External Audit Report 2017/18

London Borough of Ealing

Draft - July 2018

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 Andrew Sayers, 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

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. The following work is ongoing:

- Final queries mainly on Property, Plant and Equipment, outstanding confirmations and MIRs
- Final RI review of file
- Closedown procedures including receipt of 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 for the deadline of 31 July 2018, 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 for the deadline of 31 July 2018.

We have substantially completed our audit of the financial statements. We have read the Narrative Report and the Annual Governance Statement (AGS). Our key findings are:

- There are no unadjusted audit differences.
- We agreed presentational changes to the accounts with Finance, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- In additional to our routine requests we are asking for management representations over confirmation that there have been no variations made to the PFI contracts.

We reviewed the Narrative Report and AGS and have no matters to raise with you.

We did not receive any queries or objections from local electors this year.

We are now in the completion stage of the audit and anticipate issuing our opinion by 31 July 2018. We also intend to issue our 2017/18 Annual Audit Letter by 31 August 2018. The audit cannot be formally concluded and an audit certificate issued as we are considering elector queries relating to 2016/17, and need to complete our work on the Pension Fund Annual Report and the Whole of Government Accounts consolidation pack. 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. We anticipate this work will be completed by autumn 2018.

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 for the deadline of 31 July 2018.

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.).

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.

We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014 [or provide details of any powers exercised.

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report relating to the audit of the Authority's 2017/18 financial statements.

We are satisfied that the Authority has addressed the recommendations raised in our ISA260 report in 2016/17. We have made one new recommendations as a result of our 2017/18 work relating to monitoring and delivering of saving targets. All recommendations are shown in appendix 1.

We also undertake the audit of the Housing Subsidy Benefit Claim, Teachers' Pension Return and the Pooling of Housing Capital Receipts Grant. These have not yet been started and the deadlines are 30 November. The fees for this work is explained in Appendix 4.

Financial statements audit

We audit your financial statements by undertaking the following:

Work Performed	Accounts production stage: 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 2017/18 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 no recommendations which related to the financial statements audit. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work. We have chosen not to place reliance on their work due to the approach we adopted for the financial statements audit. For the Pension Fund, for your custodians and fund managers, we review the ISAE 3402 reports (or equivalent), which includes service audit reports, together with bridging letters where the year end is not 31 March 2018 to confirm we can place reliance on these. There were no issues from these reports we need to bring to your attention.
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. The working papers were generally of a good standard and readily available.

Financial statements audit

4. Accounting standards	We work with you to understand changes to accounting standards and other technical issues. For 2017/18 these changes were minor but included: • Updates to clarify the reporting requirements for accounting policies and going concern reporting; • The introduction of key reporting principles for the Narrative Report; and • Changes in the Pension Fund accounts to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure
5. Accounts Production	The Council produced their draft accounts by 31 May 2018 in accordance with the 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 2017/18. The Authority incorporated measures into its closedown plan to manage this complex process. The Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to yearend to proactively address issues as they emerge. We consider that the overall process for the preparation of your financial statements is adequate. We consider the Authority's accounting practices to be appropriate. We thank the finance team for their cooperation throughout the visit which allowed the audit to progress and be completed 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. During the audit we identified only presentational issues which have been adjusted and which we have summarised the key adjustments in appendix 2.
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 Director of Finance on 12 July 2018. 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 on confirmation that there have been no variations made to the PFI contracts

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 2017/18 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 valuation of land and buildings and net pension liability which were identified as significant risks for the Authority within our audit plan;
- The results of the procedures we performed over faster and the valuation of investments in the Pension Fund which were areas of audit focus within our audit plan;
- 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

Authority significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Valuation of land and buildings	Council dwellings £841 million (16/17 £800 million) Other Land and Buildings £818 million (16/17 £820 million)	We reviewed the valuations completed by your valuer and the judgements made by the Authority in response to the information received from their valuers to ensure they had been correctly accounted for in the financial statements. Our valuer looked at the assumptions used in the valuations to consider whether they were reasonable and in line with industry standards. We also considered the qualifications and independence of your valuer. We also reviewed the overall approach to ensuring valuations were not materially misstated, which included the indexation rates used for Council dwelling. We also reviewed a sample of additions to confirm that they were appropriate to capitalise and had been at the correct value and disposals to ensure they had been correctly removed from the financial statements. Our review did not identify any others issues to bring to your attention
Pension assets and liabilities	Pension Assets £1,092,610 million (2016-17 £1,031,731 million) Pension Liabilities £1,590,784 million (2016-17 £1,602,577 million)	We reviewed the controls that the Authority have in place over the information sent directly to the Scheme Actuary and agreed this to supporting evidence. We evaluates the competency, objectivity and independence of your actuary to determine whether we could place reliance on the valuations provided to the Authority. We considered the assumptions used in the valuation and compared them to the expectations of our expert.. In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. As part of our audit of the Pension Fund we gained assurance over the overall value of fund assets and understand how these assets are allocated across participating bodies and re-performed this allocation In addition, we reviewed the overall actuarial valuation and considered the disclosure implications in the financial statements. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 12. There are no issues we need to bring to your attention.

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 local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.	We did not complete any specific additional tests in addition to our normal testing approach on revenue as we rebutted the risk of fraudulent revenue recognition.
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 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.	There are no matters arising from this work that we need to bring to your attention.

Financial statements audit

Authority other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Other areas of audit focus	Account balances effected	Summary of findings
Faster close	All	In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final audited financial statements by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft financial statements by 31 May and final signed financial statements by 31 July. In advance of this in 2015/16 the Authority brought forwards its timetable and was successful in obtaining an audit opinion on 29 July 2016 in line with the new deadline. However, in 2016/17, the Authority set a similar timetable but due to some slippage the audit opinion was not issued by the end of July. This year the Council produced the draft financial statements by 31 May 2018 in line with the faster closedown. The quality of the working papers and low number of audit adjustments were in line with previous years indicating that quality has not be compromised as a result of the timetable being brought forwards. There are no issues we need to raise in respect of this.

Pension Fund area of focus

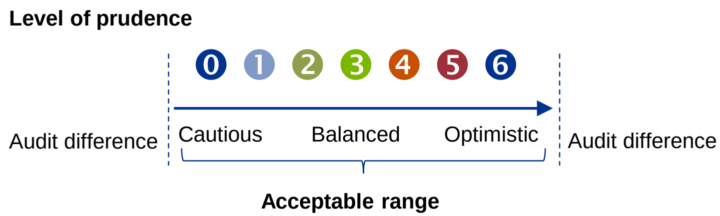
Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Pension Fund

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Completeness, accuracy and valuation of investments	Investments £1,215 million (2016/17 £1,145 million)	We obtained direct confirmations from the Fund managers and custodians, audited the reconciliations between them and agreed them to the figure included in the financial statements. We reviewed the ISAE3402 compliance reports on the Custodian and each Fund Manager to confirm we place reliance on the Custodian and Fund Manager reports. We tested a sample of investments to ensure they had been correctly valued by the Fund Managers. There are no issues we need to raise with you.

Financial statements audit

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	£14 million *(PY: £13 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	£132 million *(PY: £133 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	£92 million *(PY: £87 million)*	Debtors consist of gross debtors of £152 million (2016:17 £140 million) with provision for impairment made of £60 million (2016/17: £53 million). The main impairments are for overpaid housing benefits and rent arrears of £28 million against total debtor of £31 million which reflects the difficulties in obtaining repayments of housing benefit overpayments and rent owing from former tenents.
Pensions liability	3	3	£498 million *(PY: £570 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 our experts expectations..

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	❷	£1,942 million *(PY: £1,869 million)*	The Authority has ensured that the appropriate buildings are revalued through either a full review or desktop review and 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 their view was that the Council dwellings stock had decreased by -1.5% during the year. We have compared this to other indices such as the Land Registry index and the decrease appears balanced. It is noted that the detailed revaluation of 20% of the Council dwellings using the beacon completed and findings used for the other beacons this year for values at 31 March 2017 showed that the estimate used at 31 March 2017 differed to the final detailed review by about £53 million (7.3%) This indicates the Authority may be slightly prudent in the indices they use to value their Council dwellings.

Financial statements audit

Narrative Report and Annual Governance Statement of the Authority

We have reviewed the Authority's Narrative Report and Annual Governance Statement and have confirmed that they are 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. 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 12 July 2018 but have yet to commence our work on it.. The deadline for publishing this is 1 December 2018. .

Queries from local electors

We did not receive any questions or objections from members of the public this year.

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 has recently issued its guidance for completing the WGA and issued the consolidation packs that authorities need to complete. The deadline for the Authority to prepare the consolidation pack was 15 June 2018 with an audit deadline of 31 August 2018. We aim to complete the work in August 2018.

— We received the Pension Fund Annual Report on 12 July 2018 and we are aiming to complete this work in August 2018;

— There is an outstanding objection in relation to the 2015/16 audit year where we are anticipating issuing our provisional view in late July 2018.

If we do not receive any further observations to our provisional view we expect to issue our audit certificate in September 2018 following completion of the above.

Whole of Government Accounts (WGA)

We received your WGA consolidation pack on 15 June 2018. We anticipate completing this work in August 2018 in advance of the deadline..

Other grants and claims work

We also undertake the audit of the Housing Subsidy Benefit Claim, Teachers' Pension Return and the Pooling of Housing Capital Receipts Grant. These have not yet been started and the deadlines are 30 November 2018. We will issue a separate report in December 2018 summarising the findings from this work.

Audit fees

Our fee for the Authority's audit was £166,583 excluding VAT (£166,583 excluding VAT in 2016-17) and for the Pension Fund £21,000 excluding VAT (£21,000 excluding VAT in 2016-17. This fee was in line with that highlighted in our audit plan approved by the Audit Committee in January 2018.

Our work on the certification of Housing Benefits (BEN01) which is under the PSAA arrangements is planned to start in August 2018. The planned scale fee for this is £27,321 excluding VAT (£22,080 excluding VAT in 2016-17). Planned fees for other grants and claims which do not fall under the PSAA arrangements is £6,000 excluding VAT (£6,000 excluding VAT in 2016-17).

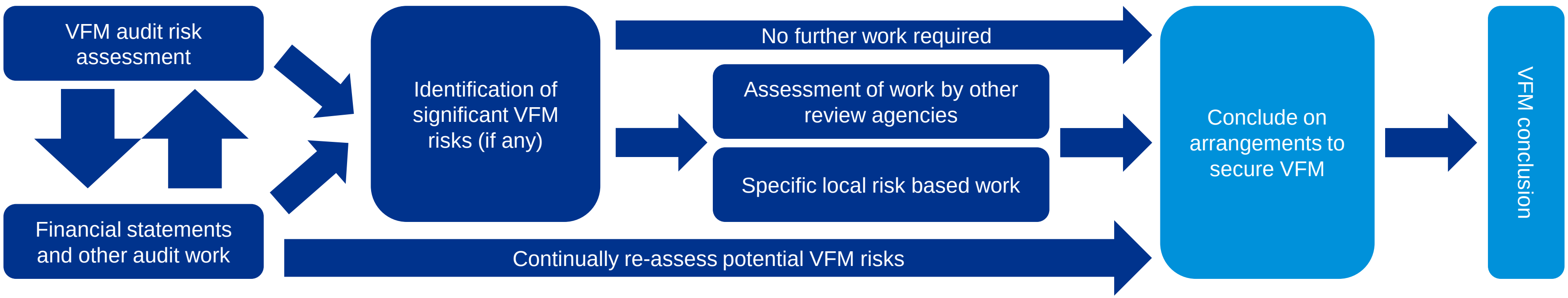
We have not performed any non-audit work outside of that already disclosed to you as part of our audit planning.

Value for money

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

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

We follow a risk based approach to target audit effort on the areas of greatest audit risk as summarised below:



We identified financial resilience as a significant VFM risks and provide a summary overleaf of our findings. 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 2018, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.

Value for money

Significant risk

Below we set out the detailed findings against the significant risk for our VFM work.

VFM	Our audit response and findings
Financial sustainability	The budget for 2017/18 was agreed by the Authority in February 2017 with an additional £11 million included in 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. The overspend would need to 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 central budgets underspend of £16 million and the use of the £3 million contingency. The Authority, who regularly reported the latest position to Cabinet, put in a number of spending controls and the year end outturn was a £7.7 million variance to budget. It is noted that of the savings identified for delivery during the year, only £14.4 million out of the £28.4 million planned were delivered As part of setting the 2018/19 budget, the Authority recognised the cost pressures in Adult Social Care and Children's Services and built in growth to the budgets including £19.5 million for Adult Social Care and £9.5 million in Children's Services. Saving plans were also reviewed to remove previously agreed plans that were unlikely to deliver. This left a savings target of £16.2 million. To assist in the addition growth funds made available the Authority increased Council Tax for the first time in eight years and has budgeted to use £9.5 million of earmarked reserves. In addition, participating in the London Business Rates Pilot Pool has been forecast to be £4.4 million beneficial to the Authority although as it is new, this will need to be monitored closely. 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 Medium Term Financial Plan approved by the Council at the same time as the 2018/19 budget highlighted risks, saving requirements (£45 million over 2019/20 and 2020/21) to ensure that Members are fully aware of the financial challenges the Authority faces. We noted that the Authority's Future Ealing initiative has shaped the budget approach this 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 month 2, of the savings target of £16.2 million for 2018/19, £6.6 million had been achieved, £0.7 million was now red risk rated and the remainder on course The budget monitoring report for May reported to Cabinet highlighted that the Authority is forecast to overspend by approximately a net £6 million of which £6.9 million related to Adult Social Care. 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 expected savings. Given the overall financial position of the Authority and the challenges it faces over the next few years, it is essential that savings plans, and delivery are closely monitored and action taken if there is any slippage or non delivery.

Appendix 1

Recommendations raised and followed up

Recommendations 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
Value for money			
2	❷	Financial resilience The Authority's outturn for 2017/18 was a deficit of £7.7 million which was funded from reserves – this included an overall overspend against budget of £22 million from Adult Social Care, a majority of which was identified in the first two month of the year.. In 2018/19 the Council's budget was set with a planned use of reserves of £9.5 million after including growth funding of £35 million to recognise cost pressures of which £19.5 million was allocated to Adult Social Care. After 2 months of the year, Adult Social Care is £6.9 million overspent which while less than last year after two months is still a substantial amount. While the Authority is taking action to manage the overspend and monitor the position this year, given the level of overspends in the first two months of the year for Adult Social Care for the second year in a row, original assumptions, forecasts and timings of expenditure and saving plans should be closely reviewed and controls implemented to ensure the Authority does not experience similar positions in 2019/20 which is likely to be a difficult year with £35 million of savings required to be identified.	The Council are monitoring the Adult Social Care budget positon on a monthly basis with specific focus on placements and commissioned packages using a new placement forecasting model. There is also a dedicated monthly Member meeting to review the monthly budget positon and performance that are scheduled for the remainder of the 18/19 financial year enhancing the level of scrutiny in this historic high risk budget area. In addition, there is an established Better Lives Executive board chaired by the Chief Executive. Plans are in development with the aim of bringing the placement spend back in line with the existing budget provision.

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
4	4	

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
1	2	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.	Testing did not identify any such issues this year.

Appendix 1

Recommendations raised and followed up

<table>
<tr><th>#</th><th>Risk</th><th>Recommendation</th><th>Management Response / Officer / Due Date</th><th>Status at July 2018</th></tr>
<tr><td colspan="5">Financial statements</td></tr>
<tr><td colspan="5">Value for money</td></tr>
<tr><td>2</td><td>2</td><td>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.</td><td rowspan="3">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</td><td>The Authority put in place additional measures to control expenditure and reported a final outturn of £7.7 million. The outturn for Adult Social Care was a £22 million overspend</td></tr>
<tr><td>3</td><td>2</td><td>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.</td><td rowspan="2">A Project Management Office was put in place to help manage savings identified. The Future Ealing Corporate Board was set up to review and closely monitor all new saving plans. In addition, some of the savings plans that hadn't been delivered during 2017/18 were revisited and some were removed from expected savings as the plans were unlikely to deliver.</td></tr>
<tr><td>4</td><td>3</td><td>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.</td></tr>
</table>

Appendix 2

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 2017/18, presented to you in February 2018.

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 £15 million which equates to around 1.2% 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 £750,000 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.

Appendix 3

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. We report all differences above £750,000 as not being trivial. 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. There are no unadjusted audit differences in the Authority accounts or the Pension Fund accounts.

Adjusted audit differences

To assist the Audit Committee in fulfilling its governance responsibilities we present in the tables below a summary of adjusted audit differences (including disclosures) identified during the course of our audit. There are no adjusted audit differences to the primary financial statements..

Appendix 3

Audit differences

Presentational adjustments – Authority

We identified presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). Whilst the majority of these adjustments were not significant, we identified a limited number of adjustments of a more significant nature and details of these are provided in the following table. [It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Presentational adjustments – Authority	
#	**Basis of audit difference**
1	Note 17.1 listing number of employees earning over £50,000 in bandings did not include overtime payments and it was adjusted to take account of these payments meaning a few band numbers changed.
2	The Authority in 2016/17 included some internal recharges in the gross income and expenditure which didn't impact on cost of sales but did impact on the individual services within cost of services. A note has been added explaining this. In addition the Authority changed the layout of the EFA statement and supporting service area costs to make it clearer for the reader of the accounts and a note has been added to explain the changes in some of the comparatives.
3	Note 17.2 exit packages did not included the pension strain costs – this has been amended.

Presentational adjustments – Pension Fund

There were only minor presentational changes required to the Pension Fund accounts..

Appendix 4

Audit independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF LONDON BOROUGH OF EALING AND PENSION FUND

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: general procedures to safeguard independence and objectivity; breaches of applicable ethical standards; independence and objectivity considerations relating to the provision of non-audit services; and independence and objectivity considerations relating to other matters.

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 partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. 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 are satisfied that our general procedures support our independence and objectivity.

Audit independence

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix [7], as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	166,583	166,583
Audit of the Pension Fund	21,000	21,000
Audit of controlled entities – Broadway Living Limited	10,000*	6,000
Total audit services	**197,583**	**193,583**
Audit related assurance services	6,500	6,000
Mandatory assurance services	27,321	22,080
Total Non Audit Services	**33,821**	**28,080**

* Proposed fee

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0.15:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Audit independence

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the table below:

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Allowable non-audit services				
None				
Audit-related assurance services				
Grant Certification – Teachers Pensions Return and Pooling of Housing Capital Receipts Return	The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats.	Fixed Fee	6,000	6,500
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	22,080	27,321

Audit independence

We have not been required to obtain approvals from PSAA for non-audit services as we did not exceed the relevant thresholds during the reporting period.

Contingent fees

We have not agreed any contingent fees with the Authority.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of Andrew Sayers and the audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

Appendix 5

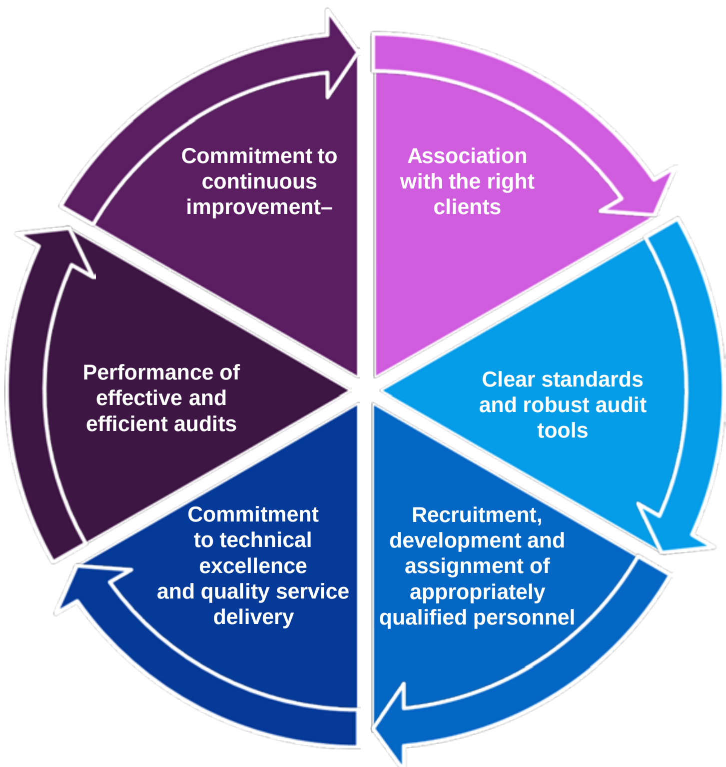
Audit quality framework

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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