APPENDIX 1

KPMG

External Audit Report 2016/17

London Borough of Bromley

—

12 September 2017

Content

Contacts in connection with this report are:

Phil Johnstone
Director

Tel: 020 7311 2091
philip.johnstone@kpmg.co.uk

James Seegar
Senior Manager

Tel: 020 7311 4163
james.seegar@kpmg.co.uk

Jonathan Chowis
Assistant Manager

Tel: 0746 874 1082
jonathan.chowis@kpmg.co.uk

	Page
Important notice	3
1. Summary	4
2. Financial statements audit	6
3. Value for money conclusion	14
Appendices	16
1 Recommendations raised and followed up	
2 Materiality and reporting of audit differences	
3 Audit differences	
4 Audit independence	
5 Audit quality framework	

This report is addressed to the London Borough of Bromley (the Authority) and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. PSAA issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on PSAA's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Phil Johnstone, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (0207 694 8981, andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Important notice

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

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

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

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

Status of our audit: Our audit is complete

Summary

Financial statements audit – see section 2 for further details

Subject to all outstanding queries and procedures being satisfactorily resolved we intend to issue an unqualified audit opinion on the Authority's financial statements by 30 September 2017, following the General Purposes and Licensing Committee adopting them and receipt of the management representations letter.

We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements by 30 September 2017.

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

- There are no unadjusted audit differences, explained in section 2 and appendix 2.
- We agreed presentational changes to the accounts with Finance, mainly related to compliance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
- In additional to our routine requests we are asking for management representations over the following, which are explained in section 2:
  - 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 will report that your AGS complies with delivering Good Governance guidance issued by CIPFA/SOLACE in April 2016.
- We reviewed the narrative report and have no matters to raise with you.
- We received one objection from a local elector this year.

The audit cannot be formally concluded and an audit certificate issued as we are considering elector queries relating to 2016/17. Until we have completed our consideration of these, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014.

Value for money – see section 3 for further details

We identified the following VFM risks in our External audit plan 2016/17 issued in 6 February 2016.
—Financial resilience,
—Findings from regulatory bodies; and
—Overspends in Children's Services.

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' in June 2016 and recent Ofsted monitoring visit reports (24 March 2017) we have concluded that the Authority has made progress to obtain proper arrangements to secure economy, efficiency and effectiveness in its use of resources in these areas but have not fully remediated findings within these reports. We are therefore issuing a qualified 'except for' VFM conclusion by 30 September 2017 on this basis.

Summary

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 or our previous reports relating to the audit of the Authority's 2016/17 financial statements.

We identified 3 prior year recommendations that require further action by Management. We have made no new recommendations as a result of our 2016/17 work. The key recommendations relate to the Pension Fund bank account, fixed assets and journals. All recommendations are shown in appendix 1.

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

- Housing benefits audit: work to commence in August 2017, expected completion in November 2017.

The fees for this work is explained in section two.

Financial statements audit

We audit your financial statements by undertaking the following:

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

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

1. Business understanding	In our 2016/17 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section.
2. Assessment of the control environment	We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We have made 3 recommendations which relate to the Pension Fund bank account, fixed assets and journals. We believe that these recommendations (see appendix 1) will strengthen your control environment. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work. We have chosen not to place reliance on their work due to the approach we adopted for the financial statements audit.
3. Prepared by client request (PBC)	We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with the Senior Accountant and this was issued as a final document to the finance team. We are pleased to report that this has resulted in good-quality working papers with clear audit trails.

Financial statements audit

4. Accounting standards	We work with you to understand changes to accounting standards and other technical issues. For 2016/17 these changes related to: • Updates to the presentation of the Comprehensive Income and Expenditure Statement and the Movements in Reserves Statement and the introduction of the new Expenditure and Funding Analysis; • Amended guidance on the Annual Governance Statement; and • Changes in the format of the Pension Fund accounts;
5. Accounts Production	We received complete draft accounts by 3 July 2017 in accordance with the deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We will debrief with the Finance Section to share views on the final accounts audit which hopefully will lead to further efficiencies in the 2017/18 audit process. The Authority has strengthened its financial reporting by finalising the accounts in a shorter timescale. The Authority and KPMG can improve on points that will be discussed during a debrief, these areas including the process by which assets are transferred between classes and clarity on PBC requests. This puts the Authority in a good position to meet the new 2017/18 deadline. We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.
6. Testing	We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. During the audit we identified only presentational issues which have been adjusted as they have no material effect on the financial statements.
7. Representations	You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Director of Finance on 23 August 2017. We draw attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking Management to provide specific representations on: • 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.

Financial statements audit

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

— Significant difficulties encountered during the audit;

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

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

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

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2016/17 financial statements.

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

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

Financial statements audit

SIGNIFICANT audit risk	Account balances affected	Summary of findings
Valuation of Property, Plant and Equipment	Property, plant and equipment, £424,416K, PY £458,881K; Investment property, £145,786K, PY £132,123K	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 valuer. We tested a sample of fixed asset additions and disposals to assess whether they had been appropriately capitalised or removed from the financial statements. No issues were identified
Valuation of Pension Assets and Liabilities	All Unusable reserves, £445,872K, PY £472,261K; All Other long term liabilities, £145,173K, PY £147,731K	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 2015/16. We assessed the movements in membership numbers since 2016 and confirmed that these movements are in line with our expectations. No issues were identified.

Other areas of audit focus

We identified one other area of audit focus. This is not considered to be a significant risk as it is less likely to give rise to a material error. Nonetheless this is an area of importance where we carry out audit procedures to ensure that there is no material misstatement.

Other areas of audit focus	Account balances effected	Summary of findings
Pension fund investments	Net investment assets, £946M, PY £746M	We obtained third party confirmations of investments assets held in order to corroborate the figures disclosed. We compared these to the investments disclosed within the Pension Fund financial statements, and determined whether these had been correctly categorised. No issues were identified.

Financial statements audit

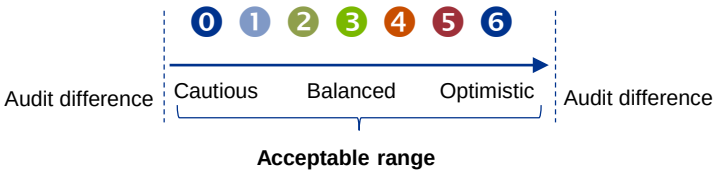
Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
Fraud risk from revenue recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. We do not consider this to be a significant risk for the majority of the Authority's income as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk for Council Tax, Business Rates, Housing rents, annual central Government grants and social services income and do not incorporate specific work into our audit plan in these areas over and above our standard fraud procedures. However, we do consider it for income relating to s106 monies that span financial years and often have to be used on specific projects.	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.
Fraud risk from management override of controls	Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. 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.

Financial statements audit

Judgements in your financial statements

We consider the level of prudence in key judgements in your financial statements. We summarise our view below using the following scale:

Level of prudence



Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Provisions (excluding NDR)	3	3	£9.8 (PY:£10.8)	The individually material provisions have remained consistent from the prior years with a decrease in individually insignificant other provisions. We consider the provision disclosures to be proportionate.
NDR provisions	3	3	£2.9 (PY:£2.1)	In 2013/14, local authority funding arrangements meant that the Authority is now responsible for a proportion of successful rateable value appeals. The Authority has provided for a fixed percentage of outstanding appeals in accounting for the potential liability, based on historical appeals success rates
Property, Plant and Equipment (PPE)	4	4	£424.4 (PY:£458.8)	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.
Pension liability	3	3	£142.8 (PY:£144.9)	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.
Short term creditors	3	3	£71.1 (PY:£71.9)	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.

Financial statements audit

Narrative report of the Authority

We have reviewed the Authority's narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Pension fund audit

The audit of the pension fund and the Pension Fund Annual Report was completed alongside the audit of the Authority's accounts. There are no specific matters to bring to your attention relating to this.

Pension fund annual report

We reviewed the consistency of the Fund's financial statements in the Fund's Annual Report and the financial statements included in the London Borough of Bromley's financial statements. We confirm that the Fund's financial statements are consistent with the pension fund financial statements included in the accounts of the London Borough of Bromley. We read the information in the Fund's Annual Report to identify material inconsistencies with the Fund's financial statements. We can confirm it is not inconsistent with the financial information contained in the audited financial statements. As such we anticipate issuing an unqualified consistency opinion on the pension fund financial statements.

Queries from local electors

We received two objections from a registered electors this year on the Council's Waste Management Services. Work is continuing on these matters.

Audit certificate

In order for us to issue an audit certificate, we are required to have completed all our responsibilities relating to the financial year. We are not in a position to issue our audit certificate with the audit opinion as we have received objections to the accounts from local electors, therefore we expect to issue our audit certificate following completion of the objections.

Financial statements audit

Whole of Government Accounts (WGA)

We reviewed your WGA consolidation pack and there are no issues to report. We anticipate issuing an unqualified consistency report.

Other grants and claims work

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

- Housing benefits (BEN01) audit: work to commence in August 2017, expected completion in November .

Audit fees

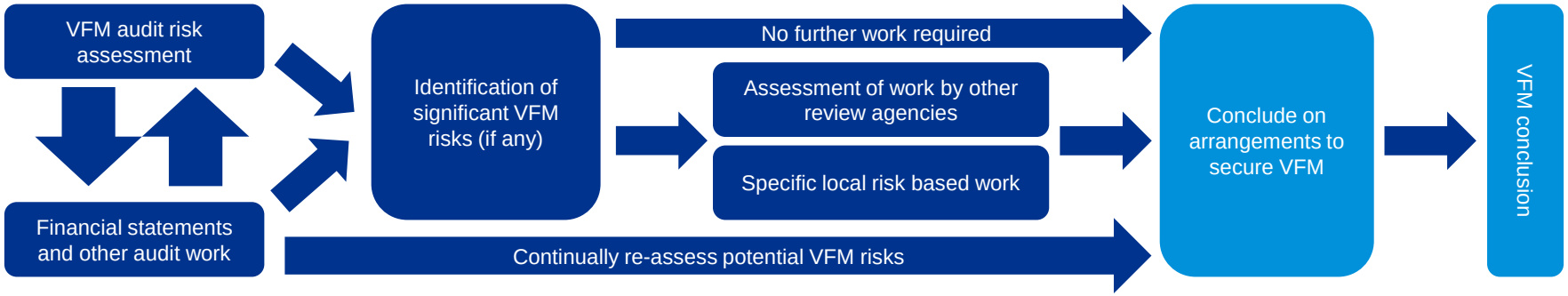
Our fee for the audit was £119,076 excluding VAT (£119,076 excluding VAT in 2015/16) and for the Pension Fund audit was £21,000 excluding VAT (£21,000 excluding VAT in 2015/16). This fee was in line with that highlighted in our audit plan approved by the General Purposes and Licensing Committee on 6 February 2017.

Our work on the certification of Housing Benefits (BEN01) is planned for August 2017. The planned scale fee for this is £17,476 excluding VAT (£10,890 excluding VAT in 2015/16).

We have not performed any non-audit work outside of that already disclosed to you as part of our audit planning.

Value for money

For 2016/17 our value for money (VFM) work follows the NAO's guidance. It is risk based and targets audit effort on the areas of greatest audit risk. Our methodology is summarised below. We identified three significant VFM risks which are reported below. We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.



Value for money

Significant risk based VFM audit work

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

Significant VFM risk	Why this risk is significant	Our audit response and findings
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	We reviewed the Council's financial position and financial management procedures, taking account of the position reported in the Medium Term Financial Strategy, the overall level of reserves and budget setting strategies. We considered forecast financial data over both the immediate and long term plans and evaluate the likelihood of the Council achieving the budgeted position. We also reviewed the latest government spending policies and anticipate their effect on the Council's outturn position. Our work considered the Council is considering moving into non-traditional investment areas to compensate for the reducing funding. We did not identify any issues.
Findings from regulatory bodies	The June 2016 Ofsted report graded the Authority's children's services as 'inadequate'	We reviewed the Council's response to the Ofsted report including how the Council is working with the Commissioner to improve services. We considered how the approach to improving services is being managed across the Authority. We also considered the results of any recent relevant reports from Ofsted or similar bodies. In review of Ofsted monitoring report dated 24 March 2017, we note that progress had been made to remediate issues identified in the June 2016 report but was not met on some areas within the local authority's action plan.
Overspends in Children's Services	Overspends could indicate that resources within this area are not being deployed in a sustainable manner	We reviewed the financial position of the Children's Services Directorate, including savings plans which have been put in place in response to the budget overspends. We considered whether the current spending is sustainable in the future, and model effects on the Medium Term Financial Strategy of further overspends within the Children's Services Directorate. We did not identify any issues.

Appendix 1

Recommendations raised and followed up

Priority rating for recommendations					
1	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	3	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

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

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
3	0	3

#	Risk	Recommendation	Management Response / Officer / Due Date	Status 2017
Financial statements				
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 there is a robust coding structure in place which sufficiently separates out the pensions transactions in an effective manner. **Responsible Officer:** Principal Accountant	Not implemented

Appendix 1

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status 2017
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 to streamline the reconciliation process. The database will also facilitate year end accounting entries, and aid audit queries. **Due date:** 2016/17 year end accounts **Responsible officer:** Principal Accountant	Partial implementation Management has implemented the first part of this recommendation and put into place a fixed asset containing all assets (with the exception of assets held under finance leases). Management was however unable to perform the reconciliation timely as a part of the final financial year end reporting processes.
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 Finance Staff and detailed procedures are in place which are reviewed annually. All journal entries are supported by supporting working papers. In addition, Internal Audit carry out an annual audit which includes testing of the main system journals. Management consider this to be sufficient.	Not implemented

Appendix 2

Materiality and reporting of audit differences

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

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

We used the same planning materiality reported in our External Audit Plan 2016/17, presented to you on 6 February 2017.

Materiality for the Authority's accounts was set at £10 million which equates to around 1.58% of gross expenditure.

Materiality for the Pension Fund was set at £7.4 million which equates to around 1% of net assets.

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

Reporting to 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 £0.5 million for the Authority and less than £0.35 million for the Pension Fund.

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

Appendix 3

Audit differences

Unadjusted audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the General Purposes and Licensing Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the General Purposes and Licensing Committee, we are pleased to report that there are no uncorrected audit differences.

Adjusted 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 presentation of non current assets and Dedicated Schools Grant income classification. None of these adjustments totalled more than our performance materiality of £6 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.

Appendix 4

Audit independence

This appendix communicates all significant facts and matters that bear on KPMG LLP's independence and objectivity and informs you of the requirements of *ISA 260 (UK and Ireland) Communication of Audit Matters to Those Charged with Governance.*

Integrity, objectivity and independence

We are required to communicate to you 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 KPMG LLP's independence and the objectivity of the Engagement Lead and audit team. We have considered the fees paid to us by the Authority for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies all KPMG LLP audit partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings. Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews. We would be happy to discuss any of these aspects of our procedures in more detail. There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed.

Audit matters

We are required to comply with *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance* when carrying out the audit. ISA 260 requires that we consider the following audit matters and formally communicate them to those charged with governance:

- Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement lead and audit staff;
- The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements;
- The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Authority's financial statements;
- The potential effect on the accounts of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements;
- Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the Authority's financial statements;
- Material uncertainties related to events and conditions that may cast significant doubt on the Authority's ability to continue as a going concern;
- Disagreements with Management about matters that, individually or in aggregate, could be significant to the Authority's financial statements or the auditor's report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter;
- Expected modifications to the auditor's report;

Audit independence

- Other matters warranting attention by those charged with governance, such as material weaknesses in internal control, questions regarding management integrity, and fraud involving management; and
- Any other matters agreed upon in the terms of the audit engagement.

We continue to discharge these responsibilities through our attendance at General Purposes and Licensing Committees, commentary and reporting and, in the case of uncorrected misstatements, through our request for management representations.

Auditor declaration

In relation to the audit of the financial statements of the London Borough of Bromley and London Borough of Bromley's Pension Fund for the financial year ending 31 March 2017 we confirm that there were no relationships between KPMG LLP and the London Borough of Bromley and London Borough of Bromley's Pension Fund, their directors and senior management and their affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have not provided any additional non-audit services during the year.

We have considered the ratio of audit to non-audit fees and as required by the APB Ethical Standards. The principal threat which arises from fees from non-audit services which are large in absolute terms relative to the audit fee is the perception of self-interest and advocacy. In this regard, we do not consider that the above ratio creates such a self-interest or advocacy threat since the absolute level of non-audit fees is not significant to our firm as a whole and neither the audit partner nor members of the audit team are incentivised on, or rewarded in respect of, the provision of non-audit services to you. We believe that the question of perception is best addressed through appropriate disclosure as to use of the auditor for the provision of non-audit services in the Authority's annual report and accounts.

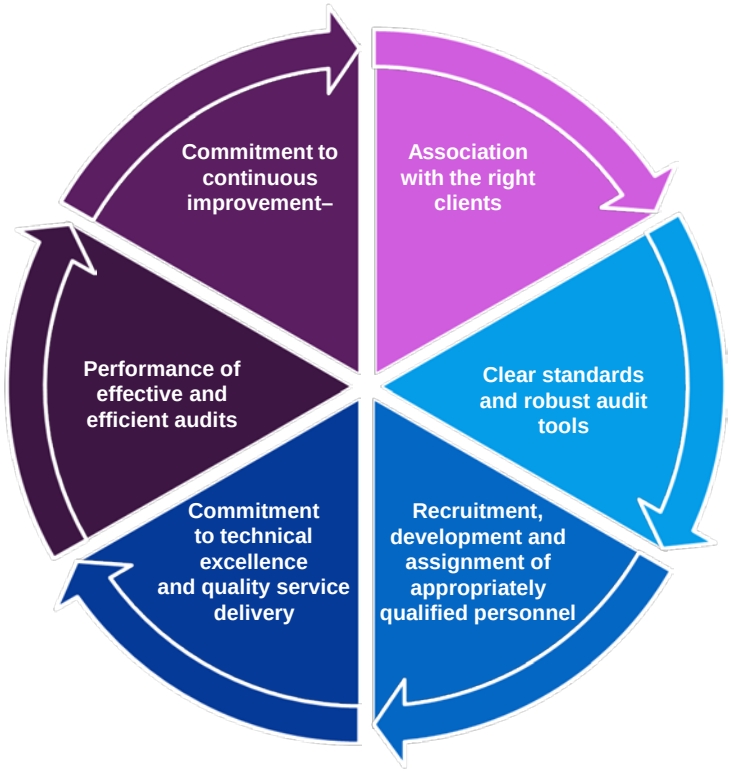
Appendix 5

Audit quality framework

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

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

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



- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

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

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

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

kpmg.com/socialmedia

kpmg.com/app