Report to those charged with governance (ISA 260) 2014/15

London Borough of Barking and Dagenham

7 September 2015
## 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. The Audit Commission 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 Philip Johnstone, 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, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@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.
Scope of this report

This report summarises the key findings arising from:

- our audit work at London Borough of Barking and Dagenham ('the Authority') in relation to the Authority's 2014/15 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- the work to support our 2014/15 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our External Audit Plan 2014/15, presented to you in March 2015, set out the four stages of our financial statements audit process.

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during July/August 2015.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM conclusion

Our External Audit Plan 2014/15 explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed our work to support our 2014/15 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2014/15 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.
Section two
Headlines

<table>
<thead>
<tr>
<th>Proposed audit opinion</th>
<th>We anticipate issuing an unqualified audit opinion on the Authority’s financial statements by 30 September 2015. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007. We also anticipate issuing an unqualified audit opinion in relation to the Fund’s financial statements, as contained both in the Authority’s Statement of Accounts and the Pension Fund Annual Report by 30 September 2015.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit adjustments</td>
<td>Our audit has identified one material audit adjustment within the primary statements with a total value of £32.8 million. The impact of this adjustment is to:  ■ Decrease the value of Council Dwelling stock as of 31 March 2015 by £32.8 million. There is no impact on the general fund balance.  In addition, we have identified five misstatements within the footnotes to the statements with individual values over our trivial reporting threshold, but which are not material to the accounts. Further, our audit has identified a total of three audit adjustments within politically sensitive disclosures. Due to the sensitive nature of these disclosures our materiality threshold for triviality has been reduced to £1,000. The impact of these adjustments is to:  ■ Increase the disclosure for ‘Salaries, Fees, and Allowances’ in the Senior Office Remunerations table by £1,000;  ■ Require an additional disclosure note for one omitted officer in the Senior Office Remunerations note, for the amount of £42.9k; and  ■ Decrease the disclosures over Members Allowances for the year by £3,000  The Authority has indicated that all of these items that are above our trivial reporting threshold will be adjusted in the final set of financial statements. We have raised a number of recommendations in relation to the matters highlighted above, these are summarised in Appendix 1.</td>
</tr>
<tr>
<td>Key financial statements audit risks</td>
<td>We identified the following key financial statement audit risks in our 14/15 External audit plan issued in March 2015.  ■ Main Accounting for VA/VC Schools in relation to LAAP Bulletin 101 (main Authority accounts;  ■ Local Government Pension Scheme reform (Pension Fund accounts)  During our audit work we identified an additional financial statement audit risk relating to the Oracle system upgrade. We have worked with officers throughout the year to discuss specific risk areas and our detail findings are reported in section 3 of this report</td>
</tr>
</tbody>
</table>
## Section two

### Headlines

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

<table>
<thead>
<tr>
<th>Accounts production and audit process</th>
<th>We noted a decrease in the quality of the Authority’s financial reporting processes and supporting work papers compared to the prior year, as evidenced by the number of audit adjustments and presentational errors identified over the course of our audit. We do, however, note that due to a reduction in staff numbers and the reallocation of duties that it is sometimes difficult to maintain the high standards that we have seen have previously. Once the audit is completed, we will be discussing with key finance staff the lessons from this year’s audit to return the to the high standards that we have seen over the past two years. The Authority has implemented 2 of 3 of the recommendations in our ISA 260 Report 2013/14 relating to the financial statements.</th>
</tr>
</thead>
</table>
| Completion | At the date of this report our audit of the financial statements is substantially complete, with the exception of the following areas:

- Audit of the Reside subsidiary;
- Property, Plant & Equipment, particularly relating to PFI disclosures and reviewing adjusted accounts;
- Payroll analytical review and testing of FTE figures;
- Testing of Non-Pay Expenditure and Income transaction items;
- Cash;
- Pensions; and
- Whole of Government Accounts submission. We are expecting that these areas will be completed before the Public Accounts and Audit Select Committee (PAASC) on 7 September 2015. However, before we can issue our opinion we require a signed management representation letter, which covers the financial statements of both the Authority and the Fund. In addition, we require the final version of the Statement of Accounts, so we can agree that all proposed adjustments have been made. We will also need to complete our post balance sheet review procedures, covering the period up until the financial statements are signed. We confirm that we have complied with requirements on objectivity and independence in relation to this year’s audit of the Authority’s and the Fund’s financial statements. |
| VFM conclusion and risk areas | We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2015. |
Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority’s financial statements following approval of the Statement of Accounts by the Public Accounts and Audit Select Committee (PAASC) on 7 September 2015.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 5 for more information on materiality) level for this year’s audit was set at £17 million. Audit differences below £800k are not considered significant and are therefore not independently reported to those charged with governance.

Our audit has identified one material audit adjustment to the balance sheet, four additional adjustments to various footnote disclosures with a total value of £65.9m and four audit adjustments over politically sensitive disclosures. These have been set out in Appendix 3. It is our understanding that these will be adjusted in the final version of the financial statements. The net impact on the HRA as a result of audit adjustments is to decrease the balance as at 31 March 2015 by £32.8 million. There is no impact on the General Fund Balance.

In addition, we identified a substantial number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (‘the Code’). We understand that the Authority will be addressing these where significant.

Pension fund audit

Our audit of the Fund did not identify any material misstatements.

For the audit of the Fund we used a lower materiality level of £15 million. Audit differences below £500k are not considered significant.

Subject to all outstanding queries in this area being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Public Accounts and Audit Select Committee on 7 September 2015.

We have identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code. We understand that the Fund will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Pension Fund Annual Report

We have reviewed the Pension Fund Annual Report and confirmed that:

- the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

We anticipate issuing an unqualified opinion on the Pension Fund Annual Report at the same time as our opinion on the Statement of Accounts.
In our *External Audit Plan 2014/15* we reported that we would consider two risk areas that are specifically required by professional standards for both the audit of the Authority’s and Pension Fund accounts, and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

<table>
<thead>
<tr>
<th>Areas of significant risk</th>
<th>Summary of findings</th>
</tr>
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<tbody>
<tr>
<td>Management override of controls</td>
<td>Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit. In line with our methodology, we carried 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.</td>
</tr>
<tr>
<td>Fraud risk of revenue recognition</td>
<td>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In our <em>External Audit Plan 2014/15</em> we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue. This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.</td>
</tr>
</tbody>
</table>
## Financial Statements (continued)
### Significant risks – the Authority

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus. This section sets out our detailed findings on those risks.

In our External Audit Plan 2014/15, presented to you in March 2015, we identified the significant risks affecting the Authority and the Fund’s 2014/15 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

<table>
<thead>
<tr>
<th>Significant audit risk</th>
<th>Issue</th>
<th>Findings</th>
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<tbody>
<tr>
<td>LAAP Bulletin 101</td>
<td>Accounting for School Assets used by Local Authority Maintained Schools issued in December 2014 has been published to assist practitioners with the application of the Code in regard to accounting for Local Authority maintained schools. The challenges relate to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. This includes assets used by Voluntary-Aided (VA) and Voluntary-Controlled (VC) Schools as well as Foundation Schools. Authorities will need to review the agreements under which assets are used by VA/VC and Foundation schools and apply the relevant tests of control in the case of assets made available free of charge, or risks and rewards of ownership in the case of assets made available under leases. This is a key area of judgement and there is a risk that Authorities could omit school assets from, or include school assets in, their balance sheet. Particular risks surround the recognition of Foundation School assets which may or may not be held in Trust. Authorities should pay particular attention to the nature of the relationship between the Trustees and the school governing body to determine whether the school controls the Trust and the assets should therefore be consolidated into their balance sheet.</td>
<td>We have ensured that the Authority is aware of the latest guidance and we have reviewed the work performed and the judgements made in reviewing school assets to determine whether they should be on or off of the Authority’s balance sheet. During our review of the Authority’s working papers we identified that the listing of maintained schools in the area used to undertake the exercise was not complete, excluding three schools which required assessment. We have therefore reviewed the work undertaken by the Authority but also completed additional substantive audit procedures, including obtaining a complete list of area schools via the Department for Education (DfE). We have also requested that the Authority obtain independent confirmation from the relevant Diocese that they owned and controlled those schools that had not been previously assessed. These confirmations have been obtained and no issues were noted. No audit issues were identified in our substantive review of the accounting treatment of VA/VC schools.</td>
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</table>
During the completion of our audit we have identified an additional significant risk which was not initially included in our External Audit Plan 2014/15, which was presented to you in March 2015. The details of this additional risk, and our audit procedures and findings have been summarised below.

<table>
<thead>
<tr>
<th>Significant audit risk</th>
<th>Issue</th>
<th>Findings</th>
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<tr>
<td>In July 2014 the Authority completed a system upgrade to the Oracle system from version R11 to R12. Whilst this did not involve a system change, it did require the migration of financial data between system versions and involved a change to the financial chart of accounts. Discussions with officers and performance of testing audit procedures during the audit have identified that there have been some issues following the system upgrade. These predominately relate to:</td>
<td>Following the escalation of the Oracle upgrade to a significant risk we undertook a number of additional audit procedures. These are outlined below. We did note that, whilst LBBD have experienced some post implementation issues that officers are working to resolve, these have not been as significant as at other Authorities where the transition involved a complete system change, rather than a system upgrade. Additional procedures included:</td>
<td></td>
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<tr>
<td>▪ An inability to prepare a regular and timely bank reconciliation for the Authority’s main bank account (there has been no impact on the Authority’s other bank reconciliation for Revenue and Benefits). However, we have noted that officers implemented a manual solution in order to prepare a year end bank reconciliation to support the cash figures in the financial statements.</td>
<td>▪ Discussion with the Head of IT the processes for testing of the migrated data at a composite and transaction level;</td>
<td></td>
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<tr>
<td>▪ Some difficulty providing complete and accurate transaction listings to support the figures in the financial statements, particularly for payroll and non-pay expenditure figures.</td>
<td>▪ Discussion with the Head of Internal Audit the findings from IA reviews of financial systems since the system upgrade and reviewed the associated IA reports to identify any impacts on our audit approach. We noted that no high priority recommendations have been raised by IA during these reviews;</td>
<td></td>
</tr>
<tr>
<td>As a result of these issues we escalated this issue in our audit approach to a significant risk.</td>
<td>▪ Undertook testing of migrated data to obtain independent assurance over the accuracy and completeness of the data transfer;</td>
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<td></td>
<td>▪ Undertook detailed substantive testing over the Authority’s main bank account year end reconciliation; and</td>
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<td></td>
<td>▪ Considered the impact of potential control issues identified as part of our VfM work.</td>
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<td></td>
<td>Through completion of these procedures we did not identify any issues which we require to report to those charged with governance.</td>
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Section three
Financial Statements (continued)
Significant risks – the Fund

We have worked with the Fund throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2014/15*, presented to you in March 2015, we identified the significant risks affecting the Authority and the Fund’s 2014/15 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Fund.

<table>
<thead>
<tr>
<th>Significant audit risk</th>
<th>Issue</th>
<th>Findings</th>
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<tbody>
<tr>
<td>From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members. While any errors in the system are unlikely to result in material misstatements in 14/15, the possible cumulative effect in future years means that specific audit work is needed on ensuring that the changes required to the system have been accurately reflected.</td>
<td>We reviewed the controls and processes that the Pension Fund have put in place to accurately capture the data required by LGPS 2014. Through our testing over benefit expenditure we also confirmed that the system has been set up to accurately calculate future benefit entitlement. No issues have been identified and we have determined that this significant risk has been appropriately addressed by the Fund.</td>
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</table>

LGPS Reform
Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority’s accounting practices and financial reporting. We also assessed the Authority’s process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

<table>
<thead>
<tr>
<th>Element</th>
<th>Commentary</th>
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<tr>
<td>Accounting practices and financial reporting</td>
<td>We have noted some weaknesses in the Authority’s financial reporting process and ability to produce statements of accounts to a good standard. This is particularly focused on the area of PPE where we identified a number of accounting and disclosure misstatements. There is scope to improve this quality further by strengthening the level of detailed review of the preparation of the financial statements. We consider that accounting practices are appropriate.</td>
</tr>
<tr>
<td>Completeness of draft accounts</td>
<td>We received the a complete set of draft accounts on 30 June 2015.</td>
</tr>
<tr>
<td>Quality of supporting working papers</td>
<td>The quality of working papers provided was variable and did not in all cases meet expected standards. In some instances, such as non-payroll expenditure and payroll, this has resulted in some delays to us completing our audit in the originally set timeline.</td>
</tr>
</tbody>
</table>

As a result of the above, we have raised a recommendation in respect of the Authority’s quality of financial information and preparation of the Statement of Accounts, which is included in Appendix 1.

Prior year recommendations

As part of our audit we have specifically followed up the Authority’s progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented the majority of the recommendations in our ISA 260 Report 2013/14. Appendix 2 provides further details.
We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Decleration of independence and objectivity
As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of London Borough of Barking and Dagenham and Barking and Dagenham Pension Fund for the year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and London Borough of Barking and Dagenham and Barking and Dagenham Pension Fund, its members and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations
You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Chief Finance Officer for presentation to the Public Accounts and Audit Select Committee. We require a signed copy of your management representations before we issue our audit opinion.

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).

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 2014/15 financial statements.
Section four
VFM conclusion

Background
Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority’s financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Work completed
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have identified three significant risks to our VFM conclusion, see details on following slides.

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
Section four
Specific VFM risks

As part of our planning work we identified three specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority’s current arrangements in relation to these risk areas are adequate.

<table>
<thead>
<tr>
<th>VfM Audit Focus</th>
<th>Risk description and link to VFM conclusion</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium Term Financial Strategy</td>
<td>The ability of local authorities to deliver value for money to the taxpayer and the wider public is heavily reliant on an authority’s financial planning. This in turn forms an important part of an authority’s approach to managing cost pressures. This is also important in the face of a changeable funding landscape.</td>
<td>We have obtained and reviewed the Medium Term Financial Strategy (“MTFS”) in place for LBBD. We can confirm that this is sufficiently forward looking with a four yearly rolling scope. The MTFS is based on cost and revenue forecasts that are considered comprehensive in scope, with a setup that mirrors a net cost of services statement. The MTFS also includes a number of scenarios to allow for sensitivities and flexibility in assumptions, with three different levels of optimism/prudence being used. The MTFS is presented at least annually to the Cabinet for approval as part of the annual budget setting process. The MTFS sets an annual savings target equivalent to 2.1% of the gross expenditure of 2014-15. This is considered to be reasonably challenging without being unrealistic. The Authority has a track record to achieving budgetary targets, with saving of up to £115m being achieved over the last 5 year and an overspend of £70k for 2014-15. Based on the above summary of assessment, we do not consider the MTFS at LBBD to be short sighted or not fit for purpose. As such, we do not consider there to be a material impact on LBBD’s delivery of value for money for the taxpayer as a result of a lack of forward planning.</td>
</tr>
</tbody>
</table>
Section four
Specific VFM risks

<table>
<thead>
<tr>
<th>VfM Audit Focus</th>
<th>Risk description and link to VFM conclusion</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oracle System Upgrade</td>
<td>From our experience with other local government authorities, we are aware that a number of difficulties have been encountered in the upgrade of the Oracle system to version R12. These difficulties focus on control weaknesses in the areas of bank reconciliations, self-authorisation of journals, unverified bank details of individuals and interface with other systems being problematic.</td>
<td>We have reviewed these areas of possible control weaknesses relating to the upgrade of the Oracle system as part of our VfM testing. Our review was limited to high level review and did not constitute substantive testing. Results are as follows: System interfacing: From discussions with management, we note that there have been no major issues with regards the interfacing and reconciling of Oracle R12 with other information systems at LBBD. Bank reconciliations: From our discussions with management, as well as our substantive and control testing of bank reconciliations at LBBD, we have identified that LBBD has encountered difficulties in completing the bank reconciliation control on a timely basis. Whilst the Council was able to reconcile the year end bank balance, differences of approximately £113k remain un-reconciled. We have raised a separate recommendation to this effect. Whilst this is considered to be a control weakness, nothing has come to our attention which would suggest that this control weakness has resulted in an inability by LBBD to deliver its core services to the public. Self authorisation of journals: From our discussions with management, as well as substantive testing of 25 journals, we have not identified instances where journals were allowed to be authorised by the posting user. As can be seen above, whilst difficulties have been noted around the bank reconciliation control, we have not identified further control weaknesses relating to the upgrade of the Oracle system. The bank reconciliation has been addressed by a recommendation in this report, but is not considered to pose a material impact on LBBD’s delivery of value for money on it’s core services to the public.</td>
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</table>
### Section four
### Specific VFM risks

<table>
<thead>
<tr>
<th>VfM Audit Focus</th>
<th>Risk description and link to VFM conclusion</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schools Services check</td>
<td>The provision of school services to the wider public by way of Authority run schools is considered one of LBBD’s core services which are likely to be subject to public scrutiny. The non-delivery of school services is considered to be a risk area with regards to LBBD’s ability to deliver value for money to the taxpayer.</td>
<td>We obtained from OFSTED, the primary education regulator and watchdog, a list of LBBD run schools. We have then reviewed the latest inspection reports for each of these schools with a view of identifying currently open schools with a rating of ‘Inadequate’ by OFSTED. Our review has not identified any currently open school run by LBBD with a rating of ‘inadequate’. We have also reviewed the OFSTED inspection of LBBD as an Authority and note that the OFSTED assessment of LBBD’s schooling services to be ‘requires improvement’. The OFSTED definition of this rating is as follows: “there are no widespread or serious failures that create or leave children being harmed or at risk of harm. The welfare of looked after children is safeguarded and promoted. Minimum requirements are in place”. As such, we do not consider non-delivery of schooling services to pose a material impact on LBBD’s delivery of value for money to the taxpayer.</td>
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Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the Authority, other inspectorates and review agencies in relation to these risk areas.

<table>
<thead>
<tr>
<th>VFM criterion</th>
<th>Met</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securing financial resilience</td>
<td>✓</td>
</tr>
<tr>
<td>Securing economy, efficiency and effectiveness</td>
<td>✓</td>
</tr>
</tbody>
</table>
Appendices

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take. The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

### Priority rating for recommendations

1. **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.

2. **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.

3. **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.

<table>
<thead>
<tr>
<th>No.</th>
<th>Risk</th>
<th>Issue and recommendation</th>
<th>Management response</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>Preparation of Monthly Bank Reconciliations</td>
<td>Agreed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>During our review of cash processes we noted that monthly bank reconciliations for the Council’s main bank account ceased to be prepared and reviewed on a regular basis following the Oracle upgrade from R11 to R12 in July 2014. In our testwork over the year end bank reconciliation, we noted that there was a £113k unreconciled difference. In addition, £1.4 million in reconciling items identified by the Authority had not been tied in detail back to bank statements at the time of the reconciliation. It has been noted that the Authority implemented a manual solution to ensure that the year end bank reconciliation had been prepared and reviewed. Substantive audit procedures undertaken to test this reconciliation have not identified and issues and we have obtained the assurance required that the year end cash balance is correct disclosed in the financial statements.</td>
<td>Response: Agreed The process to move to monthly bank reconciliation has been implemented and will be completed by 30 September 2015 for bank reconciliations relating to 2015/16. Monthly bank reconciliations will be completed for the period July 2014 to March 2015 by 31 December 2015.</td>
</tr>
</tbody>
</table>
## Appendix 1: Key issues and recommendations

<table>
<thead>
<tr>
<th>No.</th>
<th>Risk</th>
<th>Issue and recommendation</th>
<th>Management response</th>
</tr>
</thead>
</table>
| 2   |      | Implementation of Accounting Guidance Updates (Analysis of VA/VC Schools) | Response:  
Agreed – the finance team will consider the most appropriate way to implement this recommendation in order to effectively respond to accounting updates in the future, and prior to the next year end.  
**Responsible Officer:** David Abbott  
**Due Date:** 31 December 2015 |

Our audit identified that the Authority’s review and associated supporting documentation did not fully respond to the requirements of the new accounting technical guidance and accounting requirements published in the NAO’s LAAP Bulletin relating to schools.

The issues identified included:

- **Quality of underlying documentation:** The Authority did not identify all relevant maintained schools within its area for assessment (identifying 9 out of 10 relevant schools), and was unable to provide a full and complete list of all schools, the listing provided including 53 of 55 the schools in the area when compared to the equivalent DfE listing;
- **Insufficient documentation available to support the review undertaken and conclusions drawn:** The Authority was unable to provide audit documentation to support its assessment of the accounting treatment of schools or provide relevant communication with the Catholic and Church of England dioceses at the time the assessment was performed.

In order for us to obtain the required level of assurance over this significant risk area it was therefore necessary for us to perform additional audit procedures and request that the Authority contact the relevant dioceses to obtain independent confirmation of the asset ownership and control (access) arrangements.

**Risk**

If new accounting guidance is not appropriately addressed going forward there is a risk that the Authority will not correctly account, or update their management information, for significant changes which could result in inappropriate financial planning decision and material misstatements in financial statements.

**Recommendation**

We recommend that the Authority implement a process to provide accounting staff with sufficient support and guidance to appropriately implement new standards. The year end accounts close down process should be reviewed to ensure that there is sufficient time included to enable a robust review of the draft accounts prior to audit.
### Appendix 1: Key issues and recommendations

<table>
<thead>
<tr>
<th>No.</th>
<th>Risk</th>
<th>Issue and recommendation</th>
<th>Management response</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>2</td>
<td><strong>Preparation of Politically Sensitive Disclosures</strong>&lt;br&gt;During our testwork over Members Allowances and Senior Officer Remuneration we noted several misstatements. As these disclosure notes are politically sensitive, our triviality level does not apply. The following misstatements were identified:&lt;br&gt;Senior Officer Remuneration disclosure errors:&lt;br&gt;1. Understatement in one instance of a senior officer’s ‘Salaries, Fees, and Allowances,’ by £1,027; and&lt;br&gt;2. Omission of the disclosure related to one senior officer, who is paid by Thurrock Council, but LBBD pays a contribution of £42,917 towards the salary and therefore the details of the arrangement are required to be disclosed as part of the Senior Officers Remuneration note.&lt;br&gt;Member’s Allowances have been understated by £3,000. This is due to the overstatement of the allowance for one Councillor by £3,012, due to a manual calculation error in the supporting workpapers.&lt;br&gt;The Finance team have acknowledged and recorded audit adjustments for all of the above errors. However, in aggregate, the errors demonstrate a lack of robust review over this disclosure note, and possibly, a lack of communication between the Finance and HR teams.</td>
<td><strong>Response:</strong>&lt;br&gt;Agreed - the finance team will consider the most appropriate way to implement this recommendation in order to ensure that there is effective review of sensitive disclosures and liaison with other authorities.&lt;br&gt;<strong>Responsible Officer:</strong> Steve Pearson (Finance)&lt;br&gt;<strong>Due Date:</strong> 31 December 2015</td>
</tr>
</tbody>
</table>
### Appendix 1: Key issues and recommendations

<table>
<thead>
<tr>
<th>No</th>
<th>Risk</th>
<th>Issue and recommendation</th>
<th>Management response</th>
</tr>
</thead>
</table>
| 4  | ②      | **Quality of Financial Information and Preparation of Accounts**
  During our audit we encountered a number of delays as a result of a number of issues, including:
  - The Authority encountering difficulties in providing us with required reports, for example for payroll, non-pay expenditure and journals;
  - A lack of retention of reports from live systems to support figures included in the financial statements, for example Council Tax property listings and data submitted to the actuary for pension calculations;
  - Errors in the completeness and accuracy of reports provided, including:
    - payroll FTE calculations – identification of 2 errors in a sample of 25 items; and
    - pensioners listings – which contained 59 individuals who were not pensioners in the 2014-15 financial year, but became pensioners in the subsequent year.
  - A number disclosure errors and misstatements in the financial statements, including:
    - Grant Income - the footnote disclosure for the Education Funding Agency (EFA) grant income was overstated by £44.7m;
    - Intangible Assets – there was an unreconciled difference of £284k between the Fixed Asset Register and the trial balance in terms of cost and depreciation. The total figure for Intangible Assets is accurate;
    - Collection Fund - amounts receivable from ratepayers was not consistent with the amount submitted in the NNDR3 form, by £6,000;
    - The breakdown of Band D Equivalent properties in Note 1 of the Collection Fund disclosure did not agree to the Council Report; and
    - As part of the Pension Fund audit we identified that some of the information included in the actuaries IAS 19 report had not been accurately reflected in the financial statements.

  In addition to points discussed individually above, we also identified a number of minor presentational adjustments through our review and casting of the accounts, which have been shared with management.

**Risk**

The Finance team have acknowledged and recorded audit adjustments for the majority of the above errors. However, in aggregate, the financial statement disclosure errors and errors in the testing of supporting listings and documentation demonstrate a weakness in the quality of financial information provided and a lack of robust review over the accounts. If proper oversight procedures are not put in place, there is a risk that the accounts could contain material misstatements.

**Recommendation**

We recommend that the year end accounts close down process should be reviewed to ensure that there is sufficient time included to enable a robust review of the draft accounts prior to audit.

---

Response: Agreed

Responsible Officer: Steve Pearson

Due Date: 31 December 2015
## Appendix 1: Key issues and recommendations

### Property, Plant, and Equipment (PPE)
We encountered several errors and misstatements in our testwork over PPE. We identified that the Authority used the incorrect treatment of the following assets:

- Council Dwelling capital enhancements - £32.8m overstatement of Council Dwelling stock;
- Misclassification of new donated assets - £10.9m understatement of additions and overstatement of revaluations in the PPE disclosure notes;
- Accounting for the splitting of assets to separate and subsequently remove Academy schools from the balance sheet - £4.1m overstatement in the Revaluation Reserve for 2 assets and a £3.5m understatement in the Revaluation Reserve for another 2 assets;
- Misclassification of Assets under construction - £2.7m understatement of disposals and overstatement of revaluations in the PPE disclosure notes;
- Write down of balance of previous losses on dwellings taken to the I&E - £346k understatement of the revaluation reserve (this is below our reporting threshold, however we have included it in our report because management have chosen to amend the financial statements for this error); and
- Classification of one HRA asset, for DLO vehicles as a General Fund asset.

In addition, we noted several presentational adjustments and other matters related to fixed assets, as follows:

- The Authority undertook an asset verification exercise during the year and identified some fully depreciated assets which could not be individually identified in the Logotech Asset Register due to them being included in aggregate. The Authority has opted to dispose of these assets due to them having a nil net book value and to ensure that all assets on the asset register are fully identifiable and operational;
- Incorrect values included in the disclosure footnote for Investment Properties;
- Incorrect presentation of ‘De-recognition due to disposals’ in the PPE disclosure note, erroneously under the line item ‘Depreciation written out to the Revaluation Reserve’;
- Capital Commitments included in the PPE disclosure notes calculated using purchase orders, rather than contractual commitments; and
- Nine general presentational errors within the Housing Revenue Account statement and notes.

### Risk
Through discussion with the Authority, all of the errors identified will be adjusted. However in aggregate, the errors demonstrate that greater focus is required to ensure that there is a sufficiently robust review process in place so that issues such as these are identified and resolved on a timely basis.

### Recommendation
We recommend that the Council implement a more stringent review over Capital Accounting and the Fixed Asset Register.

<table>
<thead>
<tr>
<th>No</th>
<th>Risk</th>
<th>Issue and recommendation</th>
<th>Mntg response</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>2</td>
<td>Property, Plant, and Equipment (PPE)</td>
<td>Response: Agreed - the finance team will consider the most appropriate way to implement this recommendation in order to ensure that there are effective review arrangements in place over PPE, which are not overly burdensome and reasonable based on available resource. Responsible Officer: David Abbott Due Date: 31 December 2015</td>
</tr>
</tbody>
</table>
Appendices

Appendix 2: Follow up of prior year recommendations

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2013/14 and re-iterates any recommendations still outstanding.

The Authority has not implemented all of the recommendations in our ISA 260 Report 2013/14.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

<table>
<thead>
<tr>
<th>No.</th>
<th>Risk</th>
<th>Issue and recommendation</th>
<th>Officer responsible and due date</th>
<th>Status as at 24 August 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3</td>
<td>Dating of bank reconciliations</td>
<td>Responsible Officer: David Dickinson, Group Manager Treasury &amp; Pensions Due date: 1 September 2014</td>
<td>Superseded Recommendation superseded by recommendation #1 in current year</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Our testing of two months bank reconciliations found that whilst they had been appropriately signed as prepared reviewed and all reconciling items investigated they had not been dated</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Recommendation</strong></td>
<td>We recommend that bank reconciliations are dated by the prepare and the review</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>3</td>
<td>Authorisation of Journals</td>
<td>Responsible Officer: Tamara Beckford, Interim Group Manager Corporate Finance Due date: 4 August 2014</td>
<td>Implemented Testing did not identify any instances in current year</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Our testing of a sample of journals identified that 2 (out of a sample of 25) had not been dated by the authorizer meaning that it was not possible to confirm if they had been authorised prior to being posted</td>
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<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Recommendation</strong></td>
<td>We recommend that staff are reminded of the importance of dating as well as signing journals</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>2</td>
<td>Compliance with pension fund statement of investment principles</td>
<td>Responsible Officer: David Dickinson, Group Manager Treasury &amp; Pensions Due date: 31 December 2014</td>
<td>Re-raised Recommendation re-raised in current year</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Our review of the Council’s investment portfolio noted that the Council has exceeded the maximum level of investment in equities specified in its statement of investment principles. This was not exceeded significantly and the breach was noted by officers as an area where action was being undertaken. There are no indications that this breach put the investments of the fund at risk.</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td><strong>Recommendation</strong></td>
<td>The Council should more closely monitor its investment portfolio holdings in line with its statutory investment principles to avoid breaching internally approved limits.</td>
<td></td>
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</table>
Appendices

Appendix 3: Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences
We are pleased to report that there are no material uncorrected audit differences.

Corrected audit differences

Material misstatements
Our audit has identified a total of one material audit adjustment within the primary statements with a total value of £32.8m. The impact of this adjustment is to Decrease the value of Council Dwelling stock as of 31 March 2015 by £32.8m (see table below). This adjustment does not impact on the General Fund Balance.

<table>
<thead>
<tr>
<th>No.</th>
<th>CIES</th>
<th>MiRS</th>
<th>Assets</th>
<th>Liabilities</th>
<th>Reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Dr. HRA SERCOP £28,535 Dr. OCI £4,229</td>
<td>Cr. MiRS £32,764</td>
<td>Cr. Dwellings £32,764</td>
<td></td>
<td>Dr. Cap Adj Acct £28,535 Dr. Reval Reserve £4,229</td>
</tr>
</tbody>
</table>

Five additional adjustments to various footnote disclosures with a total value of ££77 million have also been identified. These have all been discussed with the Authority and will be amended in the final version of the financial statements.

Further, our audit has identified a total of three audit adjustments within politically sensitive disclosures. Due to the sensitive nature of these disclosures, our threshold for triviality does not apply. The impact of these adjustments is to:

- Increase the disclosure for ‘Salaries, Fees, and Allowances’ in the Senior Office Remunerations table by £1,000;
- Include a disclosure note for one omitted officer in the Senior Office Remunerations note, for the amount of £42.9k; and
- Decrease the disclosures over Members Allowances for the year by £3,000

A number of amendments focused on footnote disclosures and presentational improvements have also been made to the draft financial statements. The Finance Department are committed to continuous improvement in the quality of the financial statements submitted for audit in future years.
Appendix 4: Declaration of independence and objectivity

**Requirements**

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the *Code of Audit Practice* (the ‘Code’) which states that:

“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* (‘Public Sector Audit Appointments Ltd Guidance’) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (‘Ethical Standards’).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.

- The related safeguards that are in place.

- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Public Accounts and Audit Select Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

**General procedures to safeguard independence and objectivity**

KPMG’s reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.
Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of London Borough of Barking and Dagenham and Barking and Dagenham Pension Fund for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and London Borough of Barking and Dagenham and Barking and Dagenham Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.
Disclosure of action concerning tax engagement

KPMG member firms and KPMG professionals are required to comply with independence standards that meet or exceed those set out in the IESBA Code of Ethics. In addition, the UK firm and our professionals are also required to comply with the requirements of the APB Ethical Standards. We also adhere to the Public Sector Audit Appointment’s (PSAA) specific requirements regarding non-audit services.

These professional standards require that where the firm has determined that a breach of an audit independence standard has occurred, we discuss this and the actions we have taken or propose to take with you as soon as possible, communicate with you in writing all matters discussed and obtain your concurrence that action can be, or has been, taken to satisfactorily address the issue. This section of the report summarises such an instance requiring action.

In July 2011 the Authority engaged KPMG to provide services to assist you with the recovery of VAT in respect of sports services. The fee agreed for these services was a fixed fee of £500 and a success fee of 10% of any amounts recovered from HMRC if the claim was ultimately successful, plus a contribution payment towards the lead case capped at £5,000. £1,500 being the first part of £5,000 fixed fee was billed in July 2013. From August 2012, KPMG LLP was appointed as auditor of the 2013-14 year of account and subsequent financial years.

Prior to 2010, the APB Ethical Standards did not prohibit such contingent fee arrangements, however in 2010 the standards were changed and paragraph 95 of APB Ethical Standard Number 5 now provides that an audit firm cannot provide services on a wholly or partly contingent basis where the outcome of those services is dependent upon the proposed application of tax law which is uncertain or has not been established. As the tax law applying to the subject matter of this engagement was and remains uncertain, following KPMG LLP’s appointment as auditor the fee basis should have been revised to remove the contingent element in order to comply with this requirement. Action was therefore required to ensure compliance with the ethical standards. In 2014 a new fee based on the time cost incurred was agreed to replace the contingent fee. A variation to the engagement with fees based on time cost was issued in August 2014. PSAA is fully aware of this position and in line with its usual rules on the acceptance of non-audit work. We will not be seeking its approval for this fee because it is below the de-minimum level for approval.

In our professional judgment we concluded that our objectivity has not been compromised and the firm and the engagement team are independent of the Council and the Pension Fund.
Appendices

Appendix 5: Materiality and reporting of audit differences

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- 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.

- 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 2014/15, presented to you in March 2015

Materiality for the Authority’s accounts was set at £17 m which equates to around 2 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

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 £800k for the Authority.

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

Materiality – pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £15 million which is approximately 2 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £500k for 2014/15.

Reporting to the Audit, Pensions and Standards 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 misstatements of lesser amounts to the extent that these are identified by our audit work.
At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG’s Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

**Tone at the top:** We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Phil Johnstone as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

**Association with right clients:** We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

**Clear standards and robust audit tools:** We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG’s eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission’s *Code of Audit Practice*.

**Recruitment, development and assignment of appropriately qualified personnel:** One of the key drivers of audit quality is assigning professionals appropriate to the Authority’s risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission’s *Code of Audit Practice*.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.
Appendices

Appendix 6: KPMG Audit Quality Framework

Commitment to technical excellence and quality service delivery: Our professionals bring you up-to-the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (http://www.psaa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/).

The latest Annual Regulatory Compliance and Quality Report (*issued June 2015) showed that we are meeting the overall audit quality and regulatory compliance requirements.

We continually focus on delivering a high quality audit. This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff. Quality must build on the foundations of well trained staff and a robust methodology.