



Annual Audit Letter 2017/18

London Borough of Barking and Dagenham

—

August 2018

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Neil Thomas, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.



This Annual Audit Letter summarises the outcome from our audit work at London Borough of Barking and Dagenham in relation to the 2017/18 audit year, which is the final year that KPMG is the auditor of the Authority and its pension fund.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority’s website.

Audit opinion

We issued an unqualified opinion on the Authority’s financial statements on 31 July 2018.. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements include those of the pension fund.

Financial statements audit

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority’s accounts was set at £14 million which equates to around 1.9 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision. Materiality for the Pension Fund was set at £9 million which is approximately 1 percent of gross assets.

We report to the Audit and Standards Committee any misstatements of lesser amounts, other than those that are “clearly trivial”, to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £0.7 million for the Authority and £0.45 million for the Pension Fund.

We have identified seven audit differences with a total value of £5.1 million resulting in a net increase of £5.1 million in the reported deficit on provision of services and a net decrease of £8.4 million in the useable reserves balances.

Our audit work was designed to specifically address the following significant risks:

- Management Override of Controls – This is a risk that auditing standards require that we consider as management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records by overriding controls that otherwise appear to be operating effectively. We reviewed and tested the controls in place relating to posting of manual journals and found an opportunity for these controls to be enhanced. We found no exceptions in our substantive testing;
- Valuation of PPE – The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. We reviewed those assets subject to revaluation by the Authority’s valuer and found that errors had been made resulting in an incomplete revaluation as well as errors in the underlying data held by the Authority. This resulted in £7.6 million of adjustment to the net book value of property plant and equipment and raising recommendations to strengthen the underlying process and controls. We also undertook work to review the qualifications, objectivity and independence of the external valuer used, the value of assets not subject to valuation and the completeness, existence and ownership of plant, property and equipment and found no exceptions;

Section one

Headlines

Financial statements audit	<ul style="list-style-type: none">— Pensions Liabilities – We reviewed the controls in place at the Authority over data sent to the scheme actuaries Hymans Robertson LLP by the Authority and found them to be appropriately designed and operating effectively. We found no exception in our testing which included reviewing Hymans Robertson LLP as an expert of the Authority, reviewing the assumptions used by them and substantively testing the underlying data sent to the actuary;— Faster Close – The Authority was required for the first time to prepare draft financial statements by 31 May rather than 31 June as in exceptions.
Other information accompanying the financial statements	Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.
Pension Fund audit	We issued an unqualified opinion on the pension fund financial statements as part of our audit report. Our audit work was designed to specifically address the following significant risks relating to the Pension Fund: <ul style="list-style-type: none">— Valuation of hard to price investments – The pricing of complex investment assets may be susceptible to pricing variances given the assumptions underlying the valuation, we identified no issues in our work.
Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.
Value for Money conclusion	We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2017-18 on 31 July 2018. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources. To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.
Value for Money risk areas	We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. Our work identified the following significant matters: <ul style="list-style-type: none">— Delivery of Budgets – The Authority identified the need to make savings of £9 million in 2017/18. Our testing identified that where there are overspends in services that work is undertaken to identify and implement mitigation and savings plans which we identified were in part successful in mitigating the identified projected outturn overspend of £6.8M which was forecast in November 2017.

Section one

Headlines

High priority recommendations	We raised no high priority recommendations as a result of our 2017-18 work.
Certificate	The audit cannot be formally concluded and an audit certificate issued as we are considering elector queries relating to 2015/16. 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.
Audit fee	Our fee for 2017/18 was £165,975, excluding VAT (2016/17: £165,975). Our fee for the audit of the Pension Fund was £21,000 excluding VAT (2016/17: £21,000). We also receive fees relating to 2017/18 for audit related assurance services £8,650, excluding VAT (2016/17 £8,650) and mandatory assurance services £34,358, excluding VAT (2016/17 £22,785). Further detail is contained in Appendix 2.
Exercising of audit powers	<p>We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.</p> <p>We have not identified any matters that would require us to issue a public interest report.</p>

Appendices

Appendix One: Summary of reports issued

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

These reports can be accessed via the Audit and Standards Committee pages on the Authority's website at www.LBBD.gov.uk.

External Audit Plan January 2018

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

Auditor's Report July 2018

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

Annual Audit Letter August 2018

This Annual Audit Letter provides a summary of the results of our audit for 2017/18.

2018

January

February

March

April

May

June

July

August

September

October

November

Certification of Grants and Returns January 2018

This report summarised the outcome of our certification work on the Authority's 2016-17 grants and returns.

Report to Those Charged with Governance July 2018

The Report to Those Charged with Governance summarised the results of our audit work for 2017/18 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

Appendix two: Audit fees

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

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

External audit

Our final fee for the 2017/18 audit of the Authority was £165,975 (2016/17 £165,975), which is in line with the planned fee.

Our final fee for the 2017/18 audit of the Pension Fund was in line with the planned fee of £21,000 (2016/17 £21,000).

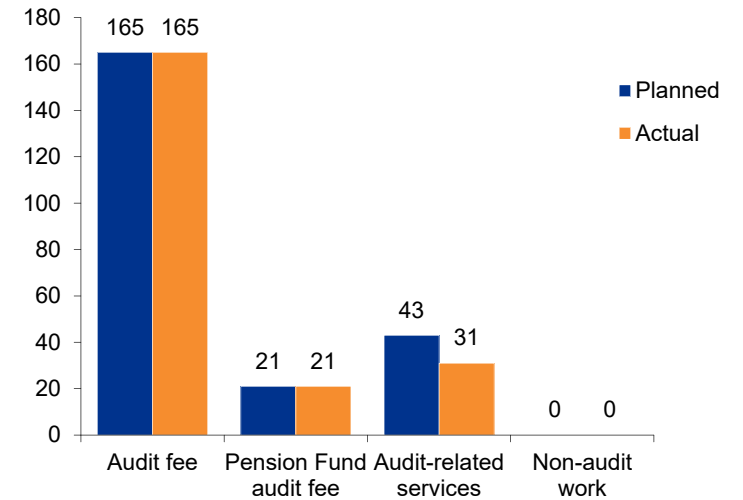
Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing, the provisional fee for this was set at £34,358 (2016/17 £22,785). The final fee will be confirmed through our reporting on the outcome of that work in January 2019.

Other services

We charged £8,650 for additional audit-related services for the certification of the Teachers Pensions Return grant claim and Pooling of Housing Capital Receipts, which are outside of Public Sector Audit Appointment's certification regime.

External audit fees 2017/18 (£'000)





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