


Non-Executive Report of the: Audit Committee 28 June 2016	 TOWER HAMLETS
Report of: Zena Cooke, Corporate Director of Resources	Classification: Unrestricted
KPMG External Audit Plan 2015/16	

1. **SUMMARY**

- 1.1 This report presents KPMG's Audit Plan for 2015/16. KPMG's report outlines their audit approach and their areas of review including those they consider high risk.
- 1.2 KPMG's audit review covers providing an opinion on the financial statements for 2015/16. A draft of the 2015/16 financial statements is being tabled tonight. The auditors are due to provide an opinion on the financial statements by the end of September 2016. The auditors will also conduct a use of resources review as part of concluding if the council has achieved value for money.

2. **RECOMMENDATIONS**

Audit Committee is recommended to:-

- 2.1 Note KPMG's audit plan for 2015/16 and the areas of review.

3. **BACKGROUND**

- 3.1 The Audit Plan for 2015/16 comprises two elements:

- A review of the financial statements
- A Value for Money review

The audit plan is attached as Appendix 1.

- 3.2 The preparation and audit of the annual statement of accounts is a statutory requirement of the Accounts and Audit (England) Regulations 2011. The accounts must be prepared and certified by 30th June by the Corporate Director, Resources (the 'responsible financial officer') that it presents a true and fair view of the financial position of the Council. By no later than 30th September the accounts must be audited, considered by Audit Committee (together with a report from the auditors) and published. Although the Audit Committee is not actually required to consider the accounts prior to audit, good practice recognises the value in giving Members early notification of the financial outcome of the previous financial year.

- 3.3 For 2015/16 the audit is still being conducted by KPMG. The main audit is due to commence in late July 2016. The audited accounts, together with the audit opinion and report, will then be submitted to the Audit Committee on 20th September for consideration and formal approval.

4. FINANCIAL STATEMENTS AUDIT

- 4.1 In reviewing the Statement of Accounts and considering Value for Money, the auditors conduct a risk assessment of areas that they will review. They have set a materiality threshold of £15m for the Council's accounts and £20m for the pension fund accounts. This materiality threshold is used to gauge there is a risk of items being misstated on the face of the financial statements.
- 4.2 For example if property plant and equipment is misstated. The external auditors haven't qualified previous statement of accounts. Even though the 2014/15 audit has not been completed due to an outstanding objection to the accounts, there were no areas of concern raised that could have led to a qualification on the accounts. The auditors are due to report their findings to the September Audit Committee. As well as auditing the financial statements, KPMG will also review the council's Whole of Government Accounts return to ensure it is consistent with the annual accounts.
- 4.3 The auditors have identified risks that they will review as part of the audit. These comprise the following:
- 4.4 **Property, Plant and Equipment (PPE)** – as PPE is worth £2bn on the council's balance sheet, there is a risk that the value might be misstated. Though not all property is valued every year, to mitigate the risk of misstatements, officers use professional property valuers to conduct periodic property valuations to produce suitable valuations to construct the balance sheet and to calculate a depreciation charge.
- 4.5 **Section 106 agreements** – as the Commissioners have highlighted the use of s106 monies as a risk, KPMG will conduct a sample review of some schemes to ensure monies are spent in accordance with the conditions. A separate report on s106 management is being tabled at tonight's committee.
- 4.6 **Grant Payments** – as the 2014 Best Value inspection concluded value for money had not been achieved in the payment of grants, the Commissioners have had responsibility for reviewing the procedures in place for awarding grants. KPMG will review the systems the council has in place.
- 4.7 **Declarations of Interest** – KPMG will review if Members and officers have made declarations of interest.
- 4.8 **Pension Fund assets and liabilities** – The value of the Council's pension fund is in excess of £1.1bn. The majority of pension fund investments are based on stock market valuations. The actuary also produces a calculation of estimated pension liabilities to work out the deficit or surplus on the pension fund.
- 4.9 **Payroll costs** – As payroll costs make up a significant part of council expenditure, KPMG will review payroll reconciliations and the posting of payroll costs to the ledger. Officers have conducted reconciliations of payroll records and payments to the ledger.
- 4.10 **Income from property leases** – As the Commissioners have raised concerns on how property charges are set for organisations, KPMG will be reviewing the procedures in place.

- 4.11 **Youth Services** – KPMG will review the investigations and audits into the Council's youth services. These concerns led to the youth service underspending in 2015/16.
- 4.12 **Implementation of Best Value plans** – Following the section 11 recommendation, progress is tabled regularly to the Best Value Programme Board on how the seven action plans are progressing and how they are being embedded into the culture of the council.
- 4.13 **Medium Term Financial Plan** – With Local Authority finances being reduced year-on-year, the auditors will consider how prepared the council is to achieve savings plans and to continue to provide services.
- 4.14 **Governance in schools** – Internal audit have identified concerns over financial controls operating in 14 schools. KPMG will review how governance arrangements have been improved and review the 2015/16 annual schools internal audit report.
- 4.15 **Inspection of Accounts** – KPMG are required to handle objections to the financial statements from electors. At the moment KPMG are considering an objection to the accounts regarding the council's use of LOBO loans. KPMG will have to consider if any new objections raised are valid and require investigation. The council has to meet the auditor's cost of considering objections.
- 4.16 **Audit Fee** – The audit plan outlines the annual audit fee. For 2015/16 the planned fee was £209,918 (as per note 35 of the 2015/16 Accounts) and £21k for the pension audit.

5. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 5.1 The comments of the chief financial officer are incorporated within this report.

6. LEGAL COMMENTS

- 6.1 The Local Audit and Accountability Act 2014 ('the 2014 Act') abolished the Audit Commission (AC) with effect from 1st April 2015 and gave to the Secretary of State for Communities and Local Government ('DCLG') power to transfer the responsibilities of the AC to other bodies. In that regard, DCLG selected the Public Sector Audit Appointments Limited (PSAA). DCLG then delegated statutory functions from the Audit Commission Act 1998 ('the 1998 Act') to PSAA by way of a letter of delegation and which was issued under powers contained in the 2014 Act.
- 6.2 The PSAA is a new limited company set up by the Local Government Association as the transferee in respect of the management of the AC's current contracts for the audit of Local Authorities and NHS bodies in England until those contracts expire. PSAA has taken on some key statutory functions of the AC and the main functions that have transferred are:
 - (a) the appointment of auditors and terms of appointment (section 3 of the 1998 Act);
 - (b) setting scales of fees and determining variations to scale fees (section 7 of the 1988 Act); and
 - (c) making arrangements for the certification of claims and returns (section 28 of the 1998 Act).
- 6.3 KPMG LLP is one of the auditors appointed by PSAA.

- 6.4 The Council is required to prepare a statement of accounts in accordance with the Accounts and Audit (England) Regulations 2011. The statement must include statements about the housing revenue account (setting out prescribed particulars) and each and every other fund in relation to which the Council has a statutory function to keep a separate account. The statement must include notes demonstrating that Dedicated Schools Grant has been deployed in accordance with regulations; of the number of employees in each £5,000 salary bracket starting at £50,000, not including senior employees; and of the remuneration and the Council's contribution to pension for each senior employee.
- 6.5 The Accounts and Audit (England) Regulations 2011 specify a procedure for signing, approval and publication of a statement of accounts. The chief finance officer is required to sign and date the statement of accounts by 30 June each year, certifying that it presents a true and fair view of the Council's financial position at the end of the relevant financial year and of the Council's income and expenditure for the year. The audit committee must approve the statement of accounts by 30 September each year and the statement must be signed by the chair of the meeting at which the accounts were approved. The statement of the accounts must be published by 30 September along with any certificate, opinion or report issued or given by the Auditor under section 9 of the Audit Commission Act 1998.
- 6.6 As indicated in section 3 of the report, it is consistent with good practice for the committee to see the statement of accounts at an early stage, given that it will be asked to approve the accounts upon completion of the audit.
- 6.7 The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. This is referred to as the Council's best value duty. This report outlines KMPG's audit approach and their areas of review including those they consider high risk. This report along with KMPG's use of resources review will go towards demonstrating that the Council is meeting this duty.
- 6.8 When making decisions, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the public sector equality duty). There are no direct equality implications arising from this report.

7. ONE TOWER HAMLETS CONSIDERATIONS

- 7.1 The Statement of Accounts is a single statement of the financial position of the whole Council which is potentially of interest to all individuals and organisations which have dealings with the Council.
- 7.2 The statements are published on the Council's website both in draft and in audited form. Interested parties have the right to inspect the accounts during the audit and local electors have the right to submit questions to the auditor.

Details of these rights are published in local newspapers at appropriate stages.

8. BEST VALUE (BV) IMPLICATIONS

8.1 KPMG will report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources as part of achieving best value as part of the Annual Audit Letter.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT (SAGE)

9.1 There are no SAGE implications arising out of this report.

10. RISK MANAGEMENT IMPLICATIONS

10.1 There are no specific risk management implications.

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

11.1 There are no crime and disorder reduction implications.

12. EFFICIENCY STATEMENT

12.1 There are no specific efficiency implications although KPMG will report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources as part of the Annual Audit Letter.

13. APPENDICES

Appendix 1 – KPMG External Audit Plan 2015/16.

Local Government Act, 2000 (SECTION 97)
LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT
None