

AUDIT COMMITTEE

Thursday, 16 November 2017 at 7.00 p.m.

C1, 1st Floor, Town Hall, Mulberry Place, 5 Clove Crescent, London,
E14 2BG

SUPPLEMENTAL AGENDA

This meeting is open to the public to attend.

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see the main agenda.

4 .7 Annual Audit Letter 2015-16 and 2016-17

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Non-Executive Report of the: Audit Committee 16th November 2017	 TOWER HAMLETS
Report of: Zena Cooke – Corporate Director of Resources	Classification: Unrestricted
Annual Audit Letter 2015-16 and 2016-17	

Originating Officer(s)	Kevin Miles –Chief Accountant
Wards affected	All

Summary

This report presents the final Annual Audit Letter from the council's auditors, KPMG, for 2015-16 and 2016-17. Draft versions of these letters were brought before Audit Committee in September 2017.

Reason for Urgency

It is a requirement of the Accounts and Audit Regulations 2015 (s20) for a committee to consider and approve the Annual Audit letter as soon as practically possible after its completion, and then to publish it on the website and make it available for interested parties.

This was received in early November and whilst it missed the publication deadline for the November committee, we have elected to add it to the Audit Committee agenda urgently to meet the statutory publication guidance.

Recommendations:

The Audit Committee is recommended to:

1. Consider and Approve the Annual Audit Letters 2015-16 and 2016-17

1. REASONS FOR THE DECISIONS

- 1.1. It is requirement of S20 of the Accounting and Audit Guidelines that the Annual Audit Letter be considered and approved by committee. Although this could be approved by another committee of the council, we have sought to add it to the Audit Committee agenda for the sake of consistency as this committee reviewed the draft document.

2. ALTERNATIVE OPTIONS

- 2.1. None.

3. DETAILS OF REPORT

3.1. Background

- 3.1.1. The Annual Audit Letter (AAL) is produced by the Council's auditors, KPMG. It marks the completion of the audit of the financial statements, and gives details of their findings, including

- Audit opinion
- Recommendations
- Management representations
- Audit fee

- 3.1.2. This report covers the Annual Audit Letters for 2015-16 and 2016-17. Drafts of these reports were presented by Mr Andrew Sayers – Partner, KPMG at Audit Committee on 28th September 2017, along with the audited financial statements for both years.

The final version of the letters are very similar to the draft versions, with only slight wording and cosmetic changes. There are no new issues to bring to the attention of the Committee.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 The Chief Finance Officer has been consulted in the preparation of this report and has no additional comments to make.

5. LEGAL COMMENTS

- 5.1. The Council is required to prepare a statement of accounts in accordance with the Accounts and Audit Regulations 2015. This specifies 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. Upon receipt of the Annual Audit Letter the council must approve, publish and make available copies of the letter to interested parties.

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 There are no 'One Tower Hamlets' considerations contained in this report.

7. BEST VALUE (BV) IMPLICATIONS

7.1 The report contains reference to the achievement of Best Value by the Council in the year. The main concerns centre around the payment of a small number of grants where property leases with the funded organisations were not in place.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 There are no actions contained in this report impacting on the 'Greener Environment' agenda.

9. RISK MANAGEMENT IMPLICATIONS

9.1 Failure to observe the review and publication of these documents would contravene the Accounts and Audit Act 2015.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no 'Crime and Disorder' implications contained within this report.

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

- Annual Audit Letter 2015-16
- Annual Audit Letter 2016-17

Officer contact details for documents:

- Brian Snary – Financial Accountant ext. 5323

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October 2017



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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. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This Annual Audit Letter summarises the outcome from our audit work at the London Borough of Tower Hamlets in relation to the 2015/16 audit year.

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

We issued a qualified VFM conclusion for 2015/16

VFM conclusion

We issued a qualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2015/16 on 29 September 2017. This means we are not satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources throughout the 2015/16 financial year.

We identified three specific VFM risks in our External audit plan 2015/16: Medium Term Financial Standing; implementation of Best Value (BV) Action Plans and section 11 recommendation; and Governance in Authority Schools. We worked with officers throughout the year to discuss these specific VFM risks. For Medium Term Financial Standing and Governance in Authority Schools, we concluded that there was no adverse impact on the VFM conclusion for these risks.

We issued an adverse opinion in respect of the Authority's arrangements to secure VFM for 2013/14 and 2014/15. The qualification reflected the matters raised in the BV Inspection report where the Authority had failed to comply with its best value duty in relation to:

- Payment of grants and connected decisions;
- The disposal of property and the granting of leasehold interests; and
- Spending on publicity.

In addition to the above specific points, the BV Inspection report also commented that the Authority's corporate governance arrangements did not appear to be capable of preventing or responding appropriately to failures of the best value duty in the areas highlighted above. Comments within the Mayoral election judgment and arising from the other matters raised with us as auditors also indicated that the governance processes had not always been effective.

Our qualification for 2014/15 additionally referred to our Section 11 recommendation made in October 2015 reflecting our view that the Authority needed to ensure that its governance processes were appropriate in a wider sense for the Authority as a whole and as part of its programme of cultural change and not just the areas referred to in the BV Inspection report.

In seeking to satisfy ourselves that the Authority has made proper arrangements for challenging how it secures economy, efficiency and effectiveness in its use of resources during 2015/16, we have continued our consideration of the findings of the BV Inspection report and more specifically the Authority's progress towards implementing the action plans that it produced in response.

The Commissioners reported that the Authority did not make meaningful progress in accepting the BV Inspection findings and Directions and considering how to address the concerns identified until the current Mayor was elected in June 2015. Consequently, 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 and in 2014/15.

We have also considered the extent to which the Authority's BV Action Plans were implemented during 2015/16. The reports submitted to Cabinet meetings in September 2015 and March 2016 clearly show that while progress was meaningful there were a significant number of actions that were not completed within 2015/16. We further consider that many of the actions will require time to become established and embedded even once the arrangements/procedures have been put in place.

These circumstances therefore resulted in the adverse opinion in respect of the Authority's arrangements to secure value for money on similar grounds to those set out in our 2013/14 and 2014/15 opinions.

<p>We issued an unqualified audit opinion.</p> <p>Our financial statements audit work did identify concerns relating to grant payments and declarations of interest in particular.</p>	<p>Audit opinion</p> <p>We issued an unqualified opinion on the Authority's financial statements on 29 September 2017. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the Pension Fund.</p> <hr/> <p>Financial statements audit</p> <p>Our audit has not identified any material or significant audit adjustments. We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the <i>Code of Practice on Local Authority Accounting in the United Kingdom 2015/16</i>. There have been no changes that affect the General Fund or HRA balances or the Authority's net worth as at 31 March 2016.</p> <p>We noted that the Authority has maintained the quality of the accounts and the supporting working papers. Officers dealt efficiently with audit queries.</p> <p>We identified four key financial statements audit risks in our 2015/16 External audit plan issued in June 2016. We worked with officers throughout the year to discuss these key risks.</p> <p>There were no matters of any significance arising as a result of our audit work in PPE.</p> <p>In relation to section 106 agreements we noted two small schemes where the Authority had not spent the monies received within the timescales specified, although we noted there was a very limited risk that the funds could be lost.</p> <p>For declarations of interest we noted that there were potential shortcomings in the system in place that requires all staff to make an annual declaration.</p> <p>In relation to grant payments and property leases several issues have been identified:</p> <ul style="list-style-type: none"> • Several Mainstream Grant payments have been 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. Consequently, further work and testing has been undertaken (summarised below); • The Authority did not hold a central register of grant payments for 2015/16. It is therefore difficult for central teams to gather information or track the grants that are being paid by the Authority. Whilst a central register is now in place, the Authority should conduct internal checks to ensure the completeness of this register; • Detailed testing of a further 15 projects delivered by organisations occupying Authority properties and in receipt of a Mainstream Grant in 2015/16 identified six projects (four organisations) where there was no formal property agreement in place. Subsequently, reports to the Authority's Grants Determination Committee in January and February 2017 summarise the overall position. The reports show a complex position with 41 organisations requiring additional information to ascertain whether the Commissioners' requirements had been met. • The Authority's review of the position for these 41 organisations was completed in June 2017 and identified 11 organisations where the Authority has concluded that no formal property agreement was in place for 2015/16 and that this continued to be the case. Therefore the 50 payments made to these 11 organisations in 2015/16 were considered to unlawful. The total value of the payments made was £151,778. The position was included as an additional disclosure in the 2015/16 financial statements. The additional disclosure also highlighted that the Authority made over 1,500 grant payments in 2015/16 with a value of £3.4 million.
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Section one

Headlines (cont)

We have concluded one objection but have two remaining. Consequently, we have not issued our certificate to confirm the completion of our audit responsibilities for the 2015/16 audit year.

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Other information accompanying the financial statements	Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.
Pension fund audit	There were no significant issues arising from our audit of the pension fund and we issued an unqualified opinion on the pension fund financial statements as part of our audit report.
Recommendations	<p>We raised one medium priority recommendation as a result of our 2015/16 audit work relating to grant payments/property leases. We also noted that our high priority recommendation from 2014/15 had not been implemented fully. These are detailed in Appendix 1 together with the action plan agreed by management.</p> <p>Due to the timing of making the recommendations (September 2017), we will formally follow up these recommendations as part of our 2017/18 work.</p>
Objection concluded	We have completed our consideration of one objection received in relation to the Authority's 2014/15 financial statements. The objection related to the Lender Option Borrower Option (LOBO) loans that the Authority took out in 2007 and 2009/10. We were requested to apply to court that the LOBO loans should be declared unlawful items of account; and also to consider whether a public interest report should be issued. Having considered the matters raised we concluded that we would not take any action in relation to the LOBO loans ie that we did not consider that there was an unlawful item of account to be declared and that there were no issues that required a public interest report.
Certificate	<p>We have one remaining objection from a Local Government Elector that we are considering relation to parking matters and the Authority's 2013/14 financial statements.</p> <p>Until we have completed our consideration of this objection we will not be in a position to formally conclude the audit and issue an audit certificate.</p>
Audit fee	The scale fee for 2015/16 was £209,918, excluding VAT. We have requested a fee variation, and this is being considered by Public Sector Audit Appointments. Further detail is contained in Appendix 3.

Appendix 1: Key issues and recommendations

No.	Issue and recommendation	Management response / responsible officer / due date
1	<p>Grant Payments/Property Leases</p> <p>Our work has identified several issues relating to grant payments and the controls over them. Matters arising include:</p> <ul style="list-style-type: none"> No central listing of grant payments in 2015/16 was available, making identification of grants paid difficult; One instance where the allocation awarded by the Commissioners was exceeded by almost 20% (£34,000); and Fifty grant payments made in 2015/16 (to 11 organisations), with a value of £152,000 have been identified by the Council as being unlawful due to the lack of a formal property agreement being in place; <p>Recommendation (2015/16 medium priority)</p> <p>The Authority should:</p> <ul style="list-style-type: none"> Ensure that the single system that the Authority now requires all Directorates to use to record all grant payments is used universally and all grant payments for 2016/17 onwards are captured on it; Clarify the arrangements for grants (particularly demand led ones) to ensure that additional approval by Commissioners/ the relevant Authority Committee/officer is required (even where the over spend is being managed within the Directorate's overall resources); Ensure that all unlawful grant payments have been identified and disclosed in the financial statements; and Ensure that all grant programmes have been assessed to ensure that recipients are complying with the Commissioners' requirements that all grant recipients occupying Authority property must have a formal property agreement in place. 	<p>The council maintains a grant register that logs all grants and is updated on a monthly basis. All grant payments are made via the council's Agresso payment system and there is a reconciliation of grant payments made. The Council is procuring a new online system and all grants will be recorded on the system once it is fully implemented. This will replace the grants register and will automate the majority of the currently manual processes.</p> <p>All Managers with budget responsibility for grants will be written to in September 2017 and reminded that expenditure must be routinely monitored and any additional approval required is sought from the Grants Determination (Cabinet) Sub Committee.</p> <p>All grant payments to organisations occupying council buildings have been reviewed and any associated unlawful payments have been identified and disclosed in the statement of accounts. On-going monitoring arrangements are in place.</p> <p>The Council completed an exercise to identify all MSG and other grant payments that have been made where an appropriate premises agreement was potentially not in place at the time of payment. In most cases, premises agreements have now been provided. The remaining cases are being monitored and progress updates are regularly reported to Grants Determination (Cabinet) Sub Committee.</p> <p>The checking process for MSG payments and premises agreements has been strengthened and grant officers undertake premises checks, with an additional check between the grant officer and team manager made at the time of the authorisation of MSG payments to ensure premises conditions are met.</p> <p>Responsible Officer - Steve Hill, Head of Benefits Services</p>

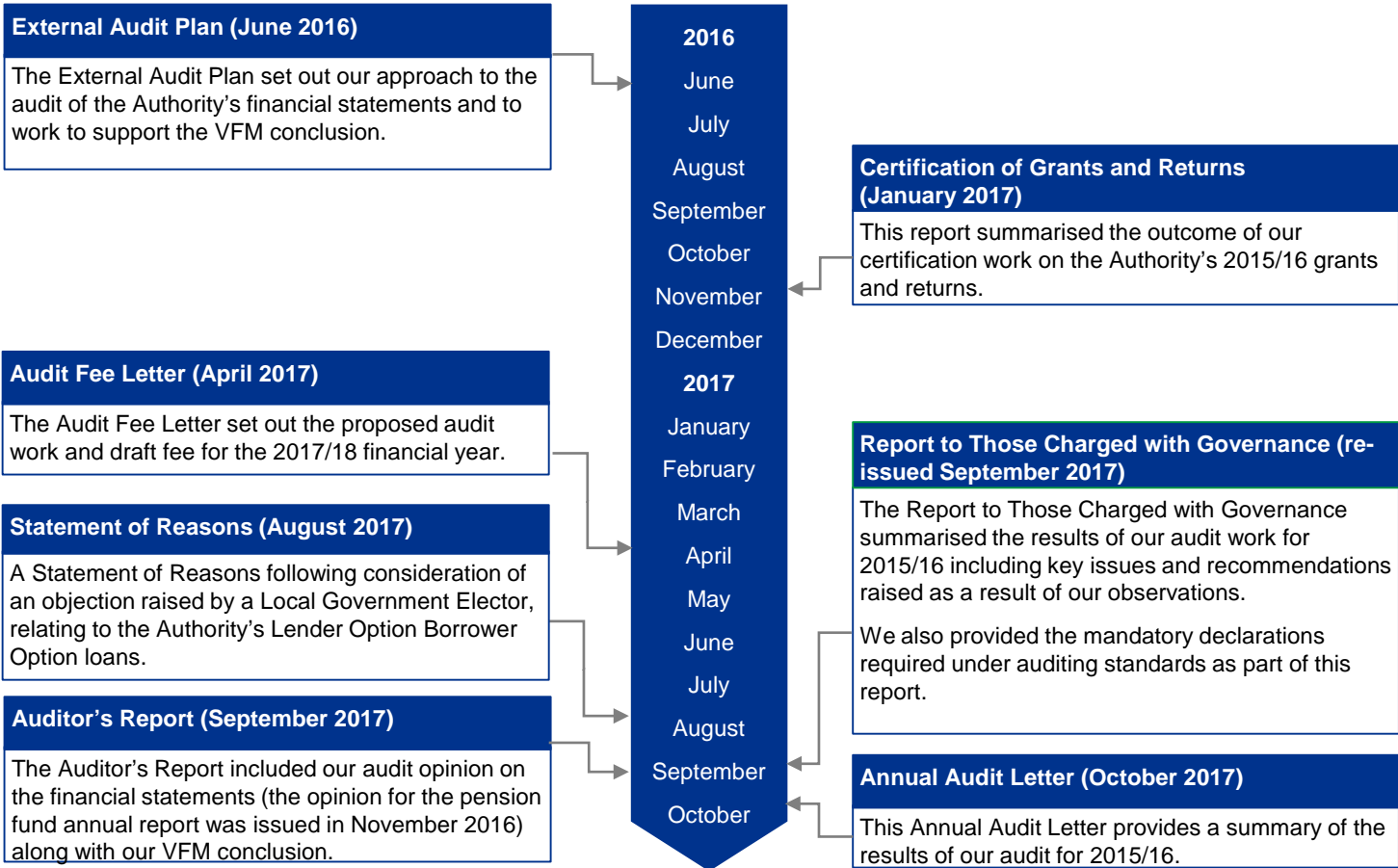
Appendix 1: Key issues and recommendations

No.	Issue and recommendation	Follow up position consideration
2	<p>Declarations of Interest</p> <p>The BV Inspection report refers to several instances where there are relationships with other parties. The BV Inspection report does not conclude as to whether these relationships represented significant concerns or were improper. However, there appears to be the potential for interests that should be declared not being so, possibly due to due to incomplete knowledge about who the Authority is doing business with, or seeking to do business with. As a minimum this gives the potential for reputational damage to the Authority.</p> <p>Recommendation (2014/15 high priority recommendation)</p> <p>The Authority should:</p> <ol style="list-style-type: none"> 1. Review its policies, procedures and processes for identifying potential interests and ensuring declarations are up to date and complete; 2. Consider whether improvements can be made to ensure relevant members and officers are aware of organisations and individuals seeking to do business with or interact with the Authority; and 3. Ensure that all relevant members and officers receive at least annual training and reminders about their responsibilities and the need to ensure interest declarations are complete and up to date. 	<p>We have reviewed the actions taken by the Authority which now include a requirement for all staff to complete an annual declaration. Our testing of the declarations made has not identified any issues. However, we have noted a number of concerns:</p> <ul style="list-style-type: none"> • The initial response by staff to the new requirement was slow. We understand that the Authority has now received over 90% of expected returns, which has taken 6 months and a 100% return is essential to meet the aims of the exercise; • We understand that the Authority is satisfied that every member of staff has been identified and therefore required to complete a declaration form, but our experience elsewhere suggests that it is worthwhile obtaining further assurance on this aspect, such as from an internal audit review; • Human Resources have provided Corporate Directors and Heads of Service with reports that identify whether submitted declarations have been authorised or rejected by line managers to help inform whether to consider further appropriate action if there are areas of concern. In view of the concerns expressed by the BV Inspection and Commissioners we would anticipate that a further level of assurance is sought as to how robust the process has been in terms of considering the declarations made and any follow up action taken; and • There is little in the way of comprehensive training so that staff are clear what the Authority's requirements and objectives are understood clearly by staff and that they have the necessary information to complete declarations properly and to support the Authority in terms of any issues that might arise from incomplete declarations. <p>We will therefore continue to follow up this recommendation next year.</p>

Appendix 2: Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter (November 2016) plus reports relevant to 2015/16 but issued prior to November 2016).

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



Appendix 3: Audit fees

This appendix provides information on our final fees for the 2015/16 audit.

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To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2015/16 planned audit fee.

External audit

The scale fee for the 2015/16 audit of the Authority was £209,918. We have requested a fee variation in relation to the additional work needed to address the risks and issues arising from the BV Inspection; resulting Directions; and associated risks. Our fees are therefore still subject to final determination by Public Sector Audit Appointments.

Our final fee for the 2015/16 audit of the Pension Fund was in line with the planned fee of £21,000.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. The final fee was in line with the planned fee of £20,327.

Other services

We charged £6,750 for additional audit-related services for the certification of the Teachers' Pensions grant claim and the Capital Receipts return, which are outside of Public Sector Audit Appointment's certification regime.

We also charged £36,500 for conducting business intelligence research on 14 companies of interest to the Authority. The research included identifying any links between these companies as well as their known public profile. This work was not related to our responsibilities under the Code of Practice.



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

The VFM conclusion was issued with an 'except for' qualification.

VFM conclusion

We identified one significant risk and two areas of audit focus in relation to our VFM work in our External audit plan 2016/17. The significant risk was in relation to the implementation of the Best Value (BV) action plans and the areas of focus were the Medium Term Financial Strategy (MTFS); and the 'clear up' project. We worked with officers throughout the year to discuss these VFM risks. For the MTFS and the 'clear up' project, we concluded that there was no adverse impact on the VFM conclusion for these risks.

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 and 2015/16. 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. Our qualification for 2014/15 additionally referred to our Section 11 recommendation, reflecting our view that the Authority needed to ensure that its governance processes were appropriate in a wider sense for the Authority as a whole and as part of its programme of cultural change and not just the areas referred to in the BV Inspection report.

In terms of 2016/17 we have considered the reporting by the Commissioners to the Secretary of State for Communities and Local Government (SoS for CLG) and the extent to which the Authority's BV action plans were reported as actions completed. For our Section 11 recommendation, we are satisfied that the issues have been incorporated into the Authority's organisational culture BV action plan.

The Commissioners' February 2017 letter to the SoS for CLG was positive and set out their endorsement of the progress that had been made in all areas of the Direction regime. In particular the Commissioners welcomed the Authority's realistic appreciation not only of what has been done, but also what remains to be done to fulfil the expectations for the Directions. The Authority was clear that it would take some 12 months to complete the work required. The Authority has developed this work into a BV Improvement Plan under five areas: elections; communications; property; grants; and organisational culture.

The SoS for CLG has ended the 2014 Directions and not extended the appointment of the Commissioners beyond 31 March 2017 in recognition of the Authority's progress. In light of the remaining work the SoS CLG has 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 CLG; and set up an independent review of achievement of the BV improvement plan with a report to the SoS CLG by 1 August 2018.

The latest progress report shows that delivery is on track for around 80% of the 115 actions/milestones detailed in the Authority's BV improvement plan. The Authority is monitoring progress closely, has not identified any significant concerns with respect to the delayed/overdue actions, and is attempting to take corrective action to bring delayed/overdue actions back on track.

From all of the above commentary we have noted that the Authority has made good progress and this has been acknowledged by external parties. However, with respect to the VFM conclusion we are required to consider the financial year as a whole and thus there were a number of actions that were not completed within 2016/17.

We have therefore concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources throughout 2016/17. However, we are now satisfied that none of the remaining issues have an adverse impact on the 'sustainable resource deployment' sub criterion. We therefore issued a qualified VFM conclusion on 29 September 2017, on an 'except for' basis rather than the adverse basis that we applied in 2013/14, 2014/15 and 2015/16.

An unqualified audit opinion was issued for 2016/17.

Audit opinion

We issued an unqualified opinion on the Authority's financial statements on 29 September 2017. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the Pension Fund.

Financial statements audit

We noted that the Authority has maintained the quality of the accounts and the supporting working papers. Officers dealt efficiently with audit queries.

We identified six significant financial statements audit risks in our 2016/17 External audit plan. We worked with officers throughout the year to discuss these key risks. Our key findings are:

- There are no unadjusted audit differences.
- 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 2016/17.
- There were no matters of any significance arising as a result of our audit work in Property, Plant and Equipment; valuation of Pension Fund Assets; and assessment and disclosure of pension liabilities.
- In relation to grant payments and property leases the issues that we identified in our 2015/16 ISA260 report still apply (as the Authority have only addressed them in 2017/18). In summary several Mainstream Grant payments have been 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 the Authority has concluded that no formal property agreement was in place for 2015/16. In 2016/17 the Authority made 20 payments to 5 organisations where property agreements were not in place and thus these payments are considered to be unlawful with a total value of £79,000 (the Authority made no payments to the other organisations in 2016/17). An additional disclosure was made in the Authority's financial statements.
- In relation to section 106 agreements our testing in 2016/17 did not identify any issues. In 2015/16 we noted two schemes where the Authority had not spent the monies received within the timescales specified. This year we have noted that for one the balance is fully committed and expected to be largely spent during 2017/18, and for the other the Authority is awaiting the resolution of a legal dispute with the developers regarding how the development has been completed. Last year we also noted that a further scheme was due to expire in January 2017. However, an additional contribution has now been received and therefore the date by which the funds need to be used has been revised to 2022. Finally, the Authority is in the completion stage of implementing the new software system to help to manage section 106 and Community Infrastructure Levy agreements.
- For declarations of interest we noted that the Authority is reporting significant improvement in compliance with the requirement to make annual interest declarations. However, the Authority has also noted that improvement is needed in qualitative terms of ensuring that the declarations include the right things and is working on ways to enhance knowledge of what should be declared.

We have not issued our certificate to confirm the completion of our audit responsibilities for the 2016/17 audit year, as there are objections outstanding.

Other information accompanying the financial statements	Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.
Pension fund audit	There were no significant issues arising from our audit of the pension fund and we issued an unqualified opinion on the pension fund financial statements as part of our audit report.
Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.
Recommendations	We have not made any new recommendations as a result of our 2016/17 work. However, this should be viewed in the context that the 2015/16 ISA 260, which included two recommendations, was finalised at the same time as the 2016/17 ISA260 (the 2015/16 recommendations are included in Appendix 1); and the new Directions issued by the Secretary of State for Communities and Local Government in March 2017, which set out the Authority's Best Value Improvement Plan. We will formally follow up these recommendations as part of our 2017/18 work.
Objection concluded	We have completed our consideration of one objection received in relation to the Authority's 2014/15 financial statements. The objection related to the Lender Option Borrower Option (LOBO) loans that the Authority took out in 2007 and 2009/10. We were requested to apply to court that the LOBO loans should be declared unlawful items of account; and also to consider whether a public interest report should be issued. Having considered the matters raised we concluded that we would not take any action in relation to the LOBO loans ie that we did not consider that there was an unlawful item of account to be declared and that there were no issues that required a public interest report.
Certificate	We have two remaining objections from Local Government Electors that we are considering one is in relation to parking matters and the Authority's 2013/14 financial statements; and the other relates to two of the Authority's Private Finance Initiative schemes and the 2016/17 financial statements.. Until we have completed our consideration of these objections we will not be in a position to formally conclude the audit and issue an audit certificate.
Audit fee	The scale fee for 2016/17 was £209,918, excluding VAT. We have requested a fee variation, and this is being considered by Public Sector Audit Appointments. Further detail is contained in Appendix 3.

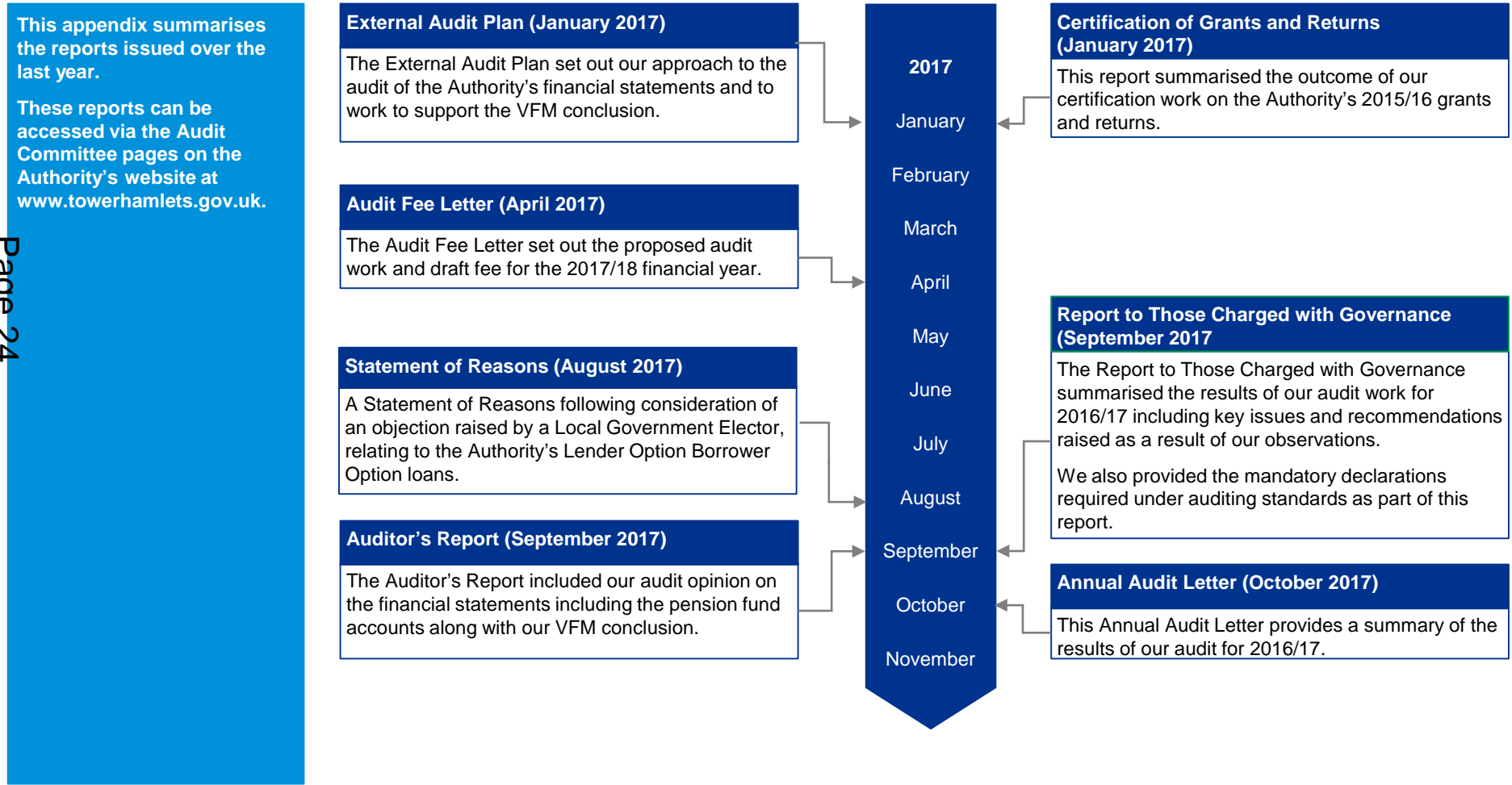
Appendix 1: Key issues and recommendations

No.	Issue and recommendation	Management response / responsible officer / due date
1	<p>Grant Payments/Property Leases</p> <p>Our work has identified several issues relating to grant payments and the controls over them. Matters arising include:</p> <ul style="list-style-type: none"> No central listing of grant payments in 2015/16 was available, making identification of grants paid difficult; One instance where the allocation awarded by the Commissioners was exceeded by almost 20% (£34,000); and Fifty grant payments made in 2015/16 (to 11 organisations), with a value of £152,000 have been identified by the Council as being unlawful due to the lack of a formal property agreement being in place; <p>Recommendation (2015/16 medium priority)</p> <p>The Authority should:</p> <ul style="list-style-type: none"> Ensure that the single system that the Authority now requires all Directorates to use to record all grant payments is used universally and all grant payments for 2016/17 onwards are captured on it; Clarify the arrangements for grants (particularly demand led ones) to ensure that additional approval by Commissioners/ the relevant Authority Committee/officer is required (even where the over spend is being managed within the Directorate's overall resources); Ensure that all unlawful grant payments have been identified and disclosed in the financial statements; and Ensure that all grant programmes have been assessed to ensure that recipients are complying with the Commissioners' requirements that all grant recipients occupying Authority property must have a formal property agreement in place. 	<p>The council maintains a grant register that logs all grants and is updated on a monthly basis. All grant payments are made via the council's Agresso payment system and there is a reconciliation of grant payments made. The Council is procuring a new online system and all grants will be recorded on the system once it is fully implemented. This will replace the grants register and will automate the majority of the currently manual processes.</p> <p>All Managers with budget responsibility for grants will be written to in September 2017 and reminded that expenditure must be routinely monitored and any additional approval required is sought from the Grants Determination (Cabinet) Sub Committee.</p> <p>All grant payments to organisations occupying council buildings have been reviewed and any associated unlawful payments have been identified and disclosed in the statement of accounts. On-going monitoring arrangements are in place.</p> <p>The Council completed an exercise to identify all MSG and other grant payments that have been made where an appropriate premises agreement was potentially not in place at the time of payment. In most cases, premises agreements have now been provided. The remaining cases are being monitored and progress updates are regularly reported to Grants Determination (Cabinet) Sub Committee.</p> <p>The checking process for MSG payments and premises agreements has been strengthened and grant officers undertake premises checks, with an additional check between the grant officer and team manager made at the time of the authorisation of MSG payments to ensure premises conditions are met.</p> <p>Responsible Officer - Steve Hill, Head of Benefits Services</p>

Appendix 1: Key issues and recommendations

No.	Issue and recommendation	Management response / responsible officer / due date
2	<p>Declarations of Interest</p> <p>The BV Inspection report refers to several instances where there are relationships with other parties. The BV Inspection report does not conclude as to whether these relationships represented significant concerns or were improper. However, there appears to be the potential for interests that should be declared not being so, possibly due to incomplete knowledge about who the Authority is doing business with, or seeking to do business with. As a minimum this gives the potential for reputational damage to the Authority.</p> <p>Recommendation (2014/15 high priority recommendation)</p> <p>The Authority should:</p> <ol style="list-style-type: none"> 1. Review its policies, procedures and processes for identifying potential interests and ensuring declarations are up to date and complete; 2. Consider whether improvements can be made to ensure relevant members and officers are aware of organisations and individuals seeking to do business with or interact with the Authority; and 3. Ensure that all relevant members and officers receive at least annual training and reminders about their responsibilities and the need to ensure interest declarations are complete and up to date. 	<p>We have reviewed the actions taken by the Authority which now include a requirement for all staff to complete an annual declaration. Our testing of the declarations made has not identified any issues. However, we have noted a number of concerns:</p> <ul style="list-style-type: none"> • The initial response by staff to the new requirement was slow. We understand that the Authority has now received over 90% of expected returns, which has taken 6 months and a 100% return is essential to meet the aims of the exercise; • We understand that the Authority is satisfied that every member of staff has been identified and therefore required to complete a declaration form, but our experience elsewhere suggests that it is worthwhile obtaining further assurance on this aspect, such as from an internal audit review; • Human Resources have provided Corporate Directors and Heads of Service with reports that identify whether submitted declarations have been authorised or rejected by line managers to help inform whether to consider further appropriate action if there are areas of concern. In view of the concerns expressed by the BV Inspection and Commissioners we would anticipate that a further level of assurance is sought as to how robust the process has been in terms of considering the declarations made and any follow up action taken; and • There is little in the way of comprehensive training so that staff are clear what the Authority's requirements and objectives are understood clearly by staff and that they have the necessary information to complete declarations properly and to support the Authority in terms of any issues that might arise from incomplete declarations. <p>We will therefore continue to follow up this recommendation next year.</p>

Appendix 2: Summary of reports issued



Appendix 3: Audit fees

This appendix provides information on our final fees for the 2016/17 audit.

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To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2016/17 planned audit fee.

External audit

The scale fee for the 2016/17 audit of the Authority was £209,918. We have requested a fee variation in relation to the additional work needed to address the risks and issues arising from the BV Inspection; resulting Directions; and associated risks. Our fees are therefore still subject to final determination by Public Sector Audit Appointments.

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

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2018.

Other services

We expect to charge £7,000 for additional audit-related services for the certification of the Teachers' Pensions grant claim and the Capital Receipts return, which are outside of Public Sector Audit Appointment's certification regime. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2018.

We did not undertake any non audit-related work in 2016/17.



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