Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting ("the Code") in 2017/18, which provides stability in financial reporting terms. Deadlines for producing and signing the accounts have advanced. Whilst the Authority chose to bring forward its accounts production last year, further advances are needed to meet the new deadlines. As a result we have recognised this as a significant risk. To meet the revised deadlines it is essential that the draft financial statements and all 'prepared by client' documentation is available in line with agreed timetables. Where this is not achieved there is a significant likelihood that the audit report will not be issued by 31 July 2017.

Authority significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- **Valuation of land and buildings**: Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We will consider the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated;

- **Pension liabilities**: The valuation of the Authority’s pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation; and

- **Faster Close**: The timetable for the production of the financial statements has been advanced with draft accounts having to be prepared by 31 May 2018 (2017: 30 June) and the final accounts signed by 31 July 2018 (2017: 30 September). We will work with the Authority in advance of our audit to understand the steps being taken to meet these deadlines and any impact on our work.

Financial Statement Audit (continued)

**Pension fund significant risks**

- **Valuation of hard to price investments**: The pension fund invests in a range of assets and funds, some of which are inherently harder to value due to there being no publicly available quoted prices. We will verify a selection of investments to third party information and confirmations.

**Value for Money Audit**

Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risk to date: **Delivery of budgets**: As a result of reductions in central government funding, and other pressures, the Authority is having to make additional savings beyond those from prior years and pursue income generation strategies. We will consider how the Authority identifies, approves, and monitors savings plans and income generation projects and how budgets are monitored throughout the year.

Other information

**Logistics and team**

Our team is led by Neil Thomas (Partner), Rich Hewes (Director) and Charles Medley (Senior Manager).

Our work will be completed in four phases from December to July and our key deliverables are this Audit Plan and a Report to Those Charged With Governance.

**Fees**

Our fee for the 2017/18 audit is £165,975 (£177,928 2016/2017). In 2016/17 there was a fee variation agreed of £11,953 which is subject to approval by the PSAA.

**Acknowledgement**

We thank officers and Members for their continuing help and cooperation throughout our audit.
The contacts at KPMG in connection with this report are:

**Neil Thomas**  
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neil.thomas@kpmg.co.uk

**Rich Hewes**  
Director  
Tel: 07880 055052  
rich.hewes@kpmg.co.uk

**Charles Medley**  
Senior Manager  
Tel: 07468 740949  
charles.medley@kpmg.co.uk

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**Headlines**

1. Introduction
2. Financial statements audit planning
3. Value for money arrangements work
4. Other matters

**Appendices**

- 1: Key elements of our financial statements audit approach
- 2: Independence and objectivity requirements
- 3: Quality framework

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This report is addressed to NAME (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 NAME, 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.
1. Introduction

**Background and statutory responsibilities**

This plan supplements our 2017/18 audit fee letter 2017/18 dated 21 April 17, which set out details of our appointment by PSAA.

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014, the NAO’s Code of Audit Practice and the PSAA Statement of Responsibilities.

Our audit has two key objectives, requiring us to audit / review and report on your:

- **Authority and Pension Fund Financial statements**: Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; and
- **Use of resources**: Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. Any change to our identified risks will be reporting to the Public Accounts and Audit Select Committee.

**Financial statements audit**

Our financial statements audit follows a four stage process:

- Financial statements audit planning
- Control evaluation
- Substantive procedures
- Completion

Appendix 1 provides more detail on these stages. This plan concentrates on the Financial Statements Audit Planning stage.

**Value for Money**

Our Value for Money (VFM) arrangements work follows a five stage process:

- Risk assessment
- Links with other audit work
- Identification of significant VFM risks
- Review work (by ourselves and other bodies)
- Conclude
- Report

Page 11 provides more detail on these stages. This plan concentrates on explaining the VFM approach for 2017/18 and the findings of our VFM risk assessment.
2. Financial statements audit planning

Financial statements audit planning

Our planning work takes place December to January 2018 and involves: determining materiality; risk assessment; identification of significant risks; consideration of potential fraud risks; identification of key account balances and related assertions, estimates and disclosures; consideration of Management’s use or experts; and issuing this plan to communicate our audit strategy.

Authority risk assessment

Professional standards require us to consider two standard risks. We are not elaborating on these standard risks in this plan but consider them as a matter of course and will include any findings arising from our work in our ISA 260 Report.

— **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.

— **Fraudulent revenue recognition**: 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.

Key:  ● Significant risk  ● Other area of audit focus  ● Other areas considered
2. Financial statements audit planning

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.

Valuation of land and buildings

Risk: The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees other land and buildings (£731.3m) revalued over a five year cycle. As a result individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. Council Swellings are reviewed using a beacon methodology.

Approach: We will review the approach that the Authority has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We will assess the risk of the valuation changing materially in year. We will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time. In 2016/17 we identified assumptions used which resulted in errors within the financial statements and transposition errors in the underlying data within the valuation report resulting in a medium level recommendation. We will follow up on the status of the recommendation raised.

In relation to those assets which have been revalued during the year we will assess the valuer's qualifications, objectivity and independence to carry out such valuations and review the methodology used (including testing the underlying data and assumptions).

Pension liabilities

Risk: The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of London Borough of Barking and Dagenham, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. Valuation of the Local Government Pension Scheme relies on assumptions, most notably actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Authority’s valuation, such as the discount rate, inflation rates, mortality rates etc. Assumptions should reflect the profile of the Authority's employees and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority’s pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

Approach: We will review controls that the Authority has in place over the information sent directly to the Scheme Actuary. We will liaise with the auditors of the Pension Fund to gain an understanding of the effectiveness of controls operated by the Pension Fund. This will include consideration of the process and controls with respect to the assumptions used in the valuation. We will evaluate the competency, objectivity and independence of Hymans Robertson LLP.

We will review the appropriateness of key assumptions in the valuation, compare them to expected ranges, and consider the need to make use of a KPMG actuary. We will review the methodology applied in the valuation by Hymans Robertson LLP. In addition, we will review the overall Actuarial valuation and consider the disclosure implications in the financial statements.
2. Financial statements audit planning

<table>
<thead>
<tr>
<th>Faster close</th>
</tr>
</thead>
</table>
| **Risk:** In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.  

These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.  

To meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. There are logistical challenges that will need to be managed including:  

— Ensuring that any third parties involved in the production of the accounts (including valuers and actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work accordingly;  

— Revising the closedown and accounts production timetable to ensure that all working papers and supporting documentation are available at the start of the audit;  

— Ensuring that the Public Accounts and Audit Select Committee meeting schedules have been updated to permit signing in July; and  

— Applying a shorter paper deadline to the July meeting of the Public Accounts and Audit Select Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.  

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline. There is an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority’s Whole of Government Accounts return. This is not seen as a breach of deadlines.  

**Approach:** We will continue to liaise with officers in preparation for our audit to understand the steps the Authority is taking to meets the revised deadlines. We will look to advance audit work into the interim visit to streamline the year end audit work. Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.
2. Financial statements audit planning

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.

<table>
<thead>
<tr>
<th>Cash and Cash equivalents (£1.8m)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk:</strong> The accuracy of the year-end cash balance is fundamental to the accuracy of the primary statements and therefore we consider it significant by its nature.</td>
</tr>
<tr>
<td><strong>Approach:</strong> We will corroborate bank and short term deposit balances to third party confirmation; test the month 9 and year end bank reconciliations; and undertake cut-off testing of cash transactions that occur before and after the year end.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Conditional Grant Income (£458.0m)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk:</strong> This balance is highly material and is a key balance in the Comprehensive Income and Expenditure Statement, which is related to specific conditions being met.</td>
</tr>
<tr>
<td><strong>Approach:</strong> We will sample test conditional grants and review grant correspondence and assess if the Authority has recognised the appropriate level of income.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Creditors and Accruals (£87.0m)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk:</strong> In aggregate this balance is highly material and includes areas of estimation and judgement and is a key component of the overall financial outturn.</td>
</tr>
<tr>
<td><strong>Approach:</strong> We will perform sample testing of creditors and accruals balances and complete cut-off and completeness procedures on the balance disclosed in the financial accounts.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Housing benefit expenditure (£135.2m)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk:</strong> There is a high volume of low value transactions which make up a significant component of the Authority’s expenditure and is exclusively made up of payments to claimants.</td>
</tr>
<tr>
<td><strong>Approach:</strong> We review your year end subsidy claim and agree this to your underlying accounting records and perform review of the year on year movements to identify types of subsidy claims to focus our detailed sample testing of claims.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employee benefits expenses (£305.8m)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk:</strong> This is a high value balance that is made up of a high numbers of transactions made on a regular basis. Payroll is highly automated but is the single largest element of non-service expense.</td>
</tr>
<tr>
<td><strong>Approach:</strong> We will undertake detailed substantive testing on a sample of employee benefit expenses agreeing to the underlying payroll and employee records.</td>
</tr>
</tbody>
</table>
2. Financial statements audit planning

**Pension Fund risk assessment**

Professional standards require us to consider two standard risks. We are not elaborating on these standard risks in this plan but consider them as a matter of course and will include any findings arising from our work in our ISA 260 Report.

- **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.

- **Fraudulent revenue recognition**: We do not consider this to be a significant risk for local authority Pension Funds 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.

Key:  
- Significant risk
- Other area of audit focus
- Other areas considered
2. Financial statements audit planning

Pension Fund 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 Pension Fund.

<table>
<thead>
<tr>
<th>Valuation of hard to price investments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk:</strong> The Pension Fund invests in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. The pricing of complex investment assets may be susceptible to pricing variances given the assumptions underlying the valuation. In the prior year financial statements £188.7M out of a total of £915.8M investments, or 21%, were in this harder to price category.</td>
</tr>
<tr>
<td><strong>Approach:</strong> We will independently verify a selection of investment asset prices to third party information and obtain independent confirmation on asset existence. We will test to what extent the Pension Fund has challenged the valuations reported by investment managers for harder to price investments and obtained independent assessment of those figures.</td>
</tr>
</tbody>
</table>

Pension Fund 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.

<table>
<thead>
<tr>
<th>Cash and Cash Equivalents (£8.2m)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk:</strong> The accuracy of the year-end cash balance is fundamental to the accuracy of the primary statements and therefore we consider it significant by its nature.</td>
</tr>
<tr>
<td><strong>Approach:</strong> We will corroborate bank and short term deposit balances to third party confirmation; test the month 9 and year end bank reconciliations; and undertake cut-off testing of cash transactions that occur before and after the year end.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in Market Value of Investment (£135.8m)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk:</strong> This is a high value balance that is made up of individual investments, which require valuation and judgements to be made on underlying assumptions at the year end.</td>
</tr>
<tr>
<td><strong>Approach:</strong> We will perform substantive testing over a sample of investments held agreeing to supporting third party confirmations.</td>
</tr>
</tbody>
</table>
2. Financial statements audit planning

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements. Generally, we would not consider differences in opinion in respect of areas of judgement to represent ‘misstatements’ unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Authority materiality for planning purposes has been set at £14M which equates to 1.9% of 2016/17 Authority expenditure. The threshold above which individual errors are reported to Public Accounts and Audit Select Committee is £10,500K.

For the Pension Fund materiality for planning purposes has been set at £9M which equates to 1% of 2016/17 net assets. The threshold above which individual errors are reported to Public Accounts and Audit Select Committee is £6,750K.

Reporting to the Public Accounts and Audit Select 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 Public Accounts and Audit Select Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance.

ISA 260 (UK&I) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

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 £700K.

In the context of the Pension Fund we propose that an individual difference could normally be considered to be clearly trivial if it is less than £450K.

If Management has corrected material misstatements identified during the audit, we will consider whether those corrections should be communicated to Public Accounts and Audit Select Committee to assist it in fulfilling its governance responsibilities.

We will report the following matters in our Report to those charged with Governance:

- Deficiencies in the system of internal control or instances of fraud which the subsidiary auditors identify;
- Limitations on the group audit, for example, where the our access to information may have been restricted; and
- Instances where our evaluation of the work the subsidiary auditors gives rise to concern about the quality of that auditor’s work.

Group audit

In addition to the Authority there are a number of subsidiaries of the Authority which we do not deem to be material in the context of the group and require group accounts. We will keep this under review through our audit.
3. Value for money arrangements work

For our value for money conclusion we are required to work to the NAO Code of Audit Practice (issued in 2015 after the enactment of the Local Audit and Accountability Act 2014).

Our approach to VFM work follows the NAO’s new guidance that was first introduced in 2015-16, is risk based and targets audit effort on the areas of greatest audit risk.

We have planned our audit to draw on our past experience of delivering this conclusion and have updated our approach as necessary. We will also consider reports from your regulators and review agencies.

The Local Audit and Accountability Act 2014 requires auditors of NHS Bodies to be satisfied that the organisation “has made proper arrangements for securing economy, efficiency and effectiveness in its Value for Money”. 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.”

The VFM process is shown in the diagram below:

Overall criterion: *In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

- Informed decision making
- Sustainable resource deployment
- Working with partner and third parties

- VFM audit risk assessment
- Identification of significant VFM risks (if any)
- Continually re-assess potential VFM risks

- Financial statements and other audit work

- No further work required
- Assessment of work by other review agencies
- Specific local risk based work

- Conclude on arrangements to secure VFM

See overleaf for our initial VFM risk assessment findings.
3. Value for money arrangements work

**Significant VFM Risks**

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

### Delivery of budgets

**Risk:** The Authority identified the need to make savings of £9M in 2017/18 (2016/17 target was £9.3M; actual achieved was £12.9M). The current forecast shows that the Authority will deliver an overspend of approximately £5.8M but is anticipating that further savings will be identified in order to meet the approved balanced budget. The most significant variation is in Children’s care and support (£1.9m) which is driven by high demand for the service.

The Authority’s budget for 2018/19 is expected to be approved at the Council meeting in February and will recognise a need for £11.3M savings. The approved budget is expected to include individual proposals to support the delivery of the overall savings requirement. Further savings of £27.3M will be required over the period 2019/20 to 2021/22 to principally address future reductions to local authority funding alongside service cost and demand pressures. As such the need for savings will continue to have a significant impact on the Authority’s financial resilience.

**Approach:** We will review controls the Authority has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors. We will specifically review management actions and mitigations to deliver the budgeted position in Children’s care and support.

**VFM sub-criterion:** This risk is related to the following Value For Money sub-criterion:

— Informed decision making;
— Sustainable resource deployment; and
— Working with partners and third parties.
4. Other matters

Whole of government accounts (WGA)
We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2017/18 have not yet been confirmed.

Elector challenge
The Local Audit and Accountability Act 2014 gives electors certain rights. These are: the right to inspect the accounts; the right to ask the auditor questions about the accounts; and the right to object to the accounts. As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece where we interview an officer and review evidence to form our decision to a more detailed piece where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised. Costs incurred responding to questions or objections raised by electors is not part of the fee. This work will be charged in accordance with PSAA's fee scales. Our audit fee variation requested for 2016/17 is pending with the PSAA for final approval.

Our audit team
Your audit team has been drawn from our specialist public sector assurance department and is led by three key members of staff:

— Neil Thomas: your Partner has overall responsibility for the quality of the KPMG audit work and is the contact point within KPMG for the Public Accounts and Audit Select Committee, the Chief Executive and Finance Director.

— Rich Hewes: your Director will also have responsibility for the quality of the KPMG audit work and is a second point of contact within KPMG for the Public Accounts and Audit Select Committee, the Chief Executive and Finance Director.

— Charles Medley: your Senior Manager is responsible for delivery of all our audit work. He will manage the completion of the different elements of our work, ensuring that they are coordinated and delivered in an effective manner.

The core audit team will be assisted by other KPMG staff, such as risk, tax or information specialists as necessary to deliver the plan.

Reporting and communication
Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but in ensuring that the audit team is accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Public Accounts and Audit Select Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity
Auditors are required to be independent and objective. Appendix 2 provides more details of our confirmation of independence and objectivity.
4. Other matters

Audit fee
Our Audit Fee Letter 2017/2018 presented to you on 21 April 2017 first set out our fees for the 2017/2018 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage.

Should there be a need to charge additional audit fees then this will be agreed with the S151 Officer and PSAA. If such a variation is agreed, we will report that to you in due course.

The planned audit fee for 2017/18 is £165,975 for the Authority (2016/17: £177,928). The planned audit fee for 2017/18 is £21,000 for the Pension Fund (2016/17: £21,000).

Grants and claims work
We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements:

• Housing benefits grant claim: This audit is planned for September. Our fee for this work is £34,358;
• Pooled housing capital receipts: This audit is planned for September. Our fee for this work is £4,750; and
• Teachers pension contribution return: This audit is planned for September. Our fee for this work is £3,900.

Subsidiary Auditors
Whilst the Local Authority does not prepare group accounts we are the appointed auditors of the following subsidiaries of the Local Authority.

• B&D Reside Roding Ltd. This audit is planned for October. Our fee for 2017/18 is £7,500 (2016/17 £7,500)
• B&D Reside Regeneration LLP. This audit is planned for October. Our fee for 2017/18 is £6,500 (2016/17 £6,500)
• B&D Reside Ltd. This audit is planned for October. Our fee for 2017/18 is £3,000 (2016/17 £3,000)
• B&D Reside Regeneration Ltd. This audit is planned for October. Our fee for 2017/18 is £1,500 (2016/17 £1,500)
• B&D Reside Abbey Roding LLP. This audit is planned for October. Our fee for 2017/18 is £6,500 (2016/17 £6,500)
• TPFL Regeneration Ltd. This audit is planned for October. Our fee for 2017/18 is £1,500 (2016/17 £1,500)

Public interest reporting
In auditing the accounts as your auditor we must consider whether, in the public interest, we should make a report on any matters coming to our notice in the course of our audit, in order for it to be considered by Members or brought to the attention of the public; and whether the public interest requires any such matter to be made the subject of an immediate report rather than at completion of the audit.

At this stage there are no matters that we wish to report.
# Appendix 1: Key elements of our financial statements audit approach

<table>
<thead>
<tr>
<th>Communication</th>
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</table>
| Continuous communication between you and us  
|  
| Audit strategy and plan  
| ISA 260 (UK&I) Report  
| Annual Audit Letter  
|  
| Planning |  
| Initial planning meetings and risk assessment  
| Audit workflow |  
|■ Perform risk assessment procedures and identify risks  
■ Determine audit strategy  
■ Determine planned audit approach  
|  
| Control evaluation |  
|■ Understand accounting and reporting activities  
■ Evaluate design and implementation of selected controls  
■ Test operating effectiveness of selected controls  
■ Assess control risk and risk of the account being misstated  
|  
| Substantive testing |  
|■ Plan substantive procedures  
■ Perform substantive procedures  
■ Consider if audit evidence is sufficient and appropriate  
|  
| Completion |  
|■ Perform completion procedures  
■ Perform overall evaluation  
■ Form an audit opinion  
■ Public Accounts and Audit Select Committee reporting  
|  

Jan Feb Mar Apr May Jun Jul Aug Sep
Appendix 2: Independence and objectivity requirements

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF LONDON BOROUGH OF BARKING & DAGENHAM

Professional ethical standards require us to provide to you at the planning stage 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 Ltd’s (‘PSAA’s’) Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office (‘NAO’).

This Appendix 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.
### Appendix 2: Independence and objectivity requirements

#### 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 affiliates for professional services provided by us during the reporting period.

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 following.

**Analysis of Non-audit services for the year ended 31 March 2018**

<table>
<thead>
<tr>
<th>Description of scope of services</th>
<th>Principal threats to independence</th>
<th>Safeguards Applied</th>
<th>Basis of fee</th>
<th>Value of Services Delivered in the year ended 31 March 2018 £000</th>
<th>Value of Services Committed but not yet delivered £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-PSAA framework grants:</td>
<td></td>
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<tr>
<td>- Pooling of Housing Capital Receipts;</td>
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<td>- Teacher Pension Audit</td>
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<tr>
<td><strong>Self interest</strong> – This engagement is immaterial to both the firm and the Authority.</td>
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<tr>
<td><strong>Self review</strong> – The nature of this work is to provide certification on agreed upon procedures for the pooling of housing capital receipts and the end of year certificate for Teachers Pensions (EOYC).</td>
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<tr>
<td><strong>Management threat</strong> – This work is to provide certification against agreed upon procedures only.</td>
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<tr>
<td><strong>Familiarity</strong> – This threat is limited given the scale, nature and timing of the work.</td>
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<tr>
<td><strong>Advocacy</strong> – not applicable.</td>
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<tr>
<td><strong>Intimidation</strong> – not applicable</td>
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</tbody>
</table>

These are immaterial to the financial accounts of the Authority and does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors. The existence of a separate team for this work is a further safeguard. Consequently, we consider we have appropriately managed this threat.

The fee is set based on our expected resource requirement to complete these certification returns and is not contingent on results.

<table>
<thead>
<tr>
<th>Principal threats to independence</th>
<th>Safeguards Applied</th>
<th>Basis of fee</th>
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<th>Value of Services Committed but not yet delivered £000</th>
</tr>
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<tbody>
<tr>
<td><strong>Self interest</strong></td>
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<tr>
<td><strong>Self review</strong></td>
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<tr>
<td><strong>Management threat</strong></td>
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<tr>
<td><strong>Familiarity</strong></td>
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<td><strong>Advocacy</strong></td>
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<td><strong>Intimidation</strong></td>
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</tbody>
</table>

£0 £8.6
## Appendix 2: Independence and objectivity requirements

### Analysis of Non-audit services for the year ended 31 March 2018

<table>
<thead>
<tr>
<th>Description of scope of services</th>
<th>Principal threats to independence</th>
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<th>Value of Services Delivered in the year ended 31 March 2018 £000</th>
<th>Value of Services Committed but not yet delivered £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior to our appointment as auditor to the London Borough of Barking and Dagenham we advised the Authority on VAT matters. One area, which is common across Local Authorities nationally, is currently being tested with HMRC. In the event that the test case is successful, we will assist the Authority with preparation of papers to submit to HMRC. The maximum potential fee is £60,000, however we will not receive any fee unless the case is successful. We have re-reviewed the permissibility of this service under the National Audit Office’s Auditor Guidance Note (AGN) 01 - General Guidance Supporting Local Audit.</td>
<td><strong>Self interest</strong> – This engagement is immaterial to both the firm and the Authority. <strong>Self review</strong> – The nature of this work is to provide advice on VAT. This is a balance disclosed within the Local Authority accounts and is therefore subject to Audit. <strong>Management threat</strong> – This work is to provide advice to support officers in the discharge of their duties. <strong>Familiarity</strong> – This threat is limited given the scale, nature and timing of the work. <strong>Advocacy</strong> – not applicable. <strong>Intimidation</strong> – not applicable</td>
<td>Our advice concerns a VAT liability that is immaterial to the financial statements and is not associated with a high risk area of the accounts. This mitigates the self-review threat. The work we have undertaken does not assume management responsibility as it involves the preparation of paperwork. Our terms of engagement make clear that management responsibility remains with Officers, and we rely on the knowledge and experience of those Officers in exercising that management responsibility in relation to our tax advice.</td>
<td>The fee is based on the Local Authority test case being successful and is therefore contingent.</td>
<td>£0</td>
<td></td>
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<tr>
<td>Maximum potential fee £60,000, excluding VAT.</td>
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</tbody>
</table>
Appendix 2: Independence and objectivity requirements

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 Public Accounts and Audit Select 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 the Partner and audit staff is not impaired.

This report is intended solely for the information of the Public Accounts and Audit Select 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.
Appendix 3: 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

Commitment to continuous improvement:

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

Association with the right clients:

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

Performance of effective and efficient audits:

- 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

Commitment to technical excellence and quality service delivery:

- Recruitment, development and assignment of appropriately qualified personnel

Clear standards and robust audit tools:

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies
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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, 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, by email to 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.