit a letter of intent was received by the Authority and this outlined the shared principles of the pooled funding arrangement. **Recommendation** The Authority should review all other sources of third party income to ensure that funding agreements and contracts are up to date.	Head of Strategic Procurement & GBSC	Implemented The Authority obtained a letter of intent for 2014/15 and signed a new s75 agreement pooled funding agreement with the CCG for the financial year starting 1 April 2015. We have discussed with officers and there are no other similar types of such income.

Appendix 2: Follow up of prior year recommendations

No	Risk	Issue and recommendation	Officer responsible and due date	Status as at 26 August 2015
2	3	**Collection Fund** The Authority provided for impairments to National Non Domestic Rates debtors that were subject to an appeal against the rateable value as well as providing an estimate for the amount being appealed. **Recommendation** Review the methodology for calculating impairments to National Non Domestic Rates debtors and appeals against rateable values	Head of Revenues	Implemented The Authority revisited the impairment provision for National Non Domestic Rates to consider both the potential for providing twice and whether the percentages used in calculating the impairments were still valid. (The 2013/14 impairment was 99% of the year end debtor.) The Authority has provided £4.2 million on the year end debtor balance of £5.8 million which would appear reasonable.

Appendix 3: Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all audit differences over £1 million.

These differences have been adjusted for by the Authority.

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.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of London Borough of Ealing's financial statements for the year ended 31 March 2015. These have been adjusted by the Authority and we are completing our final review of the revised financial statements to confirm this.

	Impact					Basis of audit difference
No.	Income and Expenditure Statement	Movement in Reserves Statement	Assets	Liabilities	Reserves	
1	Dr Gross Expenditure £1.7 million Dr Surplus on revaluation of non current assets £15.5 million	Cr Adj between funding basis £17.2 million	Cr Property, Plant and Equipment £17.2 million		Dr Revaluation Reserve £15.5 million Dr CAA £1.7 million	Acton Town Hall swimming baths included in Other Land and Building and Assets Under Construction
2			Cr Debtors £3.1 million Dr Debtors £3.3 million	Dr Provisions £9.9 million Cr Creditors £6.8 million Cr Creditors £3.3 million		Non National Domestic Rates debtors, creditors and provisions shown gross rather than allocated to Department of Communities and Local Government and Greater London Authority (GLA). Reallocation of Council Tax debtors between the Council and GLA of £3.3 million.

Appendix 3: Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all audit differences over £1 million.

These differences have been adjusted for by the Authority.

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Corrected audit differences (continued)

	Impact					
No.	**Income and Expenditure Statement**	**Movement in Reserves Statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
3	Dr Gross income £65.8 million Cr Gross Expenditure £65.8 million					A journal of £32.9 million to remove recharges was incorrectly entered as increasing both income and expenditure rather than reducing it.
	Dr £17.2 million	**Cr £17.2 million**	**Cr £17.0 million**	**Cr £0.2 million**	**Dr £17.2 million**	**Total impact of adjustments**

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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 financial statements.

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. We do this in our *Annual Audit Letter*.

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

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 2015, 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.

Appendix 5: Materiality and reporting of audit differences

For 2014/15 our materiality is £20 million for the Authority's accounts. For the Pension Fund it is £17 million.

We have reported all audit differences over £1 million for the Authority's accounts and £500,000 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 2014/15, presented to you in March 2015

Materiality for the Authority's accounts was set at £20 million which equates to around 1.7 percent 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 £1 million 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 £17 million which is approximately 1.7 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £500,000 million for 2014/15.

Appendix 6: KPMG Audit Quality Framework

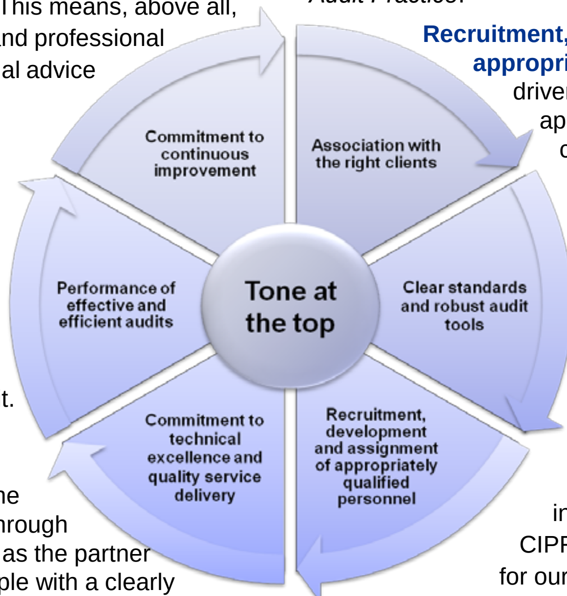
We continually focus on delivering a high quality audit.

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 key 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 and 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

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.

Quality must build on the foundations of well trained staff and a robust methodology.

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 behaviors in the performance of effective and efficient audits. The key behaviors 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.

cutting through complexity™