



Annual Audit Letter 2016/17

London Borough of Ealing

—

October 2017



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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).

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). 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.

This Annual Audit Letter summarises the outcome from our audit work at the London Borough of Ealing in relation to the 2016/17 audit year.

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.

VFM conclusion

We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2016/17 on 12 September 2017. 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.

VFM risk areas

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.

We focused our work on the Authority's financial resilience and found that the outturn for 2016/17 showed that the Authority had achieved its budget but this included the use of approximately £10 million net 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 was predicting an overspend of £12.4 million after allocating the in year contingency, which would be funded from reserves. The key areas of overspend were Adult Social Care (£19 million), Children's Services (£5 million) and Corporate Resources (£5 million) mitigated by corporate items underspend of £16 million and the use of the £3 million contingency. 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 position as at the end of August 2017 showed a similar position with a slight increase in the forecast outturn overspend for 2017/18 to £13.7 million. Management have taken action to reduce this overspend by the year end by introducing spending controls such as a recruitment freeze, including agency staff and consultants, with any exceptions needing to be approved by the Director of Human Resources and Director of Finance, a spending freeze on most good and services with only assistant directors and higher grades being able to approve expenditure and enhanced corporate controls relating to Purchase Orders. This is being tightly monitored and regular reports are to be presented to the Corporate Board to highlight levels of compliance and its effectiveness.

We made two recommendations relating to additional action being required if those currently in place to address the overspending do not deliver and that enhanced scrutiny is given to future savings to help ensure that they can be fully deliverable in 2018/19, come from recurring revenue expenditure and that this is closely monitored with any potential slippage reported immediately. Both of these are currently being implemented by management, the former as commented above.

The Authority is also changing its approach to budget setting for 2018/19 with a focus on outcomes to be delivered with nine priority outcomes and three distinct cross cutting transformational work streams. A reporting framework has been agreed by Cabinet and 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. We recommended that best practice would be that a strong Project Board supported by a programme team is set up to co-ordinate the work.

Section one

Headlines (cont)

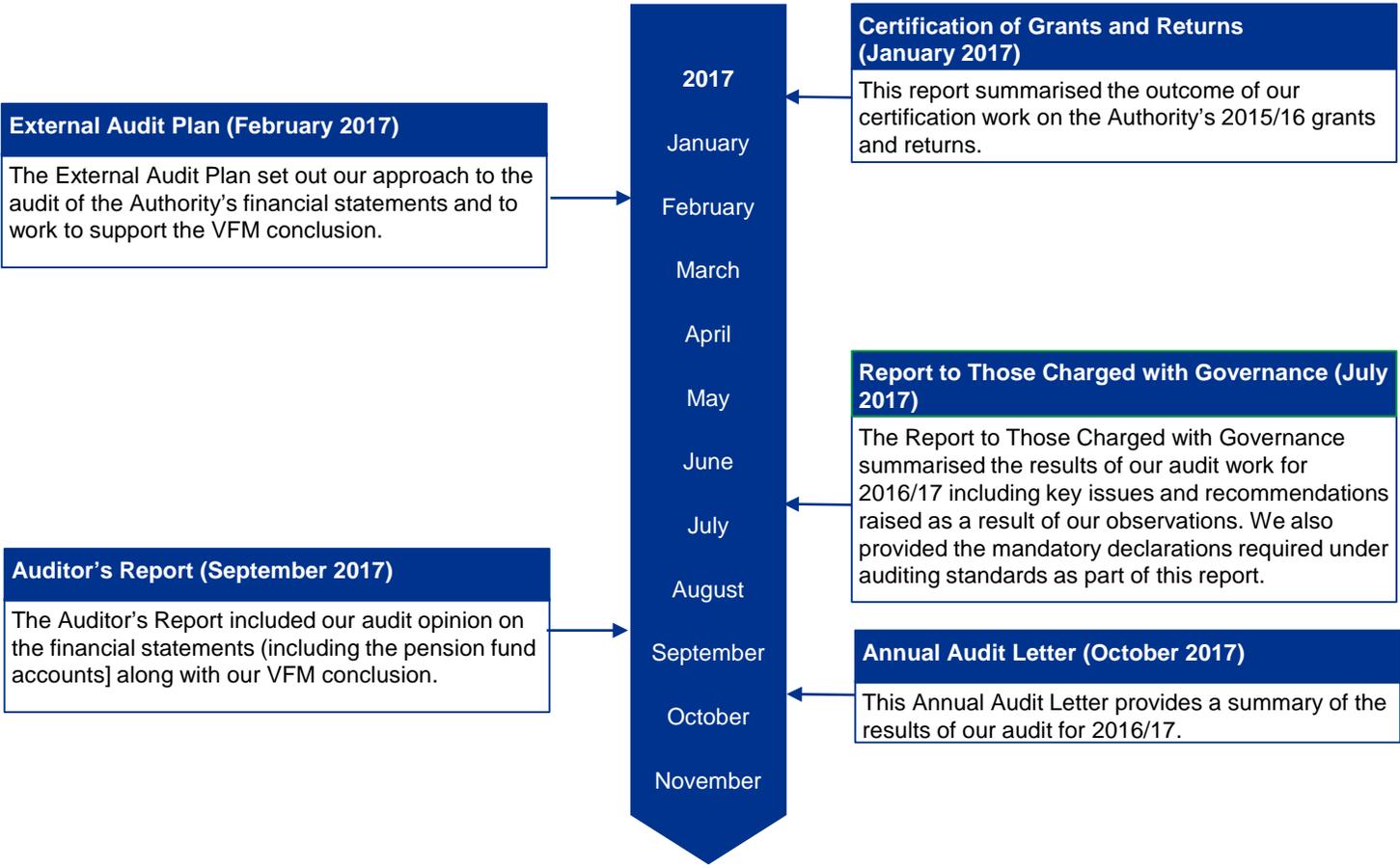
We have not yet issued our audit certificate to confirm the completion of our audit responsibilities for the 2016/17 audit year due to an objection by a local elector.

Audit opinion	We issued an unqualified opinion on the Authority's financial statements on 12 September 2017. 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 financial statements also include those of the pension fund.
Financial statements audit	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 Authority is in a good position to build on this and meet the new 2017/18 statutory deadline of publishing the financial statements by 31 May 2018 and having them audited by 31 July 2018. The draft financial statements remained of a high quality. There was one material audit adjusted difference which reduced the valuation of Council Dwelling and unusable reserves by £44 million. There was one unadjusted non material audit difference of £1.8 million which understated debtors and investment income by £1.8 million.
Other information accompanying the financial statements	Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.
Pension fund audit	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. There was one non material adjustment to the Pension Fund accounts which decreased investments held and investment income by £1.7 million.
Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported on 29 September 2017, in line with the timetable, that the Authority's pack was consistent with the audited financial statements.
High priority recommendations	We did not raise any high priority recommendations as a result of our 2016/17 audit work. We did make one recommendation to strengthen IT controls around removing staff who have left the Authority and three relating to the medium term financial plan and delivering savings identified, with specific focus on adult social care. The Authority has responded positively to these. We are pleased to note the two recommendations we made in 2015/16 have been implemented.
Certificate	We have received an objection to the Authority's financial statements which we are currently considering. This means that we are not yet able to issue our certificate.
Audit fee	Our audit fee for 2016/17 was £166,583 (2015/16: £168,475) excluding VAT which was in line with the planned fee. Our fee for the Pension Fund was £21,000 (2015/16: £21,000) excluding VAT and was also in line with the planned fee. We have though received an objection to the Authority's accounts for which an additional fee will need to be charged which will be agreed with the Authority and Public Sector Audit Appointments Limited. Further detail is contained in Appendix 2.

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.



Appendix 2: Audit fees

This appendix provides information on our final fees for the 2016/17 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2016/17 planned audit fee.

External audit

Our final fee for the 2016/17 audit of the Authority was £166,583 and of the Pension Fund was £21,000, both of which are in line with the planned fee.

Certification of grants and returns

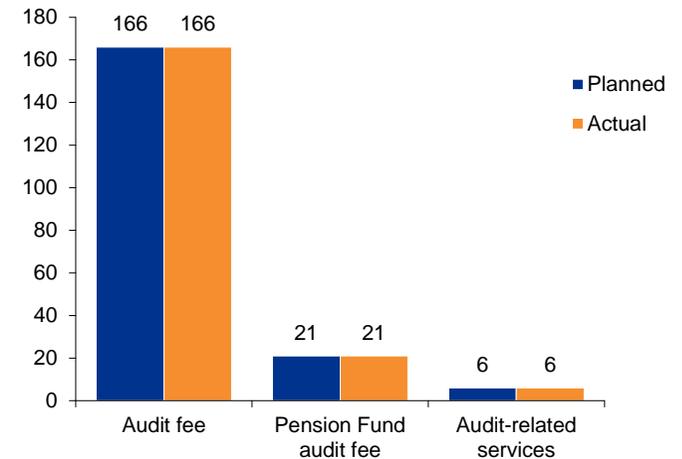
Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in December 2017.

Other services

We charged £6,000 for additional audit-related services for the certification of the Teachers' Pension Return and Pooling of Housing Capital Receipts Return which are outside of the Public Sector Audit Appointment's certification regime.

We also provided the external audit for Broadway Living Limited, a 100% owned subsidiary of the Authority. The fee was £6,000.

External audit fees 2016/17 (£'000)





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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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