KPMG

External Audit Report 2017/18

London Borough of Tower Hamlets

—

July 2018

Content

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This report is addressed to the London Borough of Tower Hamlets (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, you should contact Andrew Sayers, the engagement lead to the Authority and the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, who will try to resolve your complaint. 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.

Important notice

This report is presented in accordance with our PSAA engagement. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to the London Borough of Tower Hamlets (the Authority) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Authority. External auditors do not act as a substitute for the Authority's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Basis of preparation: We have prepared this External Audit Report (Report) in accordance with our responsibilities under the National Audit Office Code of Audit Practice (the Code) and the terms of our Public Sector Audit Appointments Ltd (PSAA) engagement.

Purpose of this report: This Report is made to the Authority's Audit Committee in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland) and other matters coming to our attention during our audit work that we consider might be of interest and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report or for the opinions we have formed in respect of this Report.

Limitations on work performed: This Report is separate from our audit opinion and does not provide an additional opinion on the Authority's financial statements nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit: Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Audit Committee meeting. The following work is ongoing:

- Financial statements audit:
  - Third party confirmations for bank and investments;
  - Testing of HRA disposals;
  - Concluding work on grant payments and declarations of interest
  - Complete review of payroll reconciliation;
  - Completion of debtors and creditors testing;
  - Pension Fund – completion of reviews of experts, and review of the Pension Fund Annual Report;
- Value for money conclusion: consideration of the outcome of the LGA peer review; and
- Completion and review steps.

Summary

Financial statements audit – see section 2 for further details

Subject to all outstanding queries and procedures being satisfactorily resolved we intend to issue an unqualified audit opinion on the Authority's financial statements for the deadline of 31 July 2018, following the Audit Committee adopting them and receipt of the management representations letter.

We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements for the deadline of 31 July 2018.

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

- There are no unadjusted audit differences, explained in section 2 and appendix 2.
- We agreed presentational changes to the accounts with Finance, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- At this stage we do not expect to request any specific representation in addition to our routine requests for management representations.
- We reviewed the narrative report and have no matters to raise with you.
- We did not receive any queries or objections from local electors this year, however we have not yet completed our consideration of the objection received to the Authority's 2016/17 financial statements relating to the Authority's PFI schemes.

We are now in the completion stage of the audit. The audit cannot be formally concluded and an audit certificate issued until we have completed our consideration of the objection relating to 2016/17. In addition we will need to complete our Whole of Government Accounts (WGA) work, the deadline for which is 31 August 2018. We intend to issue our 2017/18 Annual Audit Letter in August 2018.

Value for money – see section 3 for further details

We identified one significant risk and two areas of audit focus in relation to our VFM work in our External audit plan 2017/18 issued in January 2018. The significant risk was in relation to the implementation of the Best Value (BV) Improvement Plans (Authority and Children's) and the areas of focus were the Medium Term Financial Strategy (MTFS); and the 'clear up' project. We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 3 of this report.

In terms of our VFM conclusion our key consideration has been in relation to the progress made on the areas which led us to qualify our VFM conclusion in 2013/14, 2014/15, 2015/16 (each year was qualified on an adverse basis) and 2016/17 (qualified on an except for basis). These areas were grant payments and connected decisions; disposal of property and the granting of leasehold interests; spending on publicity; and corporate governance arrangements in the three areas.

Continued overleaf

Summary

Value for money (continued)

The Secretary of State for Housing, Communities and Local Government (SoS for HCLG) decided in March 2018 to end the 2014 Directions and not extend the appointment of the Commissioners beyond March 2017 in recognition of the Authority's progress. In light of the remaining work that the Authority had set out as still needing to be completed, the SoS for HCLG made three new, less intrusive Directions (in force until 30 September 2018) which require the Authority to set up a Best Value Improvement Board (with cross party and independent membership); submit quarterly progress reports on the BV improvement plan to the SoS for HCLG; and set up an independent review of achievement of the BV improvement plan with a report to the SoS HCLG by 1 August 2018.

Consequently, in terms of 2017/18 we have considered the quarterly reporting by the Authority to the Secretary of State (SoS for HCLG) and the extent to which the actions in the Authority's BV Implementation Plans were reported as completed.

In terms of the latest progress report the Authority considers that almost 80% of the 109 identified actions are completed or on track. During the first year of the BV improvement plan the Authority reports that it has delivered the majority of the short-term and medium-term milestones and where there are any delays a revised plan has been set out. Work on the longer-term milestones are considered to be on-going with plans for delivery over the next financial year. Regular updates on progress are provided to the Corporate Leadership Team and Members and all activities have been incorporated within individual Directorate Plans to ensure the focus remains on delivery.

The above generally shows a positive picture of progress being made by the Authority to address the actions/milestones in the BV improvement plan. However, it also shows that the Authority still has a little way to go in terms of completing the BV improvement plan in full and probably some way to go before the impact of all of the work that has been done could be said to have become embedded within the Authority.

In terms of the 2017 Ofsted inspection which rated the Authority's services for children to be inadequate overall with some features requiring improvement, the Authority established a Children's Services Improvement Board (CSIB) led by an Independent Chair. The consequent Improvement Plan is challenging and aims to achieve a standard of at least 'good' by April 2019.

Progress is reviewed regularly by Ofsted. The findings from the Ofsted monitoring visits indicate a positive trajectory of change including the important finding from the December 2017 visit that "no children were identified as being at risk of immediate harm". The letter also stated that "A relentless focus by senior leaders on ensuring compliance with statutory requirements, such as visiting children at home, is starting to change the culture in children's services." The most recent Ofsted visit (May 2018) focused on high risk adolescents. The feedback was again positive, stating "The evidence gathered during this visit has identified substantial but very recent improvements in the quality of multi-agency and social work practice for vulnerable adolescents and their families. This is extremely encouraging given the particularly complex challenges involved in this work. Political leaders and managers are demonstrating considerable determination and commitment to embedding and sustaining these changes, while simultaneously addressing the areas of poor practice."

In terms of the other areas of focus (MTFS and 'Clear Up' project) There are no significant matters arising.

For the MTFS the Authority has appropriate processes and mechanisms in place to manage its finances over the life of the MTFS, although there are significant agreed savings plans to be delivered and savings opportunities to be finalised and then delivered. Furthermore, the Authority is facing some significant challenges as it moves forward with an ambitious 3 year transformation programme.

Continued overleaf

Summary

Value for money (continued)

In terms of the 'Clear Up' project, the investigations into matters brought to the Authority's attention have been completed with a final report of findings and issues arising being considered by Cabinet in June 2017. The Authority has continued to report progress. We are satisfied that the Authority continues to make progress in addressing the matters highlighted from the 'clear up' project and is continuing to report progress to Members publicly.

Overall we have concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources throughout 2017/18. However, we remain satisfied that none of the outstanding issues have an adverse impact on the 'sustainable resource deployment' sub criterion. We therefore anticipate issuing a qualified VFM conclusion on an 'except for' basis (similar to our VFM conclusion for 2016/17), a draft of the opinion is annexed to this report.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions / objections, opening balances, etc.).

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014. There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017/18 financial statements.

We are satisfied that the Authority has addressed the recommendations raised in our ISA260 report in 2016/17. Our work to date has not identified any new recommendations.

We are required by PSAA to undertake work to be able to certify the Authority's Housing Benefits claim. This work is planned for August and September 2018, to meet the deadline of 30 November 2018. We also undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements. The status of our grants and claim work is summarised below:

- Teachers' Pensions Return: we plan to undertake this work in September/October 2018, to meet the deadline of 30 November 2018; and
- Pooling of Capital Receipts Return: we plan to undertake this work in September/October 2018, to meet the deadline of 30 November 2018.

The fees for this work is explained in appendix 2.

Financial statements audit

We audit your financial statements by undertaking the following:

	Accounts production stage		
Work Performed	**Before**	**During**	**After**
1. Business understanding: review your operations	✓	✓	–
2. Controls: assess the control framework	✓	–	–
3. Prepared by Client Request (PBC): issue our prepared by client request	✓	–	–
4. Accounting standards: agree the impact of any new accounting standards	✓	✓	–
5. Accounts production: review the accounts production process	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures	–	✓	✓
7. Representations and opinions: seek and provide representations before issuing our opinions	✓	✓	✓

We have completed the first six stages and report our key findings below:

1. Business understanding	In our 2017/18 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section.
2. Assessment of the control environment	We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We have not made any recommendations which relate to. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work. We have chosen not to place reliance on their work due to the approach we adopted for the financial statements audit.
3. Prepared by client request (PBC)	We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with the Chief Accountant and this was issued as a final document to the finance team. We are pleased to report that this has resulted in good-quality working papers with clear audit trails.

Financial statements audit

4. Accounting standards	We work with you to understand changes to accounting standards and other technical issues. For 2017/18 these changes related to: • Amendments to Business Improvement District Schemes, Business Rate Supplements, and Community Infrastructure Levy to clarify the treatment of revenue costs and any charges received before the commencement date – not considered to have a significant impact for the Authority; • amendment to Narrative Reporting to introduce key reporting principles for the Narrative Report – clarifying what should be included, not considered significant for the Authority; • updates to Presentation of Financial Statements to clarify the reporting requirements for accounting policies and going concern reporting – increases the visibility of going concern for example in the responsibilities statement; and • amendments to Accounting and Reporting by Pension Funds to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure – increased disclosure of costs, but not considered significant.
5. Accounts Production	We received complete draft accounts on 31 May 2018 in accordance with the deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. The Authority incorporated measures into its closedown plan to manage this complex process. The Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to yearend to proactively address issues as they emerged. We consider that the overall process for the preparation of your financial statements is adequate. We consider the Authority's accounting practices to be appropriate. We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.
6. Testing	We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. During the audit work to date we identified only presentational issues which have been adjusted as they have no material effect on the financial statements.
7. Representations	You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Corporate Director of Resources on 19 July 2018. We draw attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are not expecting to ask Management to provide additional specific representations.

Financial statements audit

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

— Significant difficulties encountered during the audit;

— Significant matters arising from the audit that were discussed, or subject to correspondence with Management;

— Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

— Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, opening balances, public interest reporting, questions/objections, etc.).

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

To ensure that we provide a comprehensive summary of our work, we have over the next pages set out:

- The results of the procedures we performed over valuation of land and buildings, pension liabilities, grant payments/property leases and declarations of interest which were identified as significant risks within our audit plan and which will form a part of our audit opinion;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.

Financial statements audit

Authority significant audit risks

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

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Valuation of land and buildings	Other Land and Buildings, £1,102,400k, PY £879,996k; Council Dwellings, £1,201,143k, PY £1,190,747k	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 land and buildings 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. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end. We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach. In addition, we considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values had moved materially over that time. In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate. We also assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions). Some elements of this work are still to be completed, but as a result of the work completed so far we have no issues arising to bring to your attention relating to the valuation of land and buildings as disclosed in the financial statements.

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Pension assets and liabilities	Pensions Liability and Pensions Reserve, both £591,841k, PY £619,122k	The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of London Borough of Tower Hamlets Pension Fund, 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. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the 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. The assumptions should also 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 on the net pension liability accounted for in the financial statements. As part of our work we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary, including the Authority's process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Hymans Robertson. We reviewed the appropriateness of the key assumptions included within the valuation and compared them to expected ranges. We also reviewed the methodology applied in the valuation by Hymans Robertson. In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements. As a result of this work we determined that pension assets and liabilities movements and year end balances were reflected correctly in the financial statements.

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Grant payments/ property leases	Grant payments £15.200k, PY £18,500k	In The Best Value Inspection concluded that the Authority had not achieved its best value duty with regard to the payment of grants and connected decisions between 2010 and 2014. Consequently, the award of grants became the responsibility of independent Commissioners who were appointed by the Secretary of State for CLG from January 2015 (the responsibility for grant payments was returned to the Authority in 2016). In the 2015/16 and 2016/17 financial years, a small number of grant payments were identified that were not made in accordance with all of the conditions set by Commissioners. Specifically for the organisations receiving the grant there was no formal agreement in place setting out the agreed use/occupation of the property. Thus for 11 organisations (50 payments) in 2015/16 and 5 organisations (20 payments) in 2016/17, the Authority has concluded that no formal property agreement was in place. Therefore these payments (£151,000 in 2015/16; and £79,000 in 2016/17) were considered to be unlawful and where disclosed in the respective years' financial statements. The total value of grant payments made for the relevant grant claim streams over the two financial years was £6.3 million. We considered the detailed approach and systems put in place by the Authority and tested payments as considered necessary. We also assessed whether any conditions/ delegation arrangements have been implemented effectively by Authority officers. Some elements of this work are still to be completed, but as a result of the work completed so far we have no issues arising to bring to your attention regarding grant payments as disclosed in the financial statements.

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Declarations of interest	No specific balances noted in the financial statements	Declarations was an on-going area of concern for the Authority's Commissioners, particularly about whether declarations were being made appropriately and completely by both officers and Members. Our 2015/16 consideration of the Authority's approach noted some weaknesses in the Authority's systems and approach to the new requirement for all staff to complete an annual declaration of interest. The Authority has taken significant steps to address issues and ensure systems and processes are more robust, for example over 99% of staff had completed a declaration, and there is a specific HR team set up to work on and monitor completion of declaration of interests, and provide support and training to staff and line managers. However, the August 2017 Internal Audit report only gave a 'limited' assurance on the basis of weaknesses/issues identified including: a lack of written procedures; inconsistent management actions in response to declarations made by staff; declarations found to be incomplete (when compared with 'open search' material); and a lack of declarations for family relationships within the Authority. We have considered the Authority's actions taken and any follow up work undertaken by Internal Audit and completed supporting testing as considered appropriate. Some elements of this work are still to be completed, but as a result of the work completed so far we have no issues arising to bring to your attention regarding declarations of interest in relation to the financial statements.

Financial statements audit

Authority other areas of audit focus

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

Other areas of audit focus	Account balances effected	Summary of findings
Faster close	No specific balances noted in the financial statements	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. During 2016/17, the Authority started to prepare for these revised deadlines and advanced its accounts production timetable so that draft accounts were ready by 14 June 2017 (accounts were signed on 29 September 2017). Whilst this was an advancement on the timetable applied in preceding years, further work was still required in order to ensure that the statutory deadlines for 2017/18 would be met. We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work. We received draft financial statements on the statutory deadline of 31 May 2018. The quality of this draft was consistent with that of prior years, and to date we have only identified relatively minor presentational matters that we understand will be amended in the financial statements. As a result of this work we determined that the Authority has managed the faster close requirements effectively with no significant impact on the quality of the financial statements presented for audit.
Payroll	Employee benefits expenses £471,108k, PY £477,114k	Payroll represents a significant proportion of the Authority's annual expenditure (approaching 38% of gross spend at £477 million in 2016/17). Whilst not considered overly complex from a material error perspective, we consider that it is important from an audit perspective to understand the nature of the Authority's expenditure in this area. We have: ▪ Reviewed and tested reconciliations for gross pay and deductions (eg pensions, tax and national insurance). ▪ Completed substantive analytical reviews of payroll costs and tested supporting system information used to compile our review. As a result of the work completed to date we have no issues arising to bring to your attention regarding payroll in relation to the financial statements.

Financial statements audit

Authority other areas of audit focus (continued)

Other areas of audit focus	Account balances effected	Summary of findings
Section 106/CIL agreements	Balances – developers' contributions, £93,883k, PY £86,821; CIL 38,514k Income – CIL received £13,520k, PY £18,165k; Developers' contributions used £11,386k, PY £6,804k	This had historically been highlighted as an area of concern by Commissioners. The Authority has responded positively to an independent review of its arrangements in relation to s106 systems, processes, controls and monitoring arrangements, and matters arising from our 2015/16 testing had been, or were being, addressed when we reviewed the position for 2016/17. In respect of the independent review in 2016, all recommendations have been implemented except those that require the implementation of a new software system which had been procured. The Authority is in the process of linking CIL, Accolade and Agresso and the links will need to be fully tested before final implementation. We have tested a sample selection of schemes and the overall controls employed by the Authority to ensure that section 106 agreement funds are being used in accordance with the conditions agreed as part of the planning process. We also reviewed progress on the new system implementation. As a result of the work completed we have no issues arising to bring to your attention regarding section 106/CIL agreements.
Youth services	No specific balances noted in the financial statements	Reviews have uncovered historical shortcomings and wide spread malpractice in the Authority's youth service. We have noted that the Authority had completed the interim actions to stabilise the Service. In December 2016 the Authority agreed to implement a proposal to transform the Council's youth service. This included a restructure of the youth service, from January 2017 to enable the service to be delivered through a combination of internal resources and external commissioning. The new approach is also aimed at resolving the longstanding issues associated with service values and culture through a three year strategic and operational plan. We have considered the action plan specifically in relation to dealing with/ clearing the historical shortcomings. The Authority has agreed the future structure of youth services and determined how it will provide and procure those services. The Authority is now making good progress towards implementing the arrangements. As a result of the work completed we have no issues arising to bring to your attention regarding youth services and the progress being made by the Authority to address historic issues and the continuing implementation of the associated action plan.

Financial statements audit

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.

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Valuation of investments	Investments, £1,455,208k, PY £1,358,380k	The Pension Fund invests in a wide range of assets and investment funds. At 31 March 2017 the Pension Fund had investment assets totalling £1.37 billion. Given the size and potential for complexity in the investment portfolio we consider this to be a significant audit risk for 2017/18. As part of our audit of the Pension Fund, we independently verified a selection of investment asset prices to third party information and obtained independent confirmation on asset existence. We have also assessed the design and operation of controls in place, obtaining independent confirmations from the Custodian (and Fund Managers as necessary) to verify year end balances, and considered the relevant controls reports for the Custodian. We also undertook substantive testing over sales and purchases made in the year, reviewed year on year movements, and compared performance to known benchmarks. Some elements of this work are still to be completed, but as a result of the work completed so far we have no issues arising to bring to your attention regarding the valuation of Pension Fund investments in the financial statements.

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.

Other areas of audit focus	Account balances effected	Summary of findings
Calculation of benefits	Pensions, £42,711k, PY £39,485k; Commutation and lump sums, £11,522k, PY £10,827k; and Lump sum death benefits, £1,670k, PY £1,514k	The calculation of benefits can be complex. In 2016/17 a total of £52 million was paid out by the Pension Fund (pensions and lump sums). Given the quantity and complexity of these calculations there is a risk of misstatement. We completed detailed sample testing over benefits paid and completed a substantive analytical review over the total benefits paid in year. Our testing of benefits has not identified any issues.

Financial statements audit

Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
Fraud risk from revenue recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. We do not consider this generally 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, except for conditional grant income (which is predominantly made up of section 106 ie developers' contributions). As at 31 March 2018 the amount of developers' contributions, with conditions, held by the Authority were £93.9 million. In addition the Authority used £11.4 million of developers' contributions received in previous years and these amounts were credited to the CIES in 2017/18. We have combined this work with the other area of focus for section 106/CIL agreements.	For the results of our work see 'section 106/CIL agreements' work above, in 'other areas of audit focus'.
Fraud risk from management override of controls	Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology 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. We have not identified any specific additional risks of management override relating to this audit.	There are no matters arising from this work that we need to bring to your attention.

Financial statements audit

Annual Governance Statement and Narrative Report of the Authority

We have reviewed the Authority's Narrative Report and Annual Governance Statement and have confirmed that they are consistent with the financial statements and our understanding of the Authority.

Pension fund audit

The audit of the pension fund and the Pension Fund Annual Report is being completed alongside the main audit. There are no specific matters to bring to your attention relating to this from the work competed to date.

Pension fund annual report

We are reviewing the consistency of the Fund's financial statements in the Fund's Annual Report and the financial statements included in the London Borough of Tower Hamlets' financial statements. We confirm that the Fund's financial statements are consistent with the pension fund financial statements included in the accounts of London Borough of Tower Hamlets. We read the information in the Fund's Annual Report to identify material inconsistencies with the Fund's financial statements. This work is in progress, but we expect to be able to confirm that it is not inconsistent with the financial information contained in the audited financial statements. As such we anticipate issuing an unqualified consistency opinion on the pension fund financial statements.

Queries from local electors

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

Financial statements audit

Audit certificate

In order for us to issue an audit certificate, we are required to have completed all our responsibilities relating to the financial year. We are not in a position to issue our audit certificate with the audit opinion as:

— HM Treasury has recently issued its guidance for completing the WGA and issued the consolidation packs that authorities need to complete. The deadline for the audit is 31 August 2018. We aim to complete the work in August 2018.

— We have not yet completed our consideration of the objection received to the Authority's 2016/17 financial statements relating to the Authority's PFI schemes.

Whole of Government Accounts (WGA)

We have not yet reviewed your WGA consolidation pack and anticipate completing the work required in August 2018.

Other grants and claims work

We are required by PSAA to undertake work to be able to certify the Authority's Housing Benefits claim. This work is planned for August and September 2018, to meet the deadline of 30 November 2018.

We also undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements. The status of our grants and claim work is presented below:

- Teachers' Pensions Return: we plan to undertake this work in September/October 2018, to meet the deadline of 30 November 2018; and
- Pooling of Capital Receipts Return: we plan to undertake this work in September/October 2018, to meet the deadline of 30 November 2018.

Audit fees

Our fee for the audit was £209,918 excluding VAT (£231,996 excluding VAT in 2016/17 – note that this includes £22,078 for additional work needed in relation to the Best Value Inspection and associated risks, but does not include fees that will be needed to consider the objection received in relation to the Authority's PFI schemes which we accepted in December 2017). Our fee for the audit of the Pension Fund was £21,000 excluding VAT (£21,000 excluding VAT in 2016/17). These fees were in line with that highlighted in our audit plan approved by the Audit Committee in January 2018.

Our work on the certification of Housing Benefits (BEN01) is planned for August and September 2018. The planned scale fee for this is £20,327 excluding VAT (£22,838 excluding VAT in 2016/17). Planned fees for other grants and claims which do not fall under the PSAA arrangements is £7,000 excluding VAT (£7,000 excluding VAT in 2016/17).

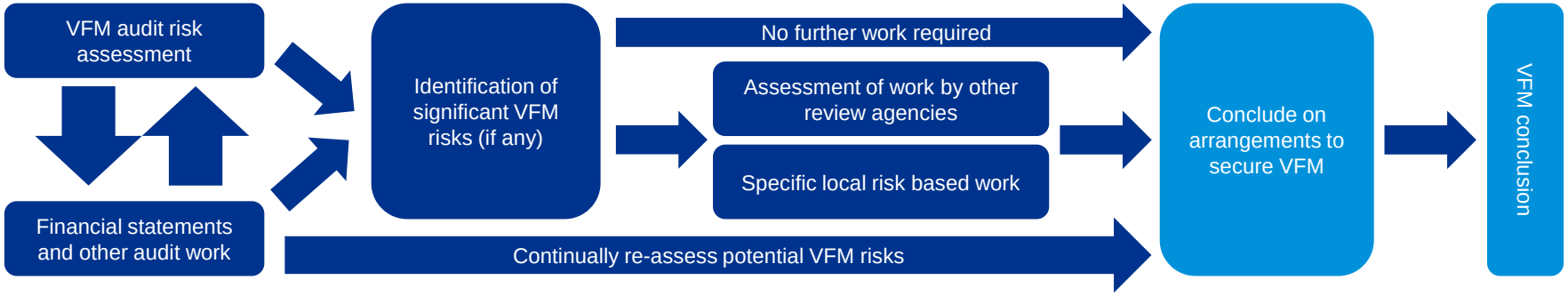
We have not completed any other non-audit work at the Authority in year.

Value for money

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

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

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



We identified one significant VFM risk, and two other areas of focus which are reported overleaf.

We have concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources throughout 2017/18. However, we remain satisfied that none of the outstanding issues have an adverse impact on the 'sustainable resource deployment' sub criterion. We therefore anticipate issuing a qualified VFM conclusion on an 'except for' basis.

Value for money

Significant risk based VFM audit work

Below we set out the detailed findings of our significant risk based VFM work. This work was completed to address the residual risks remaining after our assessment of the higher level controls in place to address the VFM risks identified in our planning and financial statements audit work.

Significant VFM risk	Why this risk is significant	Our audit response and findings
Implementation of Improvement Plans (Best Value and Children's) *Continued overleaf*	The SoS for HCLG decided to end the 2014 Directions and not extend the appointment of the Commissioners beyond March 2017 in recognition of the Authority's progress. In light of the work that the Authority has identified as still needing to be completed, the SoS HCLG made three new, less intrusive Directions which require the Authority to set up a Best Value Improvement Board (with cross party and independent membership); submit quarterly progress reports on the Best Value improvement plan to the SoS HCLG; and set up an independent review of achievement of the BV improvement plan with a report to the SoS HCLG by 1 August 2018. Also the Ofsted inspection undertaken in 2017 rated the Authority's Children's services as inadequate overall with some features requiring improvement. The Authority has established a Children's Services Improvement Board (CSIB) led by an Independent Chair and agreed an Improvement Plan. Ofsted are carrying out regular monitoring visits to ensure that the recommendations are being robustly addressed. The CSIB will continue to focus on the themes identified in the Ofsted report looking at progress made and providing support and challenge on areas of on-going work.	In 2016/17 the SoS for HCLG and Commissioners noted that the Authority had made considerable progress towards addressing the issues raised in the BV Inspection (from 2014) and subsequent issues/ concerns referred to by the Commissioners. Consequently, the SoS HCLG decided not to extend the existing Directions beyond their initial period which ended on 31 March 2017. However, the Authority acknowledged that it had not completed the actions identified in its BV Action Plans. Indeed, the Authority was clear that the remaining actions would take a period of 12 months to implement and considerably longer to be able to demonstrate that the changes to organisational culture and other 'softer' areas had become embedded in the Authority and the way it operates. The Authority has converted these remaining actions into a new BV Improvement Plan (BVIP). Consequently the SoS HCLG determined that three new (but significantly less interventionist) Directions be made. These Directions require the Authority to: • submit quarterly progress reports on all actions in its BVIP to the Secretary of State. • set up an independent review of achievement against its BVIP to be submitted to the Secretary of State by 1 August 2018. • set up a new Best Value Improvement Board, chaired by the Mayor, with cross party representation and external representatives to provide suitable challenge to improve all council activity. As a result the Authority established a cross-party Authority-wide Improvement Board with multi-party and independent membership, which met for the first time in June 2017. The aim of the Board is to drive continuous improvement across the Authority through the provision of robust oversight arrangements. The initial remit of the Board is to ensure an Authority-wide approach to implementing improvement activity especially in relation to the outstanding activities pertaining to the original Directions, oversight of actions arising from the recent Ofsted inspection (see below for more detail) and of other service reviews. The Board meets publicly each quarter and papers are available on the Council's website and sent to the Ministry of Housing, Communities and Local Government for review.

Value for money

Significant risk based VFM audit work (continued)

Significant VFM risk	Our audit response and findings
Implementation of Improvement Plans (Best Value and Children's) (continued)	The actions/ milestones identified in the BVIP are classified under 5 themes (elections; communications; property, grants; and organisational culture). The Authority is reporting that it has delivered the majority of the short-term and medium-term milestones set out in the BVIP, and where there are any delays a revised plan has been set out. Work on the longer-term milestones are considered to be on-going with plans for delivery over the next financial year (2018/19). Regular updates on progress are provided to the Corporate Leadership Team and Members and all activities have been incorporated within individual Directorate Plans to ensure focus remains on delivery. In the March 2018 progress report the Authority considers that almost 80% of the 109 identified actions are completed or on track. Of the 23 that were considered 'off-track': • 1 was classified as **Delayed** under the grants theme (ie where the key milestone has not yet been completed but will be completed within a month of the original deadline); and • 22 were classified as **Overdue** – one was under the communications theme, five were under the property theme, seven were under the grants theme, and 9 were under the organisational culture theme (ie where the key milestone has been delayed by more than a month from the date of the original deadline). The above generally shows a positive picture of progress being made by the Authority to address the actions/milestones in the BVIP. However, it also shows that the Authority still has a little way to go in terms of completing the BVIP in full and probably some way to go before the impact of all of the work that has been done could be said to have become embedded within the Authority. Our view remains that these remaining issues relate to the informed decision making and the working with partners and other partners sub-criteria of the Value for Money conclusion. **Children's Services** The Ofsted inspection undertaken in early 2017 rated the Authority's services for children in need of help and protection, children looked after and care leavers and the local safeguarding children board as inadequate overall with some features requiring improvement. The report made 15 recommendations and highlighted poor frontline practice and ineffective, complacent and sometimes resistant management practices which enabled non-compliance with basic standards (including legal requirements) and in some cases left children at risk of harm. The report also highlighted the need for stronger leadership, management and governance to ensure there is robust performance management and scrutiny of children's social care. The Authority established a Children's Services Improvement Board (CSIB) led by an Independent Chair and an Improvement Plan has been agreed with the Department for Education. Progress is reviewed regularly by Ofsted (three visits completed already) The CSIB ensures that there is clear leadership of the improvement journey at corporate, political and partnership levels. The CSIB's key focus has been on understanding why this happened in Tower Hamlets and how to put this right through the development, implementation and monitoring of the Improvement Plan.

Continued overleaf

Value for money

Significant risk based VFM audit work (continued)

Significant VFM risk	Our audit response and findings
Implementation of Improvement Plans (Best Value and Children's) (continued)	The CSIB continues to focus on the themes identified in the Ofsted report looking at progress made and providing support and challenge on areas of on-going work. Quarterly progress updates will continue to be provided to the Best Value Improvement Board and the Council's Cabinet and Overview and Scrutiny Committee. The Authority's Improvement Plan is challenging and aims to achieve a standard of at least 'good' by April 2019. The findings from the Ofsted monitoring visits indicate a positive trajectory of change including the very important finding from the December 2017 visit that "no children were identified as being at risk of immediate harm". The letter also stated that "A relentless focus by senior leaders on ensuring compliance with statutory requirements, such as visiting children at home, is starting to change the culture in children's services." The most recent Ofsted visit (May 2018) focused on high risk adolescents. The feedback was again positive, stating "The evidence gathered during this visit has identified substantial but very recent improvements in the quality of multi-agency and social work practice for vulnerable adolescents and their families. This is extremely encouraging given the particularly complex challenges involved in this work. Political leaders and managers are demonstrating considerable determination and commitment to embedding and sustaining these changes, while simultaneously addressing the areas of poor practice." The pace of change has been quick and the improvements have embedded in some areas while the Council acknowledges that there is further work to be done in other areas.

Value for money

Other areas of audit focus

Below we set out the detailed findings against other areas of audit focus for our VFM work.

VFM: other area of audit focus	Our audit response and findings
Medium Term Financial Strategy	We have reviewed overall management arrangements that the Authority has for managing its financial position, including the processes to develop a robust MTFS, ongoing monitoring of the annual budget, review of how savings plans have been developed and how their delivery is monitored, responsiveness to increasing costs of demand led services and changes in funding allocations and the governance arrangements of how the figures are reported through to the Authority. **2017/18 outturn** In terms of its financial standing the Authority is reporting that the revised budget has been met, with a small under spend of £1.5 million in total which was consistent with the position reported to Cabinet throughout 2017/18, and has increased the General Fund reserve to £33.3 million. The 2017/18 approved General Fund budget also required the delivery of saving proposals of £20.4 million in order to deliver a balanced budget. An additional £5.7 million relating to slippage from previous years' proposals were also required to be achieved. During the year £22.9 million of savings were actually delivered with £5.3 million of savings slipping into later years. The Authority's earmarked reserves have reduced, as planned, by £16 million to £118.6 million, mainly from the use of the part of the transformation reserve (£10 million). **2018/19 budget** In relation to the MTFS we note that the Authority has agreed a balanced budget for 2018/19. The budget includes £14 million of agreed savings which were agreed by Members in February 2018 as part of budget setting. All of the savings schemes were supported by detailed statements explaining what was being planned and how it would be delivered/achieved. The supporting papers also set out any changes to services; explained any equality implications and included a formal Equalities Impact Assessment (supported by an action plan for any groups affected adversely). In terms of monitoring the savings are built into base budgets and so they are monitored as part of on-going budget monitoring. **MTFS 2017 – 2021** For the period covered by the MTFS (four years from 2017 – 2021) the Authority has identified savings opportunities amounting to £58 million meaning that the Authority is looking to use around £5 million from General Fund reserves over this period (leaving reserves at £26 million at 31 March 2021). *Continued overleaf*

Value for money

Other areas of audit focus (continued)

VFM: other area of audit focus	Our audit response and findings
Medium Term Financial Strategy (continued)	Over the period of the MTFS there are clearly a number of risks that could affect either the level of service demand (and therefore service delivery costs) or sources of funding. In addition there are general economic factors, such as the level of inflation and interest rates that can impact on the net cost of services. Furthermore, the Authority is facing some significant challenges as it moves forward with an ambitious 3 year transformation programme. Consequently, the budget and savings delivery are being closely and continually monitored in addition to any changes/potential changes in assumptions made to ensure the Authority remains on track and capable of delivering the MTFS.
'Clear up' project	In 2016/17 we considered the process by which the Clear Up Team conducted their investigations relating to the 66 referrals received. We (and the Commissioners) were satisfied that the Authority's approach was robust and that there was open reporting of the results of the investigations for each of the referrals received. Of the 66 allegations: 10 were partially upheld; 5 were upheld; 1 was referred to the Authority for further consideration and investigation as the matter may be criminal; and 1 was partially upheld and partially rejected. The report was received by Cabinet and identified several themes: Organisational culture – whistle-blowing and reporting concerns; Approach to investigations; Election procedures (not considered an audit issue); Monitoring compliance following Authority decision points; HR policies and practices; Authority Systems and Processes; Member/officer protocols; and Security/Confidentiality. Following Cabinet's consideration, the Monitoring Officer carefully considered where further action was required by the Authority and allocated that action to various Corporate Directors and Divisional Directors. The Corporate Leadership Team has monitored progress on a monthly basis with quarterly reports on progress submitted to Members. The most recent report to Cabinet shows the progress the Authority has made and the recommendations where the Authority has not yet completed its proposed actions. We are satisfied that the Authority is making progress in addressing the matters highlighted from the 'clear up' project and is continuing to report progress to Members publicly.

Appendix 1

Recommendations raised and followed up

Recommendations raised as a result of our work in the current year are as follows:

Priority rating for recommendations					
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.

We have not identified any recommendations to date for the current year.

We have followed up the recommendations from the prior year's audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
2	2	0

Appendix 2

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects:

- Material errors by **value** are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements;
- Errors which are material by **nature** may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff; and
- Errors that are material by **context** are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2017/18, presented to you in January 2018.

Materiality for the Authority's accounts was set at £17.5 million which equates to around 1.4% of gross expenditure.

Materiality for the Pension Fund was set at £17.5 million which equates to around 1.2% of gross assets.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work. Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. *ISA 450* requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £850,000 for the Authority and less than £850,000 for the Pension Fund.

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

Appendix 3

Audit differences

Unadjusted audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit Committee, details of all adjustments greater than £850,000 (£850,000 for the Pension Fund) will be reported.

Based on the work completed to date there are no unadjusted audit differences that need to be reported to the Audit Committee.

Adjusted audit differences

To assist the Audit in fulfilling its governance responsibilities we present a summary of any significant adjusted audit differences (including disclosures) identified during the course of our audit.

Based on the work completed to date there are no adjusted audit differences that need to be reported to the Audit Committee.

Presentational adjustments

We identified presentational adjustments required to ensure that the Authority's (and Pension Fund's) financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). To date none of these adjustments have been considered to be significant.

Appendix 4

Audit independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF THE LONDON BOROUGH OF TOWER HAMLETS AND THE LONDON BOROUGH OF TOWER HAMLETS PENSION FUND

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

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

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

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews.

The conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard in relation to this audit engagement is subject to review by an engagement quality control reviewer, who is a Partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

Appendix 4

Audit independence

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

Summary of fees

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

	2017-18 **£**	**2016-17** **£**
Audit of the Authority	209,918	231,996
Audit of the Pension Fund	21,000	21,000
Audit of controlled entities	NIL	NIL
Total audit services	**230,918**	**252,996**
Mandatory assurance service (Housing Benefits claim)	20,327	22,838
Audit related assurance services	7,000	7,000
Total Non Audit Services	**7,000**	**7,000**

The audit fee for the Authority in 2016/17 includes £22,078 for additional work needed in relation to the Best Value Inspection and associated risks, but does not include fees that will be needed to consider the objection received in relation to the Authority's PFI schemes which we accepted in December 2017).

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0.03:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Appendix 4

Audit independence

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

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Audit-related assurance services				
Grant Certification – Teachers Pensions Return and Pooling of Housing Capital Receipts Return Completion of Agreed Upon Procedures in order to certify the return	The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats.	Fixed Fee	7,000	7,000
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return Completion of work specified by PSAA to certify the return	The nature of this mandatory assurance service is to provide independent assurance on the claim. As such we do not consider it to create any independence threats.	Fixed Fee	20,327	20,327

Contingent fees

We have not agreed any contingent fees with the Authority.

Independence and objectivity considerations relating to other matters

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

Confirmation of audit independence

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

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

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

KPMG LLP

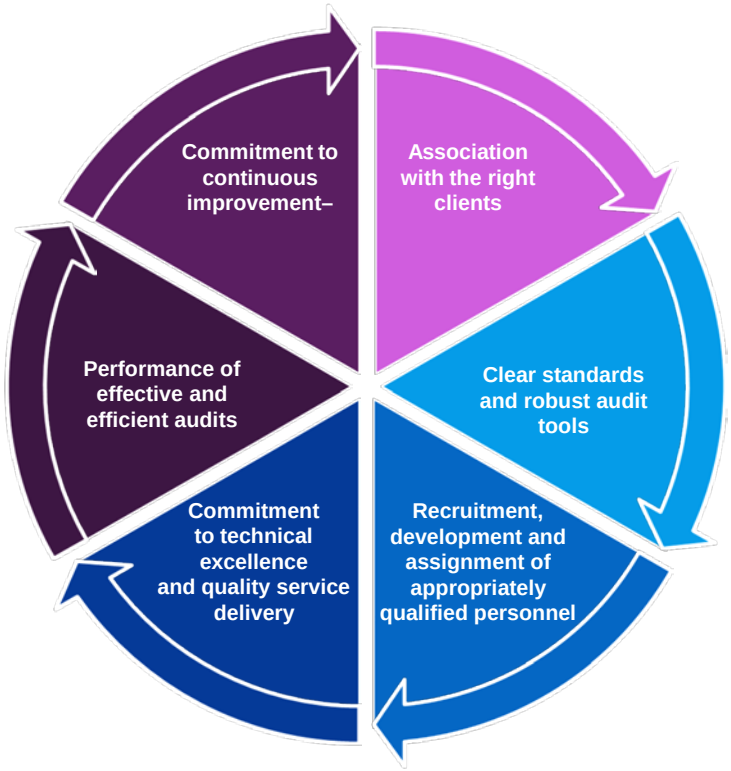
Appendix 5

Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

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



- 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

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

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

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