KPMG

External Audit Report 2015/16

London Borough of Bromley

—

14 September 2016

Appendix 1

Contents

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Section one: Introduction

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for both the Authority and its pension fund; and**
- **Our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- Our audit work at London Borough of Bromley ('the Authority') in relation to the Authority's 2015/16 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in April 2016, set out the four stages of our financial statements audit process.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during June and July 2016.

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

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

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

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations.

Acknowledgements

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

Section two: Headlines

Headlines

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

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

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007. We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2016.
Audit adjustments	Our audit has identified no significant audit adjustments. We have identified a minor number of audit adjustments below our materiality level. All of these were adjusted by the Authority.
Key financial statements audit risks	We identified the following key financial statements audit risks in our 15/16 External audit plan issued in April 2016. — Valuation of property, plant and equipment; and — Valuation of pension assets and liabilities. We have worked with officers throughout the year to discuss these key risks and our detailed findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas. We did identify some adjustments relating to the accounting entries for property, plant and equipment, however, these were not material. We identified one presentational adjustment relating to the valuation of pension assets and liabilities which related to a transposition error between the actuarial report and the financial statements which did not have an effect on the balance sheet.

Headlines (cont.)

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

This table summarises the headline messages. The remainder of this report provides further details on each area.

Accounts production and audit process	We received complete draft accounts in June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. The Authority has implemented the majority of the recommendations in the PWC *ISA 260 Report 2014/15* relating to the financial statements. The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. We will debrief with the Finance Team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. In particular, we would like to thank Council's officers who were available throughout the audit visit to answer our queries.
VFM conclusion and risk areas	We identified the following VFM risks in our External audit plan 2015/16 issued in April 2016. — Financial resilience; and — The Better Care Fund. We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section three of this report. There are no matters of any significance arising as result of our audit work in these VFM risk areas. Following an Ofsted inspection rating the Authority's children's services as 'inadequate', and a HM Inspectorate of Probation inspection rating the youth offending service within Bromley as 'poor', we have concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources in these areas. We are therefore issuing a qualified 'except for' VFM conclusion by 30 September 2016 on this basis.

Headlines (cont.)

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

This table summarises the headline messages. The remainder of this report provides further details on each area.

Completion	At the date of this report our audit of the financial statements is complete. 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 Section 151 Officer on 18 August 2016. We draw your 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 asking management to provide specific representations on the following: • The valuation of land and buildings within the financial statements is appropriate and reflects all relevant factors impacting upon valuation, including the measurement of the gross internal areas of buildings. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Section three: Financial Statements

Proposed opinion and audit differences

We have not identified any issues in the course of the audit that are considered to be material.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the General Purposes and Licensing Committee on 14 September 2016.

Audit differences

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

The final materiality (see Appendix two for more information on materiality) level for this year's audit was set at £9.3 million. Audit differences below £450k are not considered significant.

Our audit identified no significant audit differences. A number of audit differences below materiality were identified. It is our understanding that these will be adjusted in the final version of the financial statements. There are no audit differences which remain uncorrected.

Proposed opinion and audit differences (cont.)

We have identified no issues in the course of the audit of the Pension Fund that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2016.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). These have been amended in the final version of the financial statements.

Pension fund audit

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

We will issue an unqualified audit opinion following approval of the Statement of Accounts by the General Purposes and Licencing Committee on 14 September 2016.

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

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

— It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and

— It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We note that at the time of publication of the draft financial statements, the results of the Ofsted inspection of children's services at the Council had not been made public. The Council is therefore required to update the AGS to reflect the final results of the inspection, and the Council's response to this.

Pension fund annual report

We have reviewed the Pension Fund Annual Report and confirmed that the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

We anticipate issuing an unqualified opinion on the Pension Fund Annual Report at the same time as our opinion on the Statement of Accounts.

Significant audit risks

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

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16*, presented to you in April 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

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

Significant Risk 1 – Valuation of Property, Plant and Equipment

— Risk: At 31 March 2015 the value of the Council's PPE was £523m. In addition, the Council made impairment losses on non-current assets in 2014/15 of £26.6m. Local authorities exercise judgement in determining the fair value of the different classes of assets held and the methods used to ensure the carrying values recorded each year reflect those fair values. Councils are responsible for ensuring that the valuation of PPE is appropriate at each financial year end and for conducting impairment reviews that confirm the condition of these assets. We have assessed that the inherent uncertainty in valuation and high value of assets held by the Council creates a significant risk to the financial statements for 2015/16.

— Findings: We tested a sample of individual assets which had been revalued and checked that the entries processed for those assets agreed to the information obtained from the valuation professional. We assessed whether the accounting entries for revaluation gains, revaluation losses and impairment had been correctly posted within the financial statements. We assessed the professional competence of the valuation professional. We tested a sample of fixed asset additions and disposals to assess whether they had been appropriately capitalised or removed from the financial statements. During our work we identified that there was an immaterial error within the entries posted for revaluation gains, and impairment losses amounting to £2.4 million which arose through an incorrect accounting entry where the figures had been credited as opposed to debited. This has been corrected in the final version of the accounts.

Significant Risk 2 – Valuation of Pension Assets and Liabilities

— Risk: Pension valuations require a significant level of expertise, judgement and estimation and are therefore more susceptible to error. This is also a very complex accounting area increasing the risk of misstatement.

— Findings: We obtained the report from the actuary and checked whether the amounts calculated by the actuary had been correctly disclosed within the financial statements. We considered the assumptions made by the actuary, and compared these to benchmark assumptions reviewed by KPMG actuaries, and to the assumptions used within 2014/15. One presentational error was identified where the fair value of plan assets had been incorrectly entered through a transposition error into the financial statements, whilst this resulted in an increase to the net liability within the note, the balance sheet figure was correct, and therefore no balance sheet adjustment was required.

Significant audit risks

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

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

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

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Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 we reported that we would obtain an understanding of revenue controls and test accounting policies for income recognition to ensure that they were consistent with the CIPFA Code of Practice on Local Authority Accounting. We performed detailed testing of revenue transactions.

We completed cut off testing over a sample of income items to assess whether the sampled items had been recorded in the correct accounting period. This did not identify any issues. We compared the Authority's accounting policy for revenue recognition to the accounting policy within the CIPFA Code of Practice in Local Authority Accounting and did not identify any issues to bring to the Authority's attention. We completed detailed sample testing over a sample of revenue items (including grants received) to assess whether these had been accounted for in line with the Authority's accounting policies. We did not note any issues through our work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

Other areas of focus

In our External Audit Plan 2015/16, presented to you in April 2016, we identified three areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for each such areas of audit focus.

Area of focus 1 – Opening Balances

— Area: The balances reported as the opening position and comparators in the 2015/16 financial statements comprise an integral part of your financial statements and are included within the assurance opinion we provide to you. As this is our first year of your audit, we have to conduct further work over these balances to be able to assure those charged with governance that they are free from material misstatement due to fraud or error.

— Findings: In line with the requirements of the professional auditing standards we met with the outgoing auditor to make ourselves aware of key information and significant findings. Our handover with the outgoing auditor did not identify any matters which we would be required to follow up. with the Authority. We have completed an analysis of the opening balances recorded within the accounting system and agreed these to the audited 2014/15 financial statements. We did not note any issues which we would be required to raise with the Authority as part of this work.

Area of focus 2 – Investment Special Purpose Vehicle (SPV)

— Risk: The Council is planning to enter into a SPV which will acquire housing stock for temporary accommodation with a view to reducing temporary accommodation costs. In the longer term, the Council will 'gift' the assets to the pension fund with a view to reducing the pension fund deficit. There are risks around the accounting treatment of the SPV and the pension fund 'gifting' and how this is dealt with in the triennial valuation.

— Findings: This arrangement was not finalised during the 2015/16 financial year. Therefore we have not carried out any specific procedures around the SPV. We have, however, discussed the plans at length with management and note that when the arrangement is finalised, it will be included as a significant audit risk as it is a new significant transaction for the Council.

Area of focus 3 – Pension Fund Investments

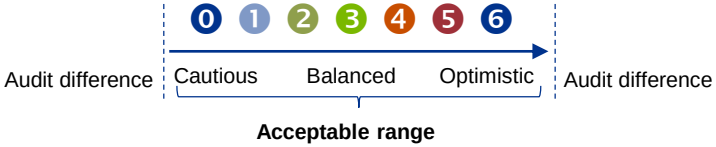
— Risk: During 2012/13 the Council reviewed the diversity of its investment portfolio for its Pension Fund and invested in diversified growth funds. Certain pension fund investments such as diversified growth funds are inherently risky to value, include estimation techniques and are subject to judgement by the fund manager when valuing the assets.

— Findings: We reviewed the investment portfolio to consider the extent of diversified growth funds held and agreed the value to the statements issued by fund managers. We did not note any issues which we would be required to raise with the Authority as part of our work.

Judgements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:

Level of prudence



Assessment of subjective areas			
Asset/liability class	**15/16**	**Balance (£m)**	**KPMG comment**
Provisions	3	£12.9 million *(PY: £11 million)*	The provisions have increased from the prior year due to the business rates appeals and uncertainties around the Mental Health Act and Learning Disabilities. We consider the provision disclosures to be proportionate.
Short term creditors	3	£71.9 million *(PY: £56.2 million)*	We completed sample testing over creditors (both specific item and cut-off testing) and did not identify any issues which would cause us to have concern that the Authority is accounting for items in an overly optimistic way.
Property, Plant and Equipment (valuations / asset lives)	4	£458.9 million *(PY: £523.3 million)*	There are a number of assumptions in place within the valuations for PPE. We are aware that the Council accounts for the fixtures and fittings element of PPE by capitalising them when they are acquired as part of the purchase of a new building, but not charging subsequent depreciation. Instead of charging depreciation, subsequent expenditure on fixtures and fittings is charged to the CI&ES, and the initially capitalised amount fluctuates in accordance with the revaluation movements on the relevant buildings. This is not in line with the accounting standard, however, through discussion with management and the previous auditor, we are satisfied that the effects on the CI&ES are not material. We deem this to be an optimistic way of measuring PPE fixtures and fittings.
Pensions	3	£144.9 million *(PY: £147.8 million)*	The assumptions which have been used are consistent with the report from the actuary, Mercer. KPMG have reviewed the information provided by the actuary and compared this to industry standard benchmarks. We have not noted any material inconsistencies between the assumptions used by the actuary and the industry standard benchmarks. This includes the discount rate, inflation, salary growth, and life expectancy assumptions.
Revenue recognition	3	£367.2 million *(PY: £358.2 million)*	We completed sample testing over revenue recognition through cut-off testing to check that items were recorded in the correct year, and grants testing to check that grants had been recognised in line with any terms attached. We did not identify any issues with this testing.

Accounts production and audit process

Officers dealt efficiently with audit queries and the audit process was completed within the planned timescales.

The Authority has implemented the majority of the recommendations in the ISA 260 Report 2014/15 issued by your previous auditor, PWC.

Accounts production and audit process

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

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has a strong financial reporting process through a detailed closedown timetable and detailed knowledge of processes by the Finance Team. As key members of the Finance Team leave, the council should ensure that adequate processes are put in place to compensate for this. We consider that accounting practices are appropriate, and in line with accounting standards. Where the Authority does not account for items in line with the accounting standards, we are satisfied that these items are not material to the financial statements of the council.
Completeness of draft accounts	We received a complete set of draft accounts in June 2016.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in June 2016 and discussed with the Senior Accountant, set out our working paper requirements for the audit. The quality of working papers provided met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time.

Element	Commentary
Pension Fund Audit	The audit of the Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report issued by PwC, the previous auditor.

The Authority has implemented the majority of the recommendations in PwC's *ISA 260 Report 2014/15*. Appendix one provides further details.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

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

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

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of the London Borough of Bromley and the London Borough of Bromley Pension Fund for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and the London Borough of Bromley and the London Borough of Bromley Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

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

Management representations

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

We are requesting a specific representation from management on the appropriateness of the valuation of land and buildings within the financial statements, including the measurement of the gross internal area of buildings.

Other matters

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

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

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report.

KPMG

Section four: Value for Money

VFM Conclusion

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have noted that the Authority has made proper arrangements to work effectively with partners and third parties and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people except for in the areas of children's services and Youth Offending Teams.

This conclusion is driven by the 'inadequate' rating given to children's services by Ofsted and the subsequent rating of the Youth Offending Teams as 'poor' by the HM Inspectorate of Probation.

Background

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.'

The VFM approach is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

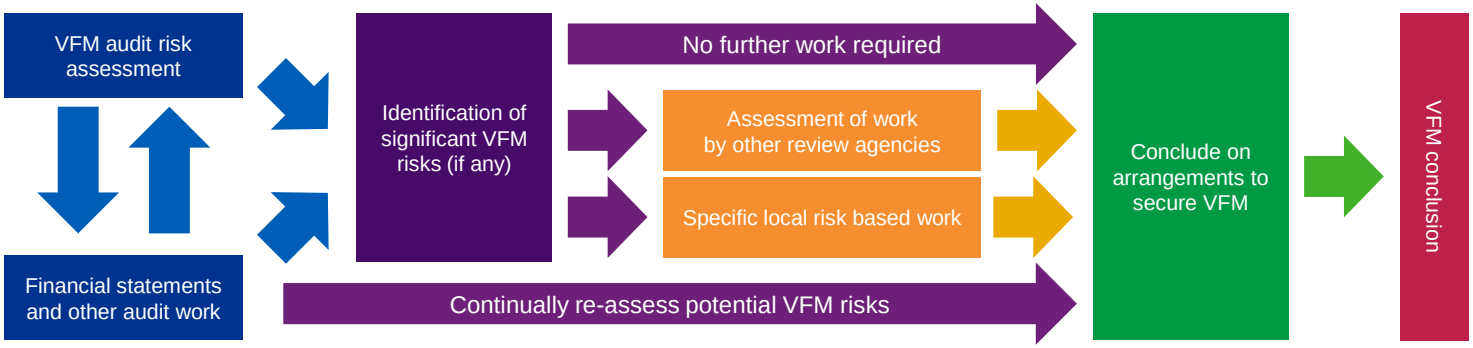
These sub-criteria provide a focus to our VFM work at the Authority.

Conclusion

We have qualified our conclusion, noting that the Authority has made proper arrangements to work effectively with partners and third parties and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people except for in the areas relating to children's services and Youth Offending Teams, where the Authority received negative reports from external inspection agencies relating to current performance in these areas, on which basis our opinion is qualified.

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



Specific VFM Risks

We have identified two specific VFM risks.

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

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

— Assessed the Authority's key business risks which are relevant to our VFM conclusion;

— Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;

— Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we did not need to carry out additional work for these risks.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Financial Resilience	Local Authorities are subject to an increasingly challenged financial regime with reduced funding from Central Government, whilst having to maintain a level of services to local residents. The Council is facing on-going funding pressures. The Council plans to deliver £26m of savings over the four years covered by the Medium Term Financial Strategy, which will prove challenging in the context of increasing cost pressures and reducing budgets. This is relevant to the informed decision making, and sustainable resource deployment sub-criteria of the VFM conclusion.	We reviewed the Authority's budget setting and monitoring processes and deemed financial monitoring to be appropriate to allow the Authority to make informed decisions. The Council has a history of achieving the budgeted position, and reported underspends in both 2014/15 and 2015/16. Savings and growth pressures have been assessed for the next two years as part of the medium term financial plan and the requirement to set a balanced budget. We completed some brief sensitivity analysis on the assumptions within the medium term financial plan, specifically the effect of the finance settlement worsening. **Specific risk based work required: No**

Specific VFM Risks (cont.)

We have identified two specific VFM risks.

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

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Better Care Fund	The Better Care Fund (BCF) was set up by Government to encourage joint work across health and adult social care to ensure local people receive better care. The Council and Bromley CCG have established a Joint Integrated Commissioning Executive (JICE) to oversee and deliver the schemes set out in the BCF. The total shared BCF managed by the JICE is £20.8m and as the arrangements are new, crossing the health and social care boundary with organisations who have different legal structures, there is a risk that the governance and accounting arrangements may not be well developed to manage this partnership arrangement appropriately. The Council has a duty to ensure the funds provided by the BCF are spent appropriately to deliver improved healthcare outcomes in the local area. This is relevant to the informed decision making, sustainable resource deployment, and working with partners and third parties sub-criteria of the VFM conclusion.	We reviewed the legal, governance and accounting arrangements in place to govern the management of the BCF. This included reviewing all Health and Wellbeing Board minutes from April 2015 to the date of our audit opinion. We concluded that arrangements were appropriate to allow the authority to manage the BCF in conjunction with Bromley CCG and other relevant partners (where required). We reviewed the signed section 75 agreement in place which sets out a clear vision for Bromley. Within the local plan for 2015/16 key areas of interdependency are noted to allow the Health and Wellbeing Board to actively manage risks and complete tasks assigned to it in order to improve outcomes for local people. **Specific risk based work required: No**

Specific VFM Risks (cont.)

Review of reports from external inspection agencies highlighted areas which impacted upon the VFM conclusion as outlined here.

'Except for' VFM opinion

In addition to the two significant VFM risks identified, we reviewed the findings from regulatory bodies, this included the CQC, Ofsted and HM Inspectorate of Probation. We identified two reports issued to the Authority which rated the service provided by the Authority as inadequate. These were:

- HM Inspectorate of Probation – the Authority was graded as 'poor' overall given the split between strategic and operational management which resulted in little strategic partnership work, and specialist workers and case managers not integrating their work. The inspection also noted that children and young people were not assessed properly for interventions, all of which was considered by the Inspectorate to be contributing to higher than average reoffending rates (particularly offending rates by Looked After Children).
- Ofsted – the Authority's children's services were rated as 'inadequate' overall following an Ofsted inspection. The inspection noted that there are 'widespread and serious failures in the services provided to children and families in Bromley'. Risk assessment and application of thresholds were deemed to be weak, and cases were found to be stepped down too soon to child in need from child protection. Managers did not have appropriate oversight of services, which Ofsted deemed to be partly down to management having to absorb additional responsibilities in response to continuing financial pressures at an overall council level.

On the basis of these inspections, we are providing a **qualified** '**except for' opinion** on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources within children's services and Youth Offending Teams based on sustainable resource deployment and working with partners and third parties not being adequate. We are satisfied that the Authority has put in place suitable arrangements to secure economy, efficiency and effectiveness in all other areas.

Sustainable resource deployment

Given one of the Authority's core services has been rated as inadequate, it is evident that resources have not been deployed in a sustainable fashion in these areas within the Council. The way resources are currently being deployed is deemed by Ofsted to be putting children at a greater risk, which is not sustainable in the longer term.

Within the Youth Offending Teams, resources were not being deployed sustainably given two management structures are in place (strategic and operational) which hindered the successful operation of the teams.

Working with partners and third parties

The HMIP inspection highlighted that there was a lack of strategic partnership working within the Youth Offending Team which was felt to be, at least in part, contributing to the high reoffending rates. Within both the Youth Offending Teams and children's services, the inspection agencies found evidence that teams were not working together as effectively as they could be, making processes less efficient and impacting upon outcomes for vulnerable children and young people respectively within these areas.

VFM

2015/16 outturn

In considering the Authority's arrangements for securing financial resilience, we reviewed the outturn position against original plans. A number or changes and virements were made to the original budget in the year. The original budget was a net budget of £112 million and the revised budget was £110 million. This took account of additional funding, such as grants, which were identified during the year.

The Authority continued to set itself challenging cost savings during the year in order to support its financial position. These savings are reported on a portfolio basis to the executive on a regular basis through the year. In 2015/16 a significant underspend was reported to full council on 15 June 2016. In addition to the savings achieved in year relating to 2015/16, a number of portfolio areas reported savings identified and achieved early for 2016/17.

The Authority carried out a review of reserves and the growth fund. Given the Authority underspent against budget in 2015/16, there was a contingency available which was able to be allocated to areas in need. The Council have set a minimum acceptable level of general fund reserves at £20 million. In a similar way, the Council have approved that 2015/16 underspends may be carried forward to 2016/17.

Planned 2016/17 budget

The Authority has submitted its final version of the 2016/17 budget. This is predicated on a net budget of £199 million. After allowing for savings targets of £22.5 million built into the 2016/17 budget, there is a remaining budget gap of £25.8 million to 2019/20. This does not factor in the potential uncertainties in the way local government is funded centrally.

Key growth pressures for 2016/17 have been identified as the conversion of maintained schools to academies (£1 million), removal of contracted out national insurance (£1 million) and the cost of freedom passes (£700k). The council is planning to reduce staff costs by around £1 million, as well as generating over £6.5 million of savings through changes to service delivery, £2.3 million though contract efficiencies and a further £3.8 million of savings to be generated through additional income.

As at July 2016, there were a number of portfolio areas which were still to identify actions to address their full savings targets for 2016/17. These areas were therefore reporting overspends. The projected outturn for 2016/17 at July 2016 was £4.1 million behind plan. These challenges have been highlighted to the Executive through budget monitoring reports, and also to full council when the 2016/17 budget was presented.

The Council has over 1,000 statutory duties to fulfil, with no reduction in these despite the reductions in funding from central government. As part of the 2016/17 budget setting process, officers undertook 'baseline' reviews to identify the full cost of services (statutory and non-statutory).

Appendices

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

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.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	1	**Pension Fund Bank Account** The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require that all pension schemes have their own back account. Although a separate bank account has been set up for the Fund, it is not being used. As a result, the Fund is not fully compliant with the requirements of the legislation. This is a point consistent with the prior year. **Recommendation** We recommend that the pension fund bank account is put into use in order that the pension fund is fully compliant with all regulations.	A cost/benefit analysis was carried out during 2013/14 and has been reviewed. Details were provided to Members of Audit Sub Committee in January 2015. It remains the view of management that there is little to be gained from using a separate Pension Fund bank account. Whilst the External Auditors are required to raise this matter as a non-compliance issue, Management are satisfied that our robust coding structure sufficiently separates out the pensions transactions in an effective manner. Responsible Officer: Principle Accountant

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	2	**Fixed Asset Register Reconciliation** A reconciliation is carried out between the fixed asset register, the property system (Uniform) and the general ledger. There are currently a number of discrepancies between the fixed asset register and general ledger and the Uniform system. In addition, this reconciliation is carried out in two parts, and it may be more efficient to reconcile all three systems at the same time. In addition to this, there is no single fixed asset register for all assets, with separate registers being maintained for each class of asset, increasing the staff administration time required to manage the fixed asset registers. Multiple fixed asset registers also increases the risk of error through an update not being made in the correct fixed asset register. **Recommendation** We recommend that a single fixed asset register is maintained for all classes of assets. We also recommend that a joint reconciliation is carried out between the fixed asset register, the general ledger and Uniform on an at least annual basis to identify and explain any discrepancies between the systems.	A database is being developed which will combine the separate fixed asset registers and help streamline the reconciliation process. The database will also facilitate year end accounting entries, and aid audit queries. Target date: 2016/17 Year End Accounts Responsible Officer: Principal Accountant
3	2	**Journal Posting** All finance team members are able to self-approve and post journals on the Oracle general ledger system. This increases the potential for fraud or error to occur and remain undetected. **Recommendation** We recommend that a monthly process is put in place whereby a sample of journals are checked to see that they are correct.	The facility to post journals is restricted to to Finance Staff and detailed procedures are in place which are reviewed annually. All journal entries are supported by working papers. In addition Internal Audit carry out a audit annually which includes the testing of main system journals. Management consider this to be sufficient.

Appendix one

Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in the PwC *ISA 260 Report 2014/15*.

This appendix summarises the progress made to implement the recommendations identified in the PwC ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original reports	**6**
Implemented in year or superseded	**4**
Remain outstanding (re-iterated below)	**2**

No.	PwC Issue and recommendation	Officer responsible and due date	Status as at August 2016
1	**Bank mandate** When reviewing the Authority's bank mandate, we noted one individual who is no longer at the Authority was listed as able to authorise BACS payments by phone. Management were aware of this point at the time of our audit and had begun the process of updating the bank mandate. We recommend that the mandate is amended appropriately and is reviewed regularly in future and when relevant personnel leave to ensure signatories remain valid.	Agreed Bank mandate amended and re-signed by all authorised staff. Target date – Completed in August 2015 Person responsible – Principal Accountant	**Implemented** We confirmed that bank mandates for the Council's bank accounts were up to date for staff who had recently left the Council's employment.
2	**Timeliness of staff submitted overtime** Eligible staff members are required to complete overtime submissions to be processed for payroll. Through our work on key payroll controls, we found one instance where a claim relating to January 2014 was not submitted until April 2014. We are comfortable with the appropriateness of the claim itself. However, the delay in the claim being submitted increases the risk that costs are not being fully recognised in the correct year. We recommend that management should review the existing process in place and emphasise the need to officers for these submissions to be done on a timely fashion, especially in the run up to year-end.	Agreed Head of Pay and Reward to issue a reminder to staff and managers. Target date – September 2015 Person responsible – Head of Pay and Reward	**Implemented** A reminder email was sent to all staff regarding the requirement to claim overtime in a timely manner.

Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in the PwC *ISA 260 Report 2014/15*.

No.	PwC Issue and recommendation	Officer responsible and due date	Status as at August 2016
3	**Gross Internal Area and Use of Uniform** As part of the audit of the Authority's valuation of its PPE, we validated the inputs used by WHE as part of their valuation of 20% of the Authority's land and buildings 2014/15. The Authority provides WHE with the detailed Gross Internal Area ("GIA") data for each site, per their estates team, and WHE use this information as part of their valuation. Firstly, we are aware that the Authority uses the system "Uniform" to track and monitor the gross internal area of its land and buildings. However, it became apparent that the detail on Uniform is out of date and incorrect. We therefore sought the original documentation that supported the GIA for each site. On comparison of the GIA date provided by the Authority, and the figures used in the WHE reports, we identified multiple differences. We performed an assessment of the likely magnitude these differences by calculating a £ / sq m figure for each asset and then multiplying by the difference. Although we do not believe that this causes a material variance in the accounts, there is a risk WHE is using inaccurate information when valuing the sites for the financial statements. We recommend that firstly the Authority liaises with the WHE to ensure that they have the most up to date square footage of its land and buildings. Secondly, we recommend the Authority undertake an exercise to update the detail held on Uniform to ensure it is fully up to date, and kept up to date thereafter.	1) Strategic Property did not provide access to its Uniform data base with the intention of providing GIA information. Access was supplied to provide lease information. The valuer appointed to undertake the asset valuations should inspect and check the floor areas themselves (in accordance with the Valuation Brief). 2) The GIAs provided by the valuers undertaking the asset valuations will be checked against the Uniform records and reconciled. This should be referenced to a dated plan. The reconciliation of the floor areas for the 2014/15 valuations where GIAs were used will be undertaken in September 2015. On receipt of the valuations carried out on the five year rolling programme this work will be undertaken. We do not consider of benefit and is not cost effective to re-measure all properties and update the records in one tranche. The GIAs are only used for asset valuation purposes for operational properties and are not used for the asset valuation of most investment properties. Person responsible – Head of Strategic Property	Noted that the recommendation was not accepted in 2014/15.

Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in the PwC *ISA 260 Report 2014/15*.

No.	PwC Issue and recommendation	Officer responsible and due date	Status as at August 2016
4	**Use of Pension Fund bank account** The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 required that all pension schemes have their own back account effective 1 April 2011. Specifically the regulations state the following: "On and after 1st April 2011, an administering authority must hold in a separate account kept by it with a deposit-taker in accordance with this regulation — (a) all monies held by the authority on that date; and (b) all monies received by it on or after that date for the purpose of its pension fund." Although a separate bank account has been set up for the Fund, it is not being used. As a result, the Fund is not fully compliant with the requirements of the legislation. This is a point consistent with the prior year. We are aware management continue to monitor this and consider the case for fully using its pension fund bank account. It should be noted that, since 1 April 2015, the Pensions Regulator now has an oversight role in relation to scheme administration and governance. As such, the Fund may be subject to increased levels of external scrutiny in future. We understand from speaking with management that a cost / benefit analysis was undertaken during the year to determine if it would be effective to use the Pension Fund bank account as required. It was decided that such arrangement would be not be efficient or economical. We recommend that the Authority continue to assess the rationale for not using the bank account of the fund. This is because technically such an account should be as per the cited regulations.	A cost/benefit analysis was carried out during 2013/14 and it was reviewed during the 2014/15 closedown. It remains the view of management that there is little to be gained from using a separate Pension Fund bank account. Management are satisfied that our robust coding structure sufficiently separates out the pensions transactions in an effective manner. This will continue to be reviewed. Target date – Ongoing Person responsible – Principal Accountant	**Not implemented** We identified that a pension fund bank account has been set up, but that there is a nil balance on the account. This has been re-raised.

Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in the PwC *ISA 260 Report 2014/15*.

No.	PwC Issue and recommendation	Officer responsible and due date	Status as at August 2016
5	**Pensions joiners to the pension scheme administration system** When an officer joins the Authority, they are automatically enrolled in the Pension Fund. The officer should then have a record created on "Altair", the Pension Fund's scheme administration system. This system is used by the actuary to provide source data for use in their triennial revaluations and is used to calculate the benefits due to members when they retire. Weekly reports are run from the payroll and HR system, ResourceLink to identify new members of officers and sent to the Pension Fund's administration team to enable them to update Altair. Our testing identified one new officer to the Authority, who not did not have an Altair record set up. Upon investigation, this was as a result of the reports not identifying all new officers. The officer started at the Authority in April 2014. This means the Pension Fund administration data may not be up to date. We recommend that the criteria used to create the ResourceLink reports sent to the Pension Fund's Administration team are updated to reflect the issues identified through our testing.	We have implemented a process that should mitigate any risk to the Pension Scheme associated with new starters. However, the case identified by the auditor was prior to the improvement being installed. Target date – Completed Person responsible – Payroll and Pension Service Delivery Manager	**Implemented** Noted that this was reported as implemented to the 17 September 2015 General Purposes and Licensing Committee.

Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in the PwC *ISA 260 Report 2014/15*.

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

No.	PwC Issue and recommendation	Officer responsible and due date	Status as at August 2016
6	**Statement of Investment Principles ("SIP") - investment manager cash** As part of our audit, we consider whether the Pension Fund is compliant with its Statement of Investment Principles. We found that the scheme did not comply with the requirement that only £2.5m may be held in cash at the custodian, Bank of New York Mellon ("BNYM"). This was because Baillie Gifford managed cash worth £882k and MFS cash worth £3,019k which were deposited at BNYM at 31 March 2015. MFS held in excess of £2.5m as a result of a number of purchases being made before year-end which were to be settled just after year-end and as such cash was held at BNYM until the transactions settled in April 2015. Therefore, this was technically not in compliance with the Pension Fund's Statement of Investment Principles. However, management consider that this limit corresponds to £2.5m per investment manager rather than in total. The Pensions Investments Sub-Committee should consider whether it agrees that the requirement applies to each investment manager individually and thus whether the Statement of Investment Principles should be updated appropriately. Investment Managers should be reminded of the limit on the level of cash which may be held with BNYM at any one time.	Fund managers will be reminded of the need to keep their cash holdings below £2.5m. Target date – 30 September 2015 Person responsible – Principal Accountant SIP will be updated and reported for approval to the Pensions Investment Sub Committee in September 2015. Target date – 23 September 2015 Person responsible – Principal Accountant	**Implemented** Baillie Gifford has the most cash held by fund manager. Cash balances are held with several fund managers, each of which is below £2.5m. MFS, Fidelity, Standard Life and Blackrock each have less than £2.5m in cash.

Appendix two

Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2016.

We are reporting all audit differences over £450k.

It is our understanding that all of these will be adjusted.

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

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of London Borough of Bromley's financial statements for the year ended 31 March 2016. These have been adjusted in the final version of the financial statements.

	Impact			
No.	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
1	Dr Property, plant and equipment £2,524k		Cr Surplus/deficit on revaluation of non-current assets £2,524k	The increase in value relating to fixtures and fittings which are calculated by 4.5% of the related land and buildings asset value were credited to Property, plant and equipment rather than debited.
2			Cr Upward revaluation of assets £1,319k Cr Revaluation reserve £2k Dr Downward revaluation of assets and impairment losses not charged to Surplus/Deficit on Provision of Services £1,321k	The upwards and downwards revaluations of Property, plant and equipment were incorrectly allocated.
	Dr £2,524k		**Cr £2,524k**	**Total impact of adjustments**

Audit differences (cont.)

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

There is no net impact on the General Fund as a result of the amendments.

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

Uncorrected audit differences

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

Corrected audit differences

Material misstatements

No material misstatements were identified.

Non material audit differences

Our audit identified a small number of non material errors in the financial statements. These have been discussed with management and the financial statements have been amended for all of them. These included adjustments to the surplus/deficit on revaluation of non current assets, and external audit costs. None of these adjustments totalled more than £6.9 million in totality.

A number of minor amendments focused on presentational improvements have also been made to the draft financial statements. The Finance Team are committed to continuous improvement in the quality of the financial statements submitted for audit in future years and adjusted all misstatements, even those which were not material.

Materiality and reporting of audit differences

For 2015/16 our materiality is £9.3 million for the Authority's accounts. For the Pension Fund it is £7.4 million.

We have reported all audit differences over £6.9 million for the Authority's accounts and £5.5 million for the Pension Fund, to the General Purposes and Licencing Committee.

Materiality

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

— Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

— Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

— Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

Materiality for the Authority's accounts was set at £9.3 million which equates to around one percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the General Purposes and Licensing 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 General Purposes and Licensing 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 £450k for the Authority.

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

Materiality – Pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £7.4 million which is approximately one percent of net assets.

We design our procedures to detect errors at a lower level of precision, set at £5.5 million for 2015/16.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

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

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

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

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

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

— The related safeguards that are in place.

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

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

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

Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

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

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

Auditor declaration

In relation to the audit of the financial statements of the London Borough of Bromley and the London Borough of Bromley Pension Fund for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and the London Borough of Bromley and the London Borough of Bromley Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Appendix three

Audit Independence

Audit Fees

Our scale fee for the audit is £119,076 (plus VAT of £23,815 in 2015/16). This fee was in line with that highlighted within our audit plan agreed by the Audit Sub-Committee in April 2016.

Our scale fee for certification for the HBCOUNT is £10,890 (plus VAT of £2,178 in 2015/16).

Non-audit services

We have not provided any non-audit services to the Authority in the year other than the grant certification work for the HBCOUNT (listed above).

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