



# Annual Audit Letter 2017/18

London Borough of Ealing

—

August 2018

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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. Public Sector Audit Appointments 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](http://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 ([andrew.sayers@kpmg.co.uk](mailto: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](mailto: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.

<p><b>This Annual Audit Letter summarises the outcome from our audit work at the London Borough of Ealing in relation to the 2017/18 audit year, which is the final year that KPMG is the auditor of the Authority and its pension fund.</b></p> <p><b>Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority’s website.</b></p>	<p><b>Audit opinion</b></p>	<p>We issued an unqualified audit opinion on the Authority’s financial statements on 31 July 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The unqualified audit opinion covered the financial statements of the pension fund.</p>
	<p><b>Financial statements audit</b></p>	<p>Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority’s accounts was set at £15 million which equates to around 1.4 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision. Materiality for the Pension Fund was set at £15 million which is approximately 1.2 percent of gross assets.</p> <p>We report to the Audit Committee any misstatements of lesser amounts, other than those that are “clearly trivial”, to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £0.75 million for the Authority and £0.75 million for the Pension Fund.</p> <p>We identified one non adjusted audit difference of £1 million relating to expenditure classification that does not impact on the deficit on provision of services or the balances sheet.</p> <p>Our audit work was designed to specifically address the following significant risks:</p> <ul style="list-style-type: none"> <li>— Management Override of Controls – our audit work included detailed testing on journals and estimates made by management;</li> <li>— Valuation of PPE – our audit work included engaging our KPMG valuation specialist to review the assumptions and valuations made by the Authority’s valuer in revaluing assets and checking additions and disposals were correctly recorded and accounted for: and</li> <li>— Pensions Assets and Liabilities – our audit work included considering the assumptions used for key estimates such as discount rates, inflation and salary increases against those provided by our specialist and reviewing the information provided by the Authority to the actuary.</li> </ul> <p>There were no significant issues arising from our work in these areas.</p>
	<p><b>Other information accompanying the financial statements</b></p>	<p>Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were materially consistent with our understanding and did not identify any issues.</p>

<b>Pension Fund audit</b>	<p>There were no significant issues arising from our audit of the pension fund and we issued an unqualified opinion on the pension fund financial statements as part of our audit report. We identified management override of control as a significant risk, which is a standard audit risk, and completed detailed testing on journals and estimates made by management.</p> <p>There were no significant issues arising from our work in these areas.</p>
<b>Whole of Government Accounts</b>	<p>We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.</p>
<b>Value for Money conclusion</b>	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2017/18 on 31 July 2018. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources. To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.</p>
<b>Value for Money risk areas</b>	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. Our work identified the financial resilience as a significant risk and we reviewed the actions the Authority had taken to address the overspend in Adult Social Care and Children's Services and the setting of the 2018/19 budget including new arrangements regarding savings to be delivered. We found that after the Authority had identified a forecast overspend of £12 million for 2017/18 at the end of month 2, a number of spending controls were put in place and the year end outturn was a £7.7 million variance to budget. This though masked a £22 million overspend in Adult Social Care which was mainly offset by an underspend in central services.</p> <p>The Authority recognised the pressures Adult Social Care was under and increased its budget by £19.5 million in the 2018/19 budget. During 2017/18 it was identified that approximately 50% of the £28 million savings for 2017/18 would not be delivered and new arrangements were put in place during the year. A Project Management Office has been set up and the whole programme is overseen by the Future Ealing Corporate Board, lead by the Chief Executive which has the Modern Council Board and Continuous Improvement Efficiency Executive Group reporting to it. These take an active role in identifying, reviewing and monitoring saving plans which should strengthen the delivery and give assurance on financial reporting on savings to Cabinet. At the end of May 2018, of the savings target of £16.2 million for 2018/19, £6.6 million had been reported as achieved, £0.7 million was now red risk rated and the remainder on course.</p> <p>The budget monitoring report for May 2018 that was reported to Cabinet highlighted that the Authority overall is forecast to overspend by approximately £6 million with Adult Social Care currently forecasting a £6.9 million overspend. This overspend is due to pressures mainly driven by value and volume of placement expenditures where some of the plans to manage demand have not lead to the planned outcome. Given the overall financial position of the Authority and the challenges it faces over the next few years, it is essential that savings plans, including ways of managing demand, and delivery are closely monitored and action taken if there is any slippage or non delivery.</p>

## Section one

# Headlines

<b>High priority recommendations</b>	We raised no high priority recommendations as a result of our 2017/18 work.
<b>Certificate</b>	The audit cannot be formally concluded and an audit certificate issued as we are considering an elector query relating to 2016/17 and we have not yet signed the Pension Fund Annual Report. Until we have completed our consideration of the query and issued our opinion on the Pension fund Annual Report 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.
<b>Audit fee</b>	Our fee for 2017/18 was £166,583, excluding VAT (2016/17: £166,583). Our fee for the audit of the Pension Fund was £21,000 excluding VAT (2016/17: £21,000). These were in line with the planned audit fees. Further details are contained in Appendix 2.
<b>Exercising of audit powers</b>	<p>We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.</p> <p>We have not identified any matters that would require us to issue a public interest report.</p>

# Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

These reports can be accessed via the Audit Committee pages on the Authority's website at [www.ealing.gov.uk](http://www.ealing.gov.uk).

**External Audit Plan (February 2018)**  
The External Audit Plan set out our approach to the audit of the Authority's financial statements and to work to support the VFM conclusion.

**Auditor's Report (July 2018)**  
The Auditor's Report included our audit opinion on the financial statements, including the pension fund accounts along with our VFM conclusion.

**Annual Audit Letter (August 2018)**  
This Annual Audit Letter provides a summary of the results of our audit for 2017/18.



**Certification of Grants and Returns (February 2018)**  
This report summarised the outcome of our certification work on the Authority's 2016/17 grants and returns.

**Report to Those Charged with Governance (July 2018)**  
The Report to Those Charged with Governance summarised the results of our audit work for 2017/18 including key issues and recommendations raised as a result of our observations.  
We also provided the mandatory declarations required under auditing standards as part of this report.

# Appendix 2: Audit fees

This appendix provides information on our final fees for the 2017/18 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2017/18 planned audit fee.

### External audit

Our final fee for the 2017/18 audit of the Authority was £166,583, which is in line with the planned fee.

Our final fee for the 2017/18 audit of the Pension Fund was in line with the planned fee of £21,000.

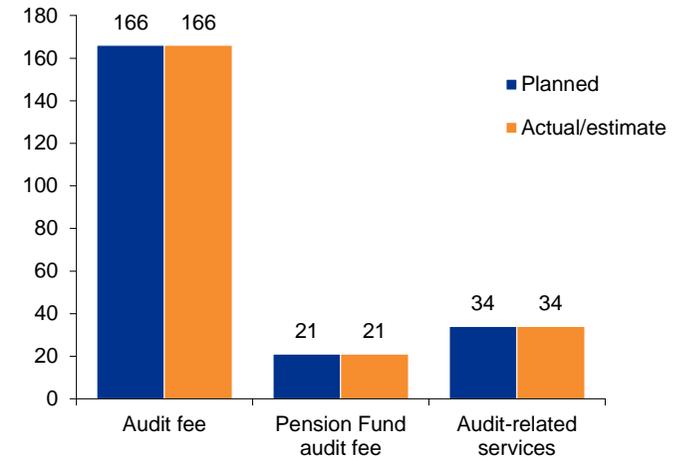
### Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The planned fee is £27,321 and the final fee will be confirmed through our reporting on the outcome of that work in December 2018.

### Other services

We have agreed fees of £6,500 for additional audit-related services for the certification of the Teachers Pension Return and the Pooling of Housing Capital Receipts Return which are outside of Public Sector Audit Appointment's certification regime.

External audit fees 2017/18 (£'000)





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